Prospect Co., Ltd.

3528

Tokyo Stock Exchange Second Section

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Summary

Main business pillars are real estate-related and renewable energy-related

The origins of Prospect Co., Ltd. <3528> (hereafter, also "the Company") are found in Inami Kigyo Co., Ltd., which conducted a textile business. But in 1994, the Company withdrew from the textile business and changed its main business to a real estate business (primarily sales of condominiums). After that, the Company was temporarily a member of the DAIKYO <8840> Group, which is a major condominium developer. But it left the Group and started independent management in 2007. Mr. Curtis Freeze*1, the owner and president of the former Prospect Co., Ltd., which had invested in the Company as a fund, was appointed as the representative director and president in 2010. Since then, it has used M&A to expand its business domains, including to launch a construction business and custom-made homes business, and by 2019 it was engaged in a wide range of businesses, such as a real estate development business (condominium sales, land and buildings, and custom-made homes), an asset management business, a construction business*2, and a renewable energy business, including solar power generation. But in 2019, it withdrew from the construction business and asset management business, so since FY3/21, its core businesses have been the real estate business and the renewable energy business.

*1 Mr. Curtis Freeze resigned from his post of representative director on December 13, 2018 to take responsibility for the confusion caused by the delay in submitting the Company's earnings report for the second quarter (the first half) of the fiscal year ending March 31, 2019. Furthermore, he resigned from his post of director on June 27, 2019, in conjunction with the Company's transition to a company with an audit and supervisory committee from FY3/20.

*2 The construction business has not been included in the segments since FY3/20, because all the shares of a subsidiary were sold in March 2019. Also, due to the resolution to liquidate a subsidiary in May 2019, the results of the asset management business up to May 2019 will be reflected in the FY3/20 consolidated results, but not in subsequent consolidated results. Both segments will be completely abolished by FY3/21.

1. FY3/20 consolidated results

In the FY3/20 consolidated results, net sales were ¥6,731mn (up 6.4% year-on-year (YoY)), the operating loss was ¥1,281mn (compared to a loss of ¥6,653mn in the previous fiscal period), the ordinary loss was ¥435mn (a loss of ¥6,780mn), and net profit attributable to owners of the parent was ¥237mn (a loss of ¥8,445mn). The reasons for the operating loss were that the Company recorded a valuation loss due to the fall in the value of securities held by The Prospect Japan Fund Limited (hereafter, TPJF. Its liquidation was completed in December 2019), which was made a subsidiary in July 2017. This loss was recorded as an operating loss (¥1,173mn) in the asset management business, and all other busines segments recorded operating profit. Moreover, as the Company recorded extraordinary profits, including profit on sale of investment securities and profit on sale of investment in capital of subsidiaries, net profit attributable to owners of the parent was ¥237mn and the Company was able to resume dividend payments of ¥1. In FY3/20, the impact of the spread of the novel coronavirus was minimal.

2. FY3/21 forecasts

The Company has postponed the announcement of the FY3/21 consolidated results forecasts, as it judged that it would be difficult to set them properly and rationally due to the uncertainty about the future because of the impact of the spread of the novel coronavirus. It plans to disclose them quickly in the future at the stage when disclosing results forecasts becomes possible. For the dividend also, its policy is to maintain "a total return ratio of 50%," which is the target in the medium-term management plan. On June 1, 2020, the Company appointed Mr. Masaru Oka as President.

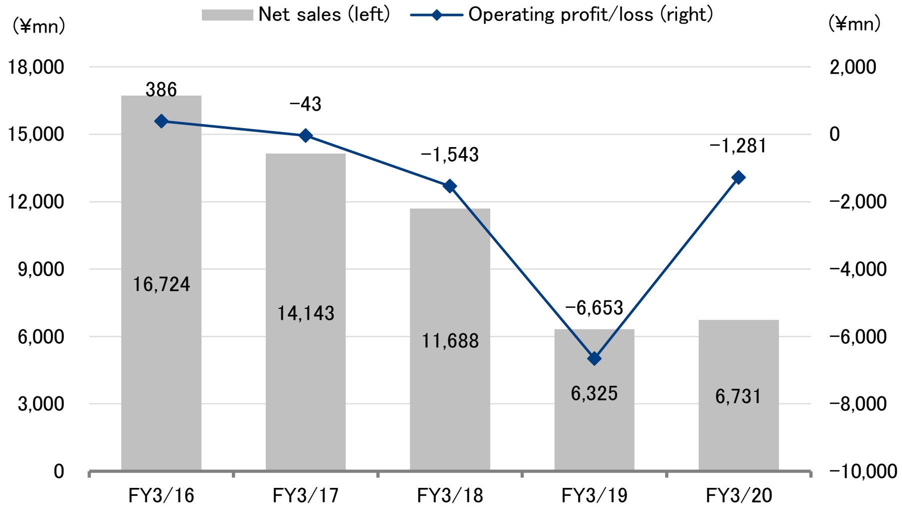
3. The medium-term management plan

The Company has announced the Strategy & Action Medium-term Management Plan, whose final fiscal year is FY3/23. It sets “Challenge & Ambition” as the management philosophy and aims to continuously take on the challenge of creating new value toward realizing sustainable growth and a sustainable society. As the business domains, the Company will progress three business pillars by adding “new businesses” to the existing real estate business and renewable energy business. In terms of the plan’s numerical targets, in FY3/23 it is targeting net sales of ¥10.87bn, net profit attributable to owners of the parent of ¥1.30bn, ROE of 7.5%, and a total return ratio of 50%. These are certainly not easy targets to achieve, but from the conglomerate-type (dispersed-business type) management up to the present time, it is likely that a lot of attention will be paid in the future to the business developments narrowing down the business domains.

Key Points

- Developing businesses centered on real estate-related and renewable energy-related
- Progressing the renewable energy-related business as the growth driver
- As the numerical targets in the medium-term management plan, in FY3/23 is aiming for net profit attributable to owners of the parent of ¥1.30bn, ROE of 7.5%, and a total return ratio of 50%

Trends in net sales and operating profit/loss



Source: Prepared by FISCO from the Company's financial results

Company profile

Its origins are in a textile company, but currently it is focused on real estate-related and renewable energy businesses

The Company has a long history and its predecessor, Inami Kigyo Co. Ltd., was founded in Toyama Prefecture in 1937. It subsequently changed its corporate name to Carolina Co., Ltd., in 1961, and was listed on the Tokyo Stock Exchange Second Section in 1962. Then on entering the 1990s, it withdrew from the textile business and shifted to its mainstay businesses of condominium sales, and at the same time it joined the DAIKYO Group, which is a major condominium developer.

After that, in 2007 it left the DAIKYO Group and started independent management. In 2010, Mr. Curtis Freeze, who was the owner, president and fund manager of the former Prospect, which had invested in the Company as a fund, was appointed as the representative director and president. In 2013, it made a wholly owned subsidiary of former Prospect through an exchange of shares. In 2014, it merged with this former company through an absorption merger, and at the same time, it changed its corporate name to the current name of Prospect Co., Ltd. During this period, it diversified its business through conducting M&As to make consolidated subsidiaries of Sasaki House Co., Ltd., and Kidoh Construction Co., Ltd., and it then launched a solar business (renewable energy business) in 2015. Also, in July 2017, it made TPJF a subsidiary through an exchange of shares, then in March 2019 it sold all of its Kidoh Construction shares, and in December 2019 it liquidated TPJF. Through these measures, it withdrew from the construction business and the asset management business.

History

Year	Major event
1937	Inami Kigyo Co. Ltd., was established in Toyama Prefecture
1961	Changed corporate name to Carolina Co., Ltd.
1962	Listed on the Second Section of Tokyo Stock Exchange
1990	Changed how the name was written in Japanese
1991	Entered an alliance with the DAIKYO <8840> Group
1993	Began sales of the Morris condominium series (Series No.1 Morris Kawasaki)
1994	Withdrew from the textiles business
1994	Moved head office from Toyama Prefecture to Shibuya Ward, Tokyo
2000	Moved head office to its current location (1-30-8 Sendagaya, Shibuya Ward, Tokyo)
2001	Changed corporate name to Gro-Bels Co., Ltd.
2007	Left the DAIKYO Group and began independent management
2010	Mr. Curtis Freeze was appointed representative director and president
2012	Acquired all the shares and made a consolidated subsidiary of Sasaki House Co., Ltd.
2013	Acquired all the shares and made a consolidated subsidiary of (former) Prospect Co., Ltd.
2013	Entered into the overseas real estate-related business
2014	Acquired all the shares and made a consolidated subsidiary of Kidoh Construction Co., Ltd.
2014	Conducted an absorption merger with a subsidiary, former Prospect, and changed its corporate name to Prospect Co., Ltd.
2015	Launched the solar power generation business (the first project: Asago Tachiwaki Solar Power Plant)
2017	Acquired all the shares and made a subsidiary of The Prospect Japan Fund Ltd. though an exchange of shares
2018	Mr. Masato Tabata was appointed representative director and president
2019	Sold all shares of Kidoh Construction Co., Ltd. Dissolved and liquidated The Prospect Japan Fund Limited
2020	Mr. Masaru Oka was appointed president

Source: Prepared by FISCO from the Company's website

Business overview

Progressing the renewable energy-related business as the growth driver

1. Main business activities

The Company discloses information on the following business segments; real estate development business, asset management business, renewable energy business, and others. The real estate development business is further broken down into condominium sales, land and buildings, and custom-made homes.

(1) Condominium sales (% of total net sales in FY3/20: 38.7%)
The same as general condominium developers, in this business the Company purchases land and constructs and sells condominium units. They are sold under the GRO-BEL brand, which is derived from the former company name. Net sales and segment profit fluctuate depending on the status of site purchases and other factors. It sold (delivered) 56 units in FY3/20.

(2) Land and buildings (% of total net sales in FY3/20: 29.2%)
This business includes the sales of residential land, detached housing, and buildings, but it mainly involves the sales of land and buildings that accompany sales of condominiums. For the land and buildings (including unfinished buildings) that are intended to be sold for condominiums, it mainly sells those properties in which it expects to achieve profits (profitability) above the target, and it does not purchase and sell land and buildings for which a sale (profits) was expected from the beginning. Therefore, it did not record net sales in FY3/19, but in FY3/20, it recorded net sales from the sale of 1 condominium building and the renovation resale of 1 unit.

(3) Custom-made homes (% of total net sales in FY3/20: 30.4%)
The main business area is Yamagata Prefecture, primarily for the construction outsourcing work and renovation work of detached housing carried out by Sasaki House, which it made a subsidiary through an M&A. Sasaki House has a history of more than 50 years in the residential housing business, but because it did not have a successor to take over its business, it sold all its shares to the Company and became its subsidiary. In FY3/20, it delivered 65 buildings.

(4) Asset management business (% of total net sales in FY3/20: -15.0%)
This is an investment advisory business that conducts the fund management (mainly for Japanese equities) that was previously conducted by the former Prospect. However, in July 2017, the Company acquired 100% of the listed shares in TPJF, which was one of the management funds, in a share-for-share transaction, so currently the investor in TPJF is the Company itself. Therefore, net sales and profit fluctuate depending on the end-of-period valuations of stocks held, and in some cases negative values end up being posted. However, in May 2019, it decided to dissolve and liquidate TPJF, so although the results of this business up to May 2019 are reflected in the FY3/20 consolidated results, it did not conduct any activities after that, and this segment was abolished from FY3/21. At the end of FY3/20, all securities held were recorded as investment securities.

(5) Renewable energy business (% of total net sales in FY3/20: 16.3%)

The business model is that the Company acquires rights to solar power generation and related, conducts investment and development, and sells the electricity generated to power companies. On one hand, it acquires rights, conducts investment, and collects revenue (cash flow), while on the other hand, it calculates the return on the investment and sells the equipment itself. This approach can be said to be the same as that for the rental building business. As of the end of March 2020, it had 6 operational plants (the ratio of power generated according to the Company's share, 32.4MW). In Russia also, a plant to manufacture wood pellets for biomass power generation was completed in February 2020 and a long-term contract was concluded with ENGIE ENERGY MANAGEMENT SCRL (hereafter, ENGIE EM) of France for a minimum of 12 years.

(6) Others (% of total net sales in FY3/20: 0.3%)

This business mainly entails leasing the condominiums owned by the Company.

2. Business features

As previously stated, at first glance it seems that the Company is developing businesses in different fields, of condominium sales and a renewable energy business. But in fact, they are basically the same on the point that the approach is to purchase land, rights, and projects (purchases or investments), invest in them (capital injections and renovations), and subsequently collect the revenue (cash flow or gain on resale). This point can be said to be a feature of the Company's business development.

Currently, the real estate development business and the renewable energy business are the core businesses. But the Company plans to actively develop businesses in the future, including through M&A if there are businesses that are line with the above-described approach.

Results trends

Recorded an operating loss in FY3/20, but net profit attributable to owners of the parent was in profit

1. FY3/20 results

In the FY3/20 consolidated results, net sales were ¥6,731mn (up 6.4% YoY), the operating loss was ¥1,281mn (compared to a loss of ¥6,653mn in the previous fiscal period), the ordinary loss was ¥435mn (a loss of ¥6,780mn), and net profit attributable to owners of the parent was ¥237mn (a loss of ¥8,445mn). The reason for the operating loss was that the Company recorded a valuation loss due to the fall in the value of securities held by TPJF, which was made a subsidiary in July 2017, and this was recorded as an operating loss (¥1,173mn) in the asset management business. Moreover, since this loss was a valuation loss, it did not lead to an outflow of cash. Apart from the asset management business, all the other business segments recorded operating profit.

Conversely, long-term loans receivables (¥554mn), which in previous years had been classified into loans with the possibility of default and recorded as an allowance for doubtful accounts, were completely collected. Alongside this, a reversal of the allowance for doubtful accounts of ¥560mn was recorded in non-operating revenue, which kept down the ordinary loss to ¥435mn. Moreover, profit on sale of investment securities of ¥400mn and profit on sale of investment in capital of subsidiaries of ¥694mn were recorded as extraordinary profit. The profit on sale of investment securities was mainly from the sales of shares in The Fukushima Bank, Ltd. <8562> transferred from TPJF, while as is explained below, the profit on sale of investment in capital of subsidiaries was mainly from the sales of its share in solar power generation facilities. These sales of share in solar power generation facilities were not sales to secure (subsidize) the source of dividends, but rather were sales in accordance with the business plan based on the Company's original approach.

In the case of the Company, it conducts various investment and funding as part of its business, the results of which (mainly gains on sales) are not necessarily reflected in the operating profit and loss, as in many cases they are recorded in non-operating profit and loss and in extraordinary profit or loss. Therefore, in order to measure the progress (the results) the Company inherently makes for its business, it can be said to be reasonable to look at the results after extraordinary profit or loss (profit before income taxes, etc.).

FY3/20 results

(¥mn)

	FY3/19		FY3/20			
	Amount	Ratio to sales	Amount	Ratio to sales	Change	YoY
Net sales	6,325	100.0%	6,731	100.0%	405	6.4%
Gross profit	-3,964	-	794	11.8%	4,759	-
SG&A expenses	2,689	42.5%	2,076	30.8%	-613	-22.8%
Operating loss	-6,653	-	-1,281	-	5,372	-
Ordinary loss	-6,780	-	-435	-	6,344	-
Net profit (loss) attributable to owners of the parent	-8,445	-	237	3.5%	8,683	-

Source: Prepared by FISCO from the Company's financial results

2. Conditions by segment

FY3/20 results by segment

(¥mn)

	FY3/19		FY3/20			
	Amount	Ratio to sales	Amount	Ratio to sales	Change	% change
Net sales	6,325	100.0%	6,731	100.0%	405	6.4%
Condominium sales	3,829	60.5%	2,602	38.7%	-1,226	-32.0%
Land and buildings	-	-	1,967	29.2%	1,967	-
Custom-made homes	2,098	33.2%	2,044	30.4%	-53	-2.5%
Asset management business	-5,885	-93.0%	-1,010	-15.0%	4,875	-
Construction business	6,226	98.4%	-	-	-6,226	-
Renewable energy business	569	9.0%	1,099	16.3%	529	93.1%
Others	45	0.7%	19	0.3%	-25	-56.4%
Adjusted amount	-556		8			
Operating profit (before depreciation of goodwill)	-5,355	-	-412	-	4,942	-
Condominium sales	321	-	20	-	-300	-93.7%
Land and buildings	-	-	368	-	368	-
Custom-made homes	69	-	71	-	1	2.6%
Asset management business	-6,156	-	-1,173	-	4,982	-
Public works construction business	327	-	-	-	-327	-
Renewable energy business	65	-	291	-	226	347.5%
Others	16	-	8	-	-8	-48.3%

Source: prepared by FISCO from the Company's financial summary report and supplementary financial briefing materials

(1) Condominium sales

In FY3/20, the Company concluded new contacts for 45 units (compared to 103 units in the previous period) worth ¥2,016mn (¥4,271mn), and including the contracts from the previous period, it delivered 56 units (96 units). As a result, net sales were ¥2,602mn (down 32.0% YoY) and segment profit was ¥20mn (down 93.7%). This was mainly because the condominium market as a whole is slumping, and although profits were recorded, sales were below the initial forecast.

(2) Land and buildings

This business includes the sales of residential land, detached housing and buildings, and in FY3/20, it recorded net sales of ¥1,967mn (no sales were recorded in the previous period), and segment profit of ¥368mn (no profit-loss was recorded in the previous period). This was because for condominiums that were scheduled to be sold, a building was sold at a fair price to obtain sufficient period profits.

(3) Custom-made homes

In this business, the Company performs construction of detached homes, as well as related renovation work and other activities, in its main business area of Yamagata Prefecture. In FY3/20, new contracts were made for 47 buildings worth ¥1,276mn (compared to 78 buildings worth ¥2,104mn in FY3/19), and 65 buildings were delivered (compared to 58 in FY3/19). The Company recorded net sales of ¥2,044mn (down 2.5% YoY) and segment profit of ¥71mn (up 2.6% YoY).

(4) Asset management business

TPJF held shares as a fund business, but due to the resolution to dissolve and liquidate it on May 15, 2019, all the shares it held were transferred to investment securities. Therefore, their valuations on this transfer date were recorded in the FY3/20 1H results. As a result, net sales were negative ¥1,010mn and the segment loss was ¥1,173mn (compared to net sales of negative ¥5,885mn and a segment loss of ¥6,156mn in FY3/19). The Fund has already been liquidated, so this segment was abolished in FY3/21.

(5) Public works construction business

All of the shares of Kidoh Construction, which conducts this business, were sold in March 2019. Therefore, this business segment was abolished, and it recorded no net sales or segment loss in FY3/20.

(6) Renewable energy business

In this business, the electric power generated through solar power generation facilities invested in and managed by the Company or jointly with others is sold to electric power companies, and it recorded net sales of ¥1,099mn (up 93.1%YoY), and segment profit of ¥291mn (up 347.5%). During the period, the Company sold its share in power generation projects at five locations, and it recorded the gains on these sales as extraordinary profit.

At the end of September 2019, the Company had six projects in operation (Kumamoto Yatsushiro Project, Rikuzentakata Project, Higashi Hiroshima Project, Narita Kanzaki Project, Sammu Minami project, Yorii project and). The Company's share of power generation at these projects is 32.4 MW. It is also scheduled to acquire power from another two projects (total power generation,12.5 MW) that are being constructed up to July 2021.

(7) Others

This business mainly involves rentals to general tenants of condominiums and other properties owned by the Company. It recorded net sales of ¥19mn (down 56.4% YoY) and segment profit of ¥8mn (down 48.3%).

3. Financial position

As the Company recorded a significant loss, its financial position worsened slightly, but not to a level that would be a cause for concern. At the end of FY3/20, total assets were ¥29,764mn, down ¥1,990mn on the end of the previous fiscal period. Current assets were ¥10,598mn, down ¥7,081mn, which was mainly because securities decreased ¥7,790mn. This decrease in securities was primarily due to the transfer to investment securities of the securities held by TPJF, following its liquidation. Conversely, non-current assets were ¥19,165mn, up ¥5,090mn, which was mainly as investments and other assets increased ¥3,043mn (primarily due to the transfer of securities held by TPJF).

Total liabilities were ¥14,394mn, down ¥621mn on the end of the previous fiscal period. The main factors included that accrued construction payment decreased ¥99mn, short-term loans payable, etc., increased ¥1,399mn, and long-term loans payable, etc., declined ¥1,204mn. Net assets were ¥15,369mn, down ¥1,369mn, mainly due to the decline in accounts payable, including accrued construction payment, and the recording of net profit attributable to owners of the parent.

Balance sheets

(¥mn)

	End of FY3/19	End of FY3/20	Change
Cash and deposits	5,049	5,080	30
Notes and accounts receivable - trade	130	174	44
Securities	7,800	10	-7,790
Real estate for sale	1,263	1,795	531
Real estate for sale in process	2,409	2,037	-372
Real estate for development	442	260	-181
Current assets	17,680	10,598	-7,081
Property, plant and equipment	9,876	9,838	-37
Intangible assets	186	610	423
Investments and other assets	4,011	8,716	4,705
Securities	230	3,273	3,043
Investments in capital	1,368	2,064	696
Long-term loans receivable	2,365	2,711	345
Non-current assets	14,074	19,165	5,090
Assets	31,754	29,764	-1,990
Accrued construction payment	295	196	-99
Short-term loans payable, etc.	2,169	3,569	1,399
Current liabilities	3,997	4,329	332
Long-term loans payable, etc.	10,414	9,210	-1,204
Non-current liabilities	11,019	10,065	-954
Liabilities	15,016	14,394	-621
Net assets	16,738	15,369	-1,369

Source: Prepared by FISCO from the Company's financial results

4. Cash flow conditions

In FY3/20, cash flow used in operating activities was ¥1,218mn. The main income items included profit before income taxes of ¥291mn, depreciation and amortization of ¥508mn, and a decrease in operating investment securities of ¥1,011mn, while the main expenditure items include a decrease in the allowance for doubtful accounts of ¥560mn, profit on sale of investment in capital of subsidiaries of ¥694mn, and a decline in trade payables of ¥462mn.

Cash flow used in investing activities was ¥919mn. The main expenditure items included purchases of property, plant and equipment of ¥2,779mn, loan advances of ¥350mn, and an increase in capital of ¥601mn, while the main income items included a gain on the sale of investment securities of ¥1,696mn.

Cash flow from financing activities was ¥2,298mn, with the main income items including an increase in long-term borrowing and bonds of ¥2,096mn.

As a result, cash and cash equivalents during the period increased ¥113mn, and cash and cash equivalents at the end of FY3/20 were ¥5,163mn.

Cash flow statements

(¥mn)

	FY3/19	FY3/20
Cash flows from operating activities	-3,857	-1,218
Profit (loss) before income taxes	-8,217	291
Depreciation	336	508
Impairment loss	729	-
Increase (decrease) in allowance for doubtful accounts	183	-560
Loss (profit) on sale of investment in capital of subsidiaries	-	-694
Loss (profit) on investments in capital	-262	-
Loss on valuation of stock acquisition rights	895	-
Decrease (increase) in trade receivables	-365	-103
Decrease (increase) in inventories	661	81
Increase (decrease) in trade payables	43	-462
Decrease (increase) in operating investment securities	3,060	1,011
Cash flows from investing activities	-3,279	-919
Expenditure for the purchase of property, plant and equipment	-3,901	-2,779
Acquisitions of investment securities	-231	1,696
Loan advances	-1,574	-350
Income from recovery of investment	1,566	-601
Cash flows from financing activities	1,603	2,298
Net increase (decrease) in loans and bonds	2,779	2,096
Dividends paid	-1,723	-2
Net increase (decrease) in cash and cash equivalents	-5,601	113
Cash and cash equivalents at end of period	5,049	5,163

Source: Prepared by FISCO from the Company's financial results

Outlook

Has not decided the FY3/21 full year forecasts

1. FY3/21 forecast

(1) Results outlook

The Company has postponed the announcement of the FY3/21 consolidated results forecasts, as it judged that it would be difficult to set them properly and rationally due to the uncertainty about the future because of the impact of the spread of the novel coronavirus. It plans to disclose them quickly in the future at the stage when disclosing results forecasts becomes possible.

When assessing the Company's business results, as stated earlier, the Company's businesses are widely dispersed and there are some aspects where earnings can be recorded in a short time and other businesses where profit return takes time. Moreover, profit return are not always booked as net sales, sometimes being recorded as non-operating profit, or as an extraordinary gain, so the financial statements should probably be evaluated looking at comprehensive profits, including extraordinary profit or loss, or cash flows and not just on operating profit and loss or ordinary profit and loss.

(2) Dividend forecast

The same as for the results forecasts, the Company has not yet decided on a dividend forecast. But it wants to maintain a "total return ratio of 50%," which is the target in the medium-term management plan.

2. Progress made for new businesses

As the next renewable energy business, the Company has announced that, following on from the solar business in Japan, it is entering into the biomass fuel (wood pellets) manufacturing business. Together with the RFP Group of Russia, it has launched a joint venture (RFP Wood Pellets, LLC (hereafter, RFP WP), the Company's equity-method subsidiary). Using the sawdust discharged from the timber sawmill of the RFP Group, they will construct a manufacturing plant adjacent to the sawmill and intend to export the wood pellets as fuel to biomass power generation plants in Japan. It is anticipated that the main customers will be biomass power generation plants that use FIT.

In terms of the progress made up to the present time, in February 2020 the plant being constructed in Amursk in the Khabarovsk region of Russia was completed. Continuing on from this, in March of the same year, RFP WP concluded a long-term contract (minimum of 12 years) with ENGIE EM (France) to supply wood pellets. This contract is the first transaction that will contribute to the long-term and stable supply of biomass fuel from the Russian Far East to Japan, and RFP WP and ENGIE EM are aiming to open-up a new supply route for the biomass fuel market in Japan.

The medium- to long-term growth strategy

Announced a medium-term management plan with FY3/23 as the final fiscal year

1. The Strategy & Action Medium-term Management Plan

The Company is currently developing businesses centered on the real estate development business and the renewable energy business, but its business competitive environment is becoming increasing severe. In this sort of environment, it announced that it had formulated the Strategy & Action Medium-term Management Plan in order to show its goals and vision for the future from a long-term perspective. The outline of this plan is that it will "Promote the renewable energy business as the growth driver" and "Withdraw from being a condominium sales specialist from a review of the earnings structure of the real estate business."

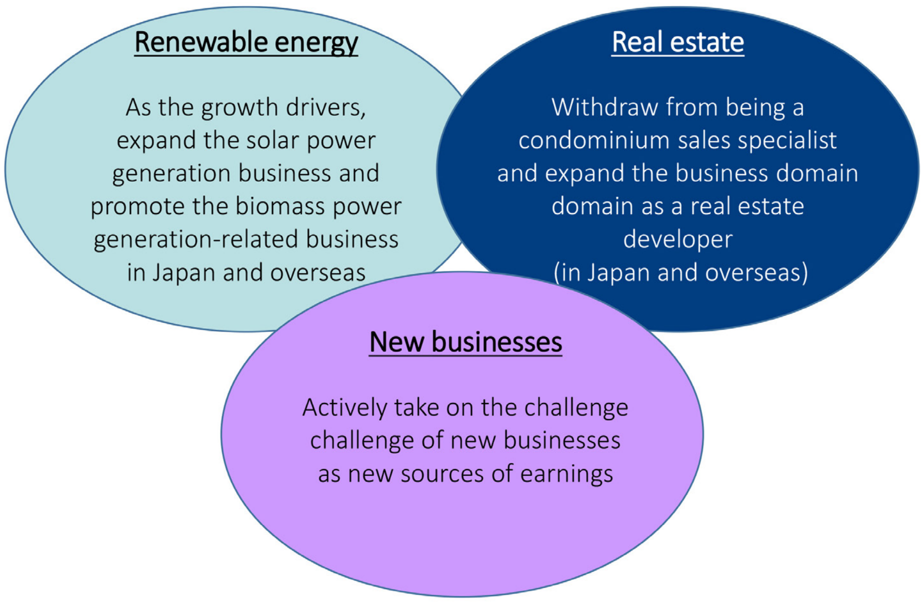
(1) Management Philosophy

Under its "Challenge & Ambition" philosophy, the Company continues to take on the challenge of creating new value in order to realize sustainable growth and a sustainable society. Specifically, as a group comprised of a small number of highly skilled professionals, it will contribute to solving society's diversifying problems through providing high value-added, and in addition, it will fully utilize its extensive information-gathering capabilities, precise analytical skills, accurate situational judgment, foresight to see what lies ahead, planning capabilities to produce the optimal solutions, originality that cannot be imitated, and speedy execution capabilities to provide high value-added services.

(2) Basic strategy and management policy

As its basic strategy, the Company is aiming to "maximize enterprise value through improving earnings and strengthening sustainability." Its management policy is to focus on three businesses, "renewable energy," "real estate," and "new businesses."

Management policy



Source: prepared by FISCO from the Company's medium-term management plan materials

The medium-term management plan can be summarized as the following five points.

a) Stabilize the management base through the growth of the core businesses
b) Strengthen profitability through a diverse business portfolio
c) Supplement sustainability through an efficient and flexible financial strategy
d) Utilize and train diverse human resources with high levels of expertise
e) A corporate governance and compliance structure that ensures the transparency and reliability of management

2. Key policies

(1) Management and finances

a) Strengthen the financial base
- Create a stable cash flow to achieve sustainable growth
- Improve the soundness of the financial balance

b) Improve capital efficiency
- Targeting ROE of 7.5%, develop a business plan with an awareness of the cost of capital and conduct efficient management

c) Increase the effectiveness of corporate governance
- Secure management transparency and improve its reliability
- Strengthen global governance and group governance

(2) Businesses

a) Renewable energy business
- Actively purchase new projects for solar power generation plants
- Replace power generation plants while anticipating exits
- Promote the biomass power generation-related business
- Conduct measures for other types of clean energy
- Expand into other renewable energy-related fields

b) Real estate business
- Withdraw from being a condominium sales specialist
- Shift development to other real estate products
- Collaborate with specialists
- Establish new development methods

c) New businesses
- Create opportunities for strategic partnerships
- Actively participate in other overseas projects
- Enter into business partnerships, etc., for business expansion and invest in ventures through CVC

3. Results targets

As the numerical targets in the medium-term management plan, the Company is targeting net sales of ¥10.87bn, net profit attributable to owners of the parent of ¥1.30bn, and ROE of 7.5% in three-years' time in FY3/23. These are certainly not easy targets, but at FISCO we think it can achieve them if it steadily implements the policies described above. It would seem necessary to pay attention to the developments (progress made) in the future.

Consolidated results targets

(¥bn)

	FY3/20	FY3/23 (three years)
Net sales	67.3	108.7
Real estate development	66.1	100.1
Renewable energy	10.9	8.6
Operating profit (loss)	-12.8	1.4
Ordinary profit (loss)	-4.3	12.7
Net profit attributable to owners of the parent	2.3	13.0
ROE (%)	1.5	7.5

Note: from within operating profit, equity-method investment profit in the biomass power generation-related business and other items are recorded as non-operating profit
Note: from within ordinary profit, gains on the sales of solar power generation plants and other items are recorded as extraordinary profit
Source: prepared by FISCO from the Company's financial results and medium-term management plan materials

Shareholder return policy

Aims for a total return ratio of 50%

The Company pays dividends in order to return profits to shareholders, but it has not formulated a specific basic policy for it. In FY3/18, the Company paid an annual dividend of ¥4 per share, but it did not pay a dividend in FY3/19. However, in FY3/20, it resumed an annual dividend payment of ¥1. It has not yet decided the dividend for FY3/21, but in the medium-term management plan, it stated that it is "Aiming for a total return ratio of 50%, including acquisitions of treasury shares," and we shall be paying attention to acquisitions of treasury shares and the dividend policy in the future.

Disclaimer

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