COMPANY RESEARCH AND ANALYSIS REPORT

Prospect Co., Ltd.

3528

Tokyo Stock Exchange Second Section

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Summary

Advancing business development after consolidating operations into the three business pillars of the real estate business, the renewable energy business, and the investment business

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 INCORPORATED Group, which is a major condominium developer. But it left the Group and started independent management in 2007. Mr. Curtis Freeze, 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-built homes business, and by 2019 it was engaged in a wide range of businesses, such as a real estate sales business (condominium sales, land and buildings, and custom-built homes), an asset management business, a construction business, and a renewable energy business, including solar power generation. But in 2019, it withdrew from the construction business and asset management business. Furthermore, in FY3/21, the Company reshuffled its executive team and consolidated its operations into three business segments – the real estate business, the renewable energy business, and the investment business.

1. FY3/21 consolidated results

In the FY3/21 consolidated results, sales were ¥10,510mn (up 56.1% year-on-year (YoY)), operating loss was ¥395mn (compared to a loss of ¥1,281mn in FY3/20), ordinary loss was ¥586mn (a loss of ¥435mn), and net profit attributable to owners of the parent was ¥55mn (down 76.5%). In terms of business segments, the Company withdrew from the asset management business and newly added the investment business. By doing so, the Company consolidated its operations into three business segments – the existing real estate business and renewable energy business, and the investment business. Although the real estate business booked an operating loss of ¥313mn due to factors including the inventory valuation loss caused by the impact of the COVID-19 pandemic, the renewable energy business posted an operating profit of ¥466mn. The newly added investment business also posted an operating profit of ¥197mn however, the Company posted an operating loss when Company-wide expenses were included. Additionally, the Company’s ordinary loss expanded due to the booking of a ¥373mn equity method loss on a Russian subsidiary as a non-operating expense. Meanwhile, ¥620mn in extraordinary income was posted as the total of gains on multiple sales and valuation losses. As a result, the Company posted positive net profit attributable to owners of the parent. The Company also sold some assets in conjunction with a review of its portfolio, thereby right-sizing its balance sheet, resulting in an increase in cash and deposits.

2. FY3/22 forecasts

Regarding its consolidated results forecasts for FY3/22, the Company is forecasting sales of ¥8,328mn (down 20.8% YoY), operating profit of ¥105mn (compared to a loss of ¥395mn in FY3/21), ordinary profit of ¥96mn (a loss of ¥586mn) and net profit attributable to owners of the parent of ¥338mn (up 505.9%). In the mainstay real estate business, the Company is forecasting a decline in sales due to the small amount of inventory on-hand for condominiums for sale, as well as its expectation for lower sales in the renewable energy business due to the portion of the Narita Kanzaki Project that will be sold. The Company expects the decline in sales to result in a drop in operating profit, but is still forecasting a full-year operating profit of ¥105mn due to the improvement in the profit margin, the review of the earnings structure, and progress on reducing SG&A expenses and other efforts. In addition, based on the fact that the Company is expecting a gain on the sale of the Narita Kanzaki Project of approximately ¥700mn, it is forecasting a significant increase in net profit attributable to owners of the parent. The Company plans to continue to work to slim down the balance sheet.

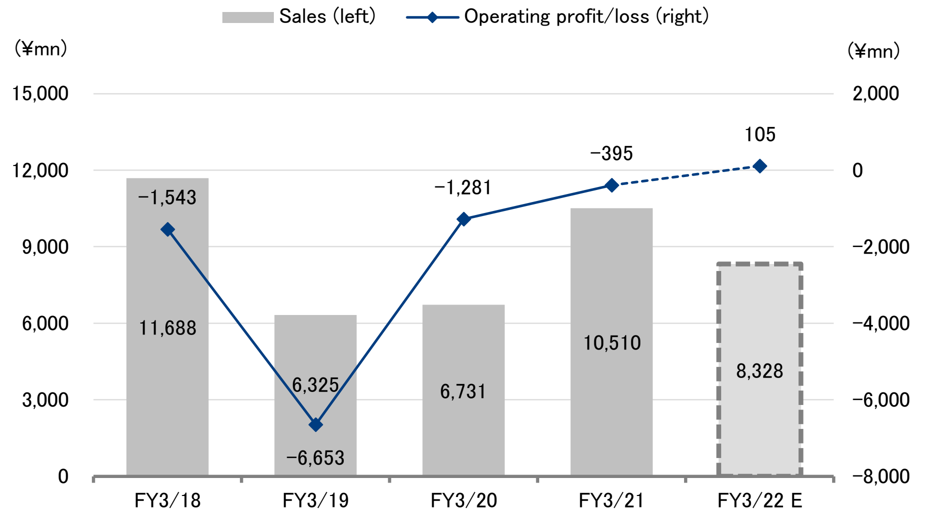
3. Business developments going forward

The Company's executive team was largely replaced per resolution of an extraordinary general meeting of shareholders held in June 2020. Accordingly, four executives now play pivotal roles in its management as of May 31, 2021. This includes Nobuyoshi Fujisawa serving as chairman of the Board of Directors (currently representative director, president and CEO of J Trust Co., Ltd. <8508>), Nobuhiko Izumi serving as representative director, president and CEO, Masaru Oka serving as a director (in charge of the real estate business), and Hiroshi Nishimura serving as a director (in charge of the renewable energy business). In terms of business development going forward, the Company plans to have these four executives spearhead business development efforts focusing on the existing real estate business and renewable energy business, as well as the newly added investment business. It seems likely that they will place attention on developing business going forward in a manner that involves seeking to narrow down the business domain, thereby shifting from the conglomerate-type (dispersed-business type) management approach enlisted up to this point. Following its general shareholders' meeting to be held at the end of June 2021, the Company is planning to change its company name (trade name) to Mirainovate Co., Ltd., and is also planning to carry out a share merger and a reduction in investment capital.

Key Points

- Consolidated its business segments into three segments - the real estate business, the renewable energy business and the investment business
- Progressing the renewable energy business as the growth driver
- Also taking steps to downsize the balance sheet

Trends in sales and operating profit/loss



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

Company profile

Its origins are as a textile company, but currently it is focused on the real estate business, the renewable energy business and the investment business

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 The Prospect Japan Fund (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 The Prospect Japan Fund (TPJF). Through these measures, it withdrew from the construction business and the asset management business. In September 2020, the Company made Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) a consolidated subsidiary through a share exchange. Gro-Bels engages in the real estate-related and commercial facility construction businesses.

The Company's executive team was largely replaced per resolution of an extraordinary general meeting of shareholders held in June 2020. Accordingly, four executives now play pivotal roles primarily with respect to management as of May 31, 2021. This includes Nobuyoshi Fujisawa serving as chairman of the Board of Directors, Nobuhiko Izumi serving as representative director, president and CEO, Masaru Oka serving as a director (in charge of the real estate business), and Hiroshi Nishimura serving as a director (in charge of the renewable energy 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 INCORPORATED <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 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
2020	Acquired all the shares and made a consolidated subsidiary of Gro-Bels Co., Ltd. (formerly Keynote Co., Ltd.) Mr. Nobuhiko Izumi was appointed representative director, president and CEO
2021	Change of company name (trade name) to Mirainovate Co., Ltd. (plan) Carry out a share merger and reduction of investment capital (plan)

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

Up until FY3/20, the Company disclosed information on business segments grouped as the real estate sales business, the asset management business, the renewable energy business, and others, but from FY3/21 the Company consolidated its operations under the three segments of the real estate business, the renewable energy business, and the investment business.

(1) Real estate business (% of total sales in FY3/21: 83.3%)

The real estate sales business encompasses disparate operations consolidated into this single segment. It consists of the following components from prior to the segment consolidation: 1. condominium sales (business that involves purchasing land then constructing and selling condominium units, similarly to general condominium developers), 2. land and buildings (business that involves selling residential land, detached housing, and buildings, and; business that mainly involves selling land and buildings that accompany sales of condominiums), and 3. custom-built homes (construction outsourcing, renovation work, etc. with respect to detached housing). This includes detached housing planning and sales, design and construction of restaurants, amusement facilities and other commercial facilities, and leasing of the Company's own real estate, all of which Gro-Bels Co., Ltd., which the Company made a consolidated subsidiary in September 2020, was previously engaged in.

(2) Renewable energy business (% of total sales in FY3/21: 13.0%)

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 2021, it had seven operational plants (the ratio of power generated according to the Company's share, 33.84MW) with two other projects solely involving investment. 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.

(3) Investment business (% of total sales in FY3/21: 3.7%)

This business involves investment in securities (stocks, etc.) and real estate. The business was started in February 2021.

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.

In line with this approach, the Company is currently engaged in the real estate business, the renewable energy business, and the investment business. Going forward, if other businesses aligned with this approach emerge, the Company plans to proactively develop in them, including through M&A activity.

Results trends

In FY3/21, sales increased while there was a large reduction in the operating loss

1. FY3/21 results

In the FY3/21 consolidated results, sales were ¥10,510mn (up 56.1% YoY), operating loss was ¥395mn (compared to a loss of ¥1,281mn in FY3/20), ordinary loss was ¥586mn (a loss of ¥435mn), and net profit attributable to owners of the parent was ¥55mn (down 76.5% YoY).

Although sales increased significantly YoY, that gain amounted to 35.9% YoY when excluding sales of the asset management business given that the asset management business posted sales of negative ¥1,010mn in FY3/20. By segment, sales increased while an operating loss was booked in the real estate business. In the renewable energy business, both sales and profit increased as the business grew steadily. Also, the investment business which started in February 2021 booked an operating profit. As a result of deducting the ¥721mn in Company-wide expenses, operating loss was ¥395mn.

The Company booked ¥373mn in equity method investment loss (Russian pellet business subsidiary) as non-operating expenses, so the ordinary loss was greater than the operating loss. Also, the Company recorded a loss on valuation of investment securities of ¥1,952mn on holdings of listed shares of Canadian equities in 1Q, and subsequently there was gain on sale of ¥2,207mn following the sale of these securities, resulting in the booking of extraordinary income of ¥255mn on a net basis. Similarly, the Company initially posted a loss on valuation of investment of ¥487mn following a review of the recoverability of investments in the solar power generation business, but ultimately the Company recorded a ¥426mn gain on sale, resulting in a loss of ¥60mn on a net basis. Elsewhere, the Company booked ¥280mn of gain on negative goodwill as extraordinary income in conjunction with making GloBels a subsidiary. As a result, the Company posted net profit attributable to owners of the parent of ¥55mn. Given that the Company obtained funds by selling some of its investment securities and investment capital in conjunction with its portfolio review, the Company can be said to have made progress on right-sizing its balance sheet.

FY3/21 results

(¥mn)

	FY3/20		FY3/21		Change	
	Amount	Ratio to sales	Amount	Ratio to sales	Amount	Ratio
Sales	6,731	100.0%	10,510	100.0%	3,778	56.1%
Gross profit	794	11.8%	1,683	16.0%	888	111.8%
SG&A expenses	2,076	30.8%	2,079	19.8%	3	0.1%
Operating loss	-1,281	-19.0%	-395	-3.8%	885	-
Ordinary loss	-435	-6.5%	-586	-5.6%	-150	-
Net profit attributable to owners of the parent	237	3.5%	55	0.5%	-181	-76.5%

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

2. Conditions by segment

FY3/21 results by segment

(¥mn)

	FY3/20		FY3/21		Change	
	Amount	Ratio to sales	Amount	Ratio to sales	Amount	Ratio
Sales	6,731	100.0%	10,510	100.0%	3,778	56.1%
Real estate business	6,634	98.6%	8,758	83.3%	2,124	32.0%
Renewable energy business	1,099	16.3%	1,367	13.0%	267	24.3%
Investment business	-	-	384	3.7%	384	-
Asset management business	-1,010	-15.0%	-	-	1,010	-
Operating loss (before depreciation of goodwill)	-1,281	-19.0%	-395	-3.8%	885	-
Real estate business	469	7.1%	-313	-3.6%	-782	-
Renewable energy business	291	26.5%	466	34.2%	175	60.4%
Investment business	-	-	197	51.4%	197	-
Asset management business	-1,173	-	-	-	1,173	-
Company-wide expenses	-872	-	-721	-	150	-

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

(1) Real estate business

As stated earlier, under the reporting segment changes that take effect from FY3/21, the Company has transformed the real estate business. This has involved consolidating the detached housing sales and commercial facility construction businesses operated by Gro-Bels, which became a wholly-owned subsidiary through a share exchange, thereby combining it with the components of the prior real estate sales business (condominium sales, land and buildings, custom-built homes, and real estate leasing).

In FY3/21, the Company concluded new contracts primarily involving 99 units worth ¥3,685mn under condominium sales (compared to 45 units worth ¥2,016mn in FY3/20), 59 dwellings worth ¥1,578mn under custom-built homes (47 dwellings worth ¥1,276mn in FY3/20) and 13 dwellings worth ¥1,486mn under detached houses (no YoY comparison). Meanwhile, sales mainly comprised delivery of 100 units worth ¥3,730mn under condominium sales (compared to 56 units worth ¥2,602mn in FY3/20), delivery of 54 dwellings under custom-built homes worth ¥1,872mn (compared to 65 dwellings worth ¥2,044mn in FY3/20), and delivery of 18 dwellings worth ¥864mn under detached houses (no YoY comparison). Also, in commercial facility construction, the Company received new orders for seven projects at a value of ¥156mn, and sales were ¥376mn. In Other (building sales, sales of residential land for condominiums and detached houses, leasing of real estate owned by the Company, etc.), sales were ¥1,914mn (compared to ¥1,987mn in FY3/20). As a result, in FY3/21 total sales in the real estate business amounted to ¥8,758mn (up 32.0% YoY), while segment loss was ¥313mn (compared to a segment profit of ¥469mn in 3/20) due to factors including the booking of inventory valuation losses for some assets.

(2) Renewable energy business

This business comprises the solar power generation business in which electric power generated by solar power generation facilities managed by the Company or jointly with other entities is sold to electric power companies, as well as the biomass power generation-related business which engages in the manufacture of wood pellets in Russia. Sales amounted to ¥1,367mn (up 24.3% YoY), and segment profit was ¥466mn (up 60.4%).

At the end of FY3/21, the Company had seven projects in operation* (Kumamoto Yatsushiro Project, Rikuzentakata Project, Namegata Project, Narita Kanzaki Project, Sanmu Minami Project, and Yorii Project, Higashi Hiroshima Project). The Company's share of power generation at these projects is 33.84MW, with two other projects solely involving investment.

* In May 2021, a sales agreement for the Narita Kanzaki Project was concluded. Also, the Company plans to begin selling electric power generated by the Okayama Aida Project (the Company's share of power generation at this project is 11.09MW) in July 2021.

Making progress on right-sizing the balance sheet

3. Financial position

At the end of FY3/21, total assets were ¥35,030mn, up ¥5,266mn from the end of the previous fiscal year. Current assets were ¥20,635mn, up ¥10,037mn, mainly due to an increase of ¥4,512mn in cash and deposits due to the sale of investment securities and an increase of ¥5,249mn in real estate for sale as a result of having made Gro-Bels a consolidated subsidiary. Meanwhile, non-current assets were ¥14,394mn, down ¥4,771mn, mainly due to a decrease of ¥4,027mn in investments and other assets as a result of having recorded losses on valuations of securities and investments in capital.

Total liabilities were ¥16,488mn, up ¥2,094mn from the end of the previous fiscal year, mainly due to an increase of ¥3,215mn in long-term loans payable. Net assets were ¥18,541mn, up ¥3,171mn, mainly due to an increase in capital surplus associated with issuance of new shares attributable to making Gro-Bels a consolidated subsidiary, and an increase in valuation difference on other securities due to an increase in the market value of securities held.

Balance sheets

(¥mn)

	End of FY3/20	End of FY3/21	Change
Cash and deposits	5,080	9,593	4,512
Real estate for sale	1,795	7,044	5,249
Real estate for sale in process	2,037	1,780	-256
Real estate for development	260	459	199
Total current assets	10,598	20,635	10,037
Property, plant and equipment	9,838	9,092	-746
Intangible fixed assets	610	612	2
Total investments and other assets	8,716	4,689	-4,027
Investment securities	3,273	222	-3,051
Investments in capital	2,064	1,473	-591
Long-term loans	2,711	2,544	-166
Total fixed assets	19,165	14,394	-4,771
Total assets	29,764	35,030	5,266
Accrued construction payment	196	139	-56
Short-term borrowings, etc.	3,569	1,491	-2,077
Total current liabilities	4,329	2,642	-1,687
Long-term borrowings	9,186	12,401	3,215
Total fixed liabilities	10,065	13,846	3,781
Total liabilities	14,394	16,488	2,094
Total net assets	15,369	18,541	3,171

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

Operating cash flow turned positive

4. Cash flow conditions

In FY3/21, net cash provided by operating activities was ¥1,871mn. The main income items included depreciation of ¥624mn, loss on valuation of investment securities of ¥1,952mn, loss on valuation of investment capital of ¥491mn, and a decline in inventories including the posting of a valuation loss of ¥1,682mn. The main expenditure items included gain on negative goodwill of ¥280mn, gain on the sale of investment securities of ¥2,309mn, and gain on the sale of investment capital of ¥426mn.

Net cash provided by investing activities was ¥6,575mn. The main income items included proceeds from acquisition and sales of investment securities of ¥4,975mn and proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥825mn.

Net cash used in financing activities was ¥4,086mn. The main expenditure items included a decrease in long-term borrowings of ¥3,818mn and dividend payments of ¥442mn.

As a result, cash and cash equivalents during the period increased ¥4,410mn, and cash and cash equivalents at the end of FY3/21 were ¥9,410mn. Regarding borrowings, the consolidation of Glo-Bels was the reason that the balance of borrowings increased on the balance sheet but then became repayments in the cash flow statements.

It is worth noting that cash and deposits on hand increased significantly due to factors including cash flows from operating activities turning positive and the Company making progress on disposing of unneeded assets.

Cash flow statements

(¥mn)

	FY3/20	FY3/21
Cash flows from operating activities	-1,218	1,871
Net profit (loss) before taxes, etc.	291	-26
Depreciation expense	508	624
Gain on negative goodwill	-	-280
Loss (gain) on sales of investment capital	-	-426
Loss (gain) on sales of investment securities	-374	-2,309
Loss (gain) on valuation of investment capital	-	491
Loss (gain) on valuation of investment securities	-	1,952
Decrease (increase) in inventories	81	1,682
Increase (decrease) in trade payables	-462	-267
Decrease (increase) in investment securities for sale	1,011	-871
Cash flows from investing activities	-1,443	6,575
Purchase of property, plant and equipment	-2,779	-94
Purchase of and proceeds from sales of investment securities	1,696	4,975
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	825
Cash flows from financing activities	2,659	-4,086
Net increase (decrease) in loans and bonds	2,457	-3,791
Dividends paid	-2	-442
Net increase (decrease) in cash and cash equivalents	-49	4,410
Cash and cash equivalents at end of period	5,000	9,410

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

Outlook

Aiming for positive operating profit in FY3/22

1. FY3/22 forecast

(1) Results outlook

Regarding its consolidated results forecasts for FY3/22, the Company is forecasting sales of ¥8,328mn (down 20.8% YoY), operating profit of ¥105mn (compared to a loss of ¥395mn in FY3/21), ordinary profit of ¥96mn (a loss of ¥586mn) and net profit attributable to owners of the parent of ¥338mn (up 505.9%).

In the mainstay real estate business, the Company is forecasting a decline in sales due to the small amount of inventory on-hand for condominium sales, as well as its expectation for lower sales in the renewable energy business due to the portion of the Narita Kanzaki Project that will be sold. The Company expects the decline in sales to result in a drop in operating profit, but it is still forecasting a full-year operating profit of ¥105mn due to the improvement in the profit margin, the review of the earnings structure, and progress on efforts to reduce SG&A expenses and other efforts. In addition, based on the fact that the Company is expecting a gain on the sale of the Narita Kanzaki Project of approximately ¥700mn, it is forecasting a significant increase in net profit attributable to owners of the parent.

FY3/22 results outlook

(¥mn)

	FY3/21	FY3/22 E		Change	
	Amount	Amount	Composition ratio	Amount	Ratio
Sales	10,510	8,328	100.0%	-2,182	-20.8%
Operating profit/loss	-395	105	1.3%	500	-
Ordinary profit/loss	-586	96	1.2%	682	-
Net profit attributable to owners of the parent	55	338	4.1%	282	505.9%
Net profit per share	0.12	0.71			

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

(2) Changes

Accompanying the June 2020 reshuffling of the executive team, the Company has been selling unnecessary assets and otherwise working to right-size the balance sheet. In FY3/22, the Company is planning* to make three changes. The first is to change the company name (trade name) to Mirainovate Co., Ltd. in order to express the Company's stance of continually innovating and assuming challenges towards the future. The second is a reduction in the amount of investment capital. In order to have an agile and flexible capital policy and to prepare for carrying out shareholder returns, the Company will reduce its investment capital from ¥12,086mn to ¥100mn, and insert the difference in capital reserve. The third change will be a share merger. The Company's shares are far below the range of ¥50,000 to ¥500,000 that is the rule on the Tokyo Stock Exchange. Because the per share price fluctuation percentage is comparatively high, the stock price volatility can easily become high. This has a large impact on investors, so the Company will conduct a 10:1 share merger.

* Assuming this is approved at the general shareholders' meeting in late June 2021.

2. Progress made for new businesses

As the next renewable energy business, the Company has announced that, following on from the solar power generation business in Japan, it is entering into the biomass fuel (wood pellets) manufacturing business. Together with the RFP (Russia Forest Products) Group of Russia, it has launched a joint venture (RFP Wood Pellets (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.

Subsequent to completion of the plant's primary facilities in February 2020, the project's trial runs and a quality inspection by a third-party organization encountered delays as a consequence of the proliferation of COVID-19 within Russia, restrictions imposed on entry from other countries, and other such unforeseen developments. In September 2020, however, engineers were able to travel from Europe to Russia, which enabled the plant to embark on production of prototypes, after which it achieved outstanding assessment results upon undergoing quality inspection performed by the third-party organization JSC Bureau Veritas Rus. To help improve cash flow prior to commencement of official sales, RFP WP concluded an initial spot sales contract after having drawn on the inspection results in efforts to seek a spot sales buyer who would be willing to make small-lot purchases. As it continues to seek spot sales buyers going forward, RFP WP will also ensure the very best quality control with respect to manufacturing processes until the commencement of official sales made under its long-term contract with ENGIE EM starting from April 2021. Meanwhile, RFP WP is committed to maintaining its focus on the renewable energy business going forward in part by expanding the plant to align with demand, and accordingly projects sales of 60,000 tons in FY3/22 and aims to achieve production and sales amounting to 135,000 tons in the future.

In FY3/21, an equity method loss of ¥373mn was booked for RFP WP, but the Company has stated that it is possible that RFP WP will turn profitable within a few years.

Shareholder return policy

FY3/22 dividends yet to be declared

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 the Company resumed an annual dividend payment of ¥1 per share, but then it did not pay an annual dividend in FY3/21. The company has not yet declared dividends for FY3/22.

FISCO

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