

New Constructor's Network Co., Ltd.

7057

Tokyo Stock Exchange JASDAQ

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<http://www.fisco.co.jp>

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■ Summary

Operates a franchise network for its proprietary SE-Structure Method using structural calculations to ensure the earthquake resistance of wooden buildings. A corporate group combining technologies, assets and lifestyles

New Constructor's Network Co., Ltd.<7057> (hereafter, also "the Company") conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides its SE-Structure Method, which is the Company's proprietary construction system to realize wooden buildings with high levels of structurally calculated earthquake resistance, through its franchise network of registered SE-structure contractors, mainly building contractors.

1. Overview of FY3/20 results

In the FY3/20 consolidated results, net sales were ¥6,610mn (up 1.4% year on year (YoY)), gross profit was ¥1,550mn (up 4.4%), operating income was ¥229mn (down 12.3%), ordinary income was ¥258mn (down 18.4%), and profit attributable to the owners of the parent was ¥181mn (down 25.2%). Net sales and gross profit were new record highs, and although all of the profit items declined, operating income, ordinary income, and profit attributable to the owners of the parent were all above the revised forecasts announced in February 2020.

2. FY3/21 consolidated results forecasts

For the FY3/21 consolidated results forecasts, the Company is currently confirming the impact of the spread of the novel Coronavirus (COVID-19). Therefore, it plans to disclose them at an early stage when it becomes able to rationally calculate them. After the State of Emergency declaration is lifted, the Company plans to quickly prepare results forecasts and announce them by August 14, which is when it will announce the 1Q financial results. However, for the period from April 1 to May 31, 2020, the impact of the spread of COVID-19 has not caused a decline in sales. Through having a supply chain that benefits from a nationwide network and by strengthening collaborations with designated pre-cut plants, the Company has avoided impacts such as materials shortages and has been operating as planned. Also, the spread of COVID-19 has not caused delays in materials loading at plants or progress at work sites.

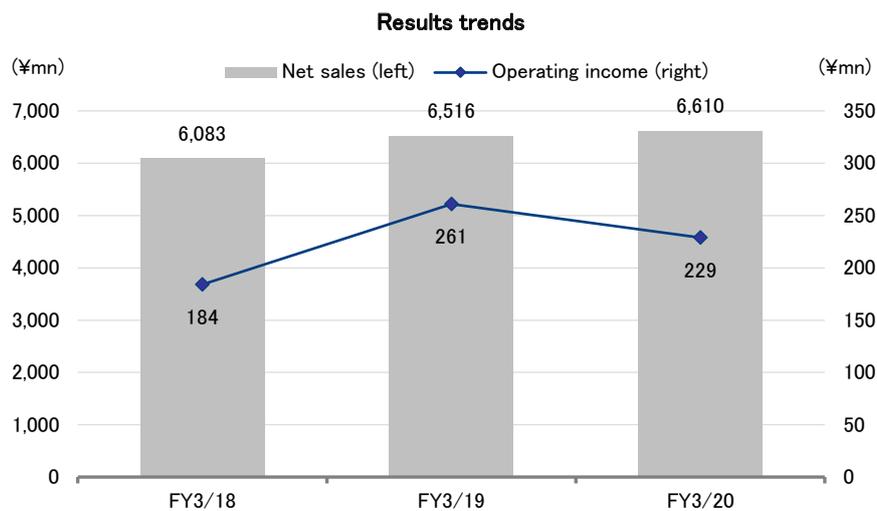
3. Activities in FY3/21

Looking at the Company's activities in structural calculations for non-residential wooden buildings not constructed using the SE-Structure Method within the large-scale wooden buildings (non-residential) field, the establishment of Timber Structure Design Co., Ltd. is likely to result in major changes. Since the enforcement of laws in October 2010, the non-residential wooden-building market has been growing strongly, but this growth also presents an issue. In order to solve this growth issue, the Company has entered into a business collaboration with NET EAGLE Co., Ltd., aiming to harnessing major synergies with the Company's track record of structural calculations for more than 24,000 buildings, and NET EAGLE Co., Ltd.'s share of more than 60% of the wooden construction CAD market.

Summary

Key Points

- The SE-Structure Method utilizes its expertise in large-scale buildings for general housing
- Established Timber Structure Design Co., Ltd., as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAT development
- Currently, sales are not declining and impacts such as material shortages have been avoided through strengthening collaborations



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

Company profile

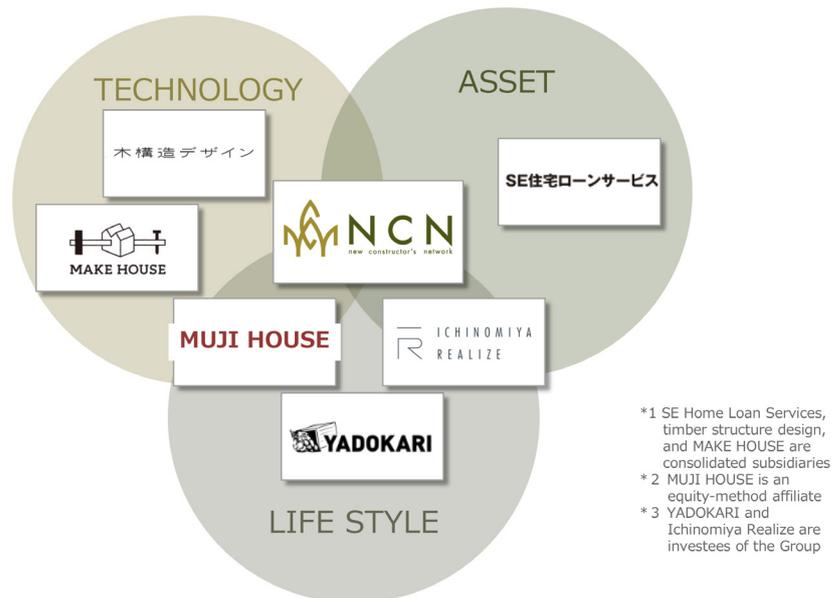
The SE-Structure Method uses structural calculations to realize wooden buildings that are highly earthquake resistant

The Company conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system to realize wooden buildings with high levels of structurally calculated earthquake resistance. The system is provided through its franchise network of registered SE-structure contractors, mainly building contractors. The New Constructor's Network Group (hereinafter also "the Group") is a corporate group centered on the Company, combining the technologies field through Timber Structure Design Co., Ltd., and MAKE HOUSE Co. Ltd.; the assets fields through SE Home Loan Services Co., Ltd.; and the lifestyles field through MUJI HOUSE Co., Ltd., YADOKARI Co. Ltd., and Ichinomiya Realize Co., Ltd.

Company profile

In the lifestyles field, in December 2019 the Company entered into a capital and business collaboration with YADOKARI. It is engaged in survey research and media management on new ways of living in the world; planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support. Ichinomiya Realize was established in August 2016 for regional revitalization as a town-development company through funding by Ichinomiya Town, Chosei District, Chiba Prefecture, the Company, and other private-sector companies.

Status of the New Constructor's Network



Source: Reprinted from the Company's financial results briefing materials

The Company was established in 1996 with the aims of disseminating safe and secure wooden structures and building a framework to provide homes with asset value. The Company President, Mr. Ikuo Takusari, was formerly employed in Nissho Iwai Corporation (currently, Sojitz Corporation <2768>). The Great Hanshin-Awaji Earthquake occurred in 1995, when he was active as a businessman in a trading company, and he witnessed the catastrophic damage to wooden housing. This informed him of the fact that wooden housing, which constitutes the majority of housing, does not employ structural calculations. So rather than being “weak because they are wooden,” these structures lacked structural designs from the start.

The Company was established in 1996 as a joint venture between Seven Industries Co., Ltd. <7896> and Nissho Iwai. At that time, it requested the assistance of Mr. Shigeru Ban, the structural designer who had worked on the construction of the Nagano Olympics Memorial Arena. With Mr. Ban's expertise in large-scale buildings, it developed the SE-Structure Method to be used for general house building and designed innovations in wooden construction technology. Up until now, this method has been one of the Company's strengths. The SE-Structure Method is the Company's intellectual property and cannot be duplicated by other companies because it is the result of the Company's accumulation of 20 years of construction experience. Due to this strength, many major housing manufacturers request its OEM supply of standard housing.

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Company profile

History

History	
December 1996	In order to not repeat the tragedy in 1995 of the Great Hanshin-Awaji Earthquake, New Constructor's Network Co., Ltd., was established in Minokamo City, Gifu Prefecture, as a joint venture between Seven Industries Co., Ltd., <7896> and Nissho Iwai Corporation (currently, Sojitz Corporation) to disseminate safe and secure wooden structures in Japan and to build a mechanism to supply homes with asset value.
October 1997	Acquired the Minister of Construction certification in the Building Standards Law Article 38 for the SE (Safety Engineering) Construction Method Wood Frame System Started sales of the SE-Structure Method
November 1998	Held the SE-Structure Method Housing Exhibition (SELL HOUSE Exhibition) by seven architects
September 1999	Started the SE Housing Performance Guarantee System ahead of the Defects Guarantee System Opened the Osaka branch office
May 2000	Acquired the Minister of Construction certification in the Buildings Standards Law Article 38 for the α - SE-Structure Method Wood Frame System (expanded the eaves height limit and an alternative-burning design)
October 2001	Acquired the Specified Constructor Business License (the Minister of Land, Infrastructure and Transport License No. 023620)
May 2002	Acquired the Minister of Land, Infrastructure and Transport certification in the Buildings Standards Law Article 68.26 for the SE-Structure Method-dedicated structural calculation program
December 2003	Started providing the "thick wooden-frame house" housing brand that uses the SE-Structure Method
January 2004	Conducted a capital participation and made an affiliate of MUJI net Co., Ltd., (currently MUJI HOUSE Co., Ltd., an equity method affiliate), a joint-venture subsidiary with Ryohin Keikaku Co., Ltd.
October 2005	Acquired the Minister of Land, Infrastructure and Transport certification for the Buildings Standards Law Article 68.26 for the SE-Structure Method Wood Frame system (split-level home)
September 2006	Acquired the Forestry Certified PEFC-CoC certification Stated the design office franchise network business (NDN business department)
June 2008	The system that includes the SE-Structure Method was adopted by the Ministry of Land, Infrastructure, Transport and Tourism for the Ultra-long-term Housing Leading Model Project Started the supply of feather-pattern materials and unit rebar in the SE-Structure Method Started sales of Walk in Structure, a SE-Structure Method-dedicated design CAD
April 2009	Following the enactment of the Act to Promote Ultra-long-term Excellent Housing, established the Ultra-long-term Excellent Housing Support Office (currently, the Ultra-long-term Excellent Housing Support Section, New Business Department) The residential housing supply system using the SE-Structure Method was certified as a Ministry of Land, Infrastructure, Transport and Tourism, Long-term Excellent Housing Leading Business and adopted as an auxiliary business Started the use of domestically produced timber in the SE-Structure Method
October 2010	The system that includes the SE-Structure Method was selected by the Ministry of Land, Infrastructure, Transport and Tourism as the FY2010 Ultra-long-term Excellent Housing Leading Business Started the environmental design service (currently the primary energy consumption volume calculation service)
March 2012	Established SE Home Loan Services Co., Ltd., (currently a consolidated subsidiary) to conduct operations including loan agency operations and the brokerage of financial instruments The SE-Structure Method Wood Frame system received a structural assessment by the Building Center of Japan Improved the performance of the SE-Structure Method for long-term use (introduced lag screw bolts and improved the rigid frame)
March 2013	Spun-off the design office franchise network business as NDN Co., Ltd.
June 2015	Established MAKE HOUSE Co., Ltd., (currently a consolidated subsidiary) to develop and deploy BIM solutions for the housing industry
July 2016	Acquired the resilience certification
February 2017	Absorption merger of NDN Co., Ltd.
February 2018	Relocated site of the Head Office to Minato Ward, Tokyo
March 2018	Acquired the Housing Lots and Buildings Transactions Business License (Governor of Tokyo License (01) No. 101790)
March 2019	Listed on the Tokyo Stock Exchange JASDAQ market
October 2019	Participated in Isumi Forest Living, a regional revitalization project of Isumi City, Chiba Prefecture
December 2019	In the 23rd Japan Timber Engineering Society Technology Presentation, the Company's executive officer was awarded the Motoaki Okuma Award Entered into a capital and business collaboration with YADOKARI Co. Ltd., which is engaged in survey research and media management on new ways of living in the world; planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support
February 2020	Established Timber Structure Design Co., Ltd., as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAT development

Source: prepared by FISCO from the Company's securities reports and press releases

■ Business overview

Provides the SE-Structure Method, an earthquake-resistant construction method as a one-stop service from structural design through to supply of the pre-cut materials

1. The wooden-construction, earthquake-resistant design business

The Company conducts a business for advanced structure calculations to ensure the earthquake resistance of wooden buildings. Also, it offers the SE-Structure Method, an earthquake-resistant construction method for realizing wooden buildings with high earthquake resistance, which offers one-stop service from structural calculation to supply of the pre-cut materials. The system is provided through the Company's network of registered SE-structure contractors, mainly building contractors.

(1) The residential field (the SE-Structure Method, an earthquake-resistant construction method)

At first, when the franchisee gets an order, the Company ships structural calculation sheets at the design stage. Then, it sells the structure-processed parts and other products at the construction stage. It also receives registration fees and monthly membership fees from the registered construction companies. The SE-Structure Method is a state-of-the-art wood-construction technology that realizes both excellent earthquake-resistant performance and a high degree of freedom for spaces. The wood used in the SE-Structure Method for the structural framework is all "custom laminated-wood," which is extremely strong and has consistently high levels of quality. The homes also have the advantage of few cross-section defects due to the use of SE metallic materials in the pedestal parts that connect the columns and the beams. Also, to protect against the tremors that occur in a large earthquake, the Company uses a metallic material called "pedestal metallic material," which directly connects the foundation and the pillars for the parts connecting the pillars and the foundation, which are the most fragile parts. This greatly improves their resistance to separation. Moreover, the metallic materials that are bonded to the wooden materials are extremely strong, which is also a major element of the method. However, the main reason why it is said that the SE-Structure Method is strong against earthquakes is related to the structural calculations. For wooden homes, the SE-Structure Method uses structural calculations that are supported by numerical values, the same as for steel-frame and reinforced-concrete structures.

a) The franchise network (residential field franchise network)

"Thick wooden-frame house" is the Company's brand for housing using the SE-Structure Method. It is its general term for houses with high asset value constructed by the Company's "Thick wooden-frame house premium partners," who are selected from among all registered construction companies for their proposal and technological capabilities. These homes have two merits: the ability to request community-based building contractors and housing companies which are fully familiar with the climate and environment of the local areas to design and construct, and that third parties carry out the site inspections, complete guarantees with performance, quality and assurance certified as long-life quality housing.

b) House manufacturer services (OEM supply)

The Company provides OEM supply of its SE-Structure Method for its partner companies, such as house manufacturers that sell standard housing (including several large-scale house manufacturers). When a partner company sells a standard home, the Company ships the structural calculation sheets and also sells the structure-processed parts and other products.

Business overview

(2) The large-scale wooden buildings (non-residential) field

In the large-scale wooden buildings (non-residential) field, the Company uses the SE-Structure Method to provide wooden buildings with a total floor area of more than 500 m². Due to the enforcement of the Act for Promotion of Use of Wood in Public Building (October 2010), construction demand for large-scale wooden buildings that require structural calculations is expected to grow, and the Company is applying its expertise in earthquake-resistant designs for wooden buildings to large-scale wooden buildings to develop its business in this field. The features of its large-scale construction work include that its structures are lighter in weight than steel-frame and reinforced-concrete structures and it is able to keep down construction costs and the construction period.

SE-Structure Method, an earthquake-resistant construction method, realizes both excellent earthquake resistant and a high degree of freedom for spaces through the use of materials that are thoroughly quality controlled and calculated structurally. This business field is growing remarkably, due to the global promotion of the use of wooden buildings and wooden materials, made relevant by environmental issues like forecast conservation and global warming. In order to further accelerate growth, the Company has entered into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development. This collaboration is for a structural design business in the large-scale wooden non-residential field and will handle construction methods other than the SE-Structure Method. In February 2020, the two companies established Timber Structure Design as a joint venture.

2. Others and new businesses

In order to achieve its goal of “creating a mechanism to provide homes with asset value in Japan” centered primarily on the wooden-construction, earthquake-resistant design business, the Company provides a variety of services to improve the asset value of homes, including an energy conservation calculation service and a long-term quality housing certification agency service.

(1) Energy conservation calculation service

The Company provides various services, including an energy conservation calculation service and a long-term quality housing certification agency service. It started providing the energy conservation calculation service in 2010, looking ahead to the addition of primary energy consumption volume to the evaluation standards in 2013 with the introduction of the New Energy Saving Standard and the enforcement of the revised Building Energy Efficiency Act from 2020.

The Company provides services not only for homes constructed using the SE-Structure Method, but also for homes constructed using other construction methods, and it is working for the dissemination of zero energy homes. In order to create fuel-efficient housing, there are a wide range of techniques for keeping down the energy consumed, and “energy conservation calculations” is the method to confirm whether each one of these techniques is functioning properly before actually constructing the home. In energy conservation calculations, the home’s thermal insulation performance, sunlight shielding performance, and energy volume consumption are each calculated using the calculation methods prescribed by the Japanese government. The Company issues an Energy Conservation Performance Report, which adds an explanation of the results for customers in addition to the results of these calculations.

Results trend

FY3/20 net sales were a new record high. Sales in the large-scale wooden buildings (non-residential) field grew by 66% YoY

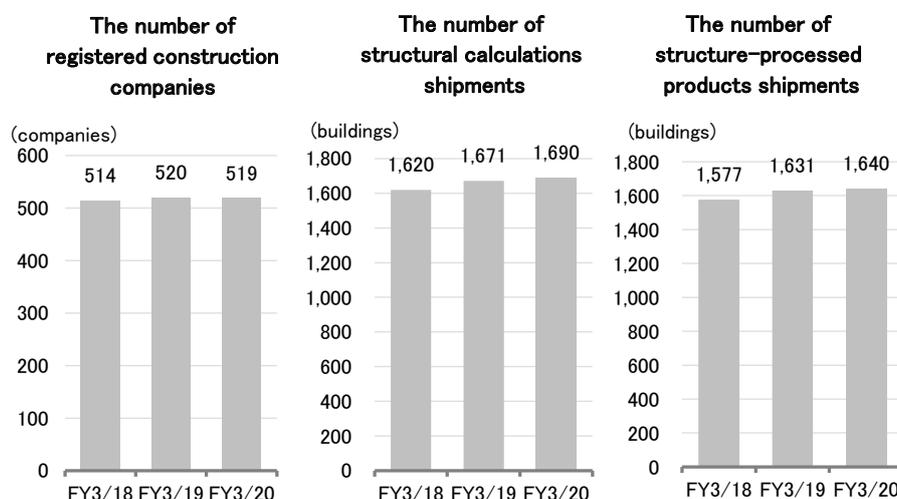
In the FY3/20 consolidated results, net sales were ¥6,610mn (up 1.4% YoY), operating income was ¥229mn (down 12.3%), ordinary income was ¥258mn (down 18.4%), and profit attributable to the owners of the parent was ¥181mn (down 25.2%). Net sales were a new record high. Although all the profit items decreased, operating income, ordinary income, and profit attributable to the owners of the parent were all above the revised forecasts announced in February 2020.

FY3/20 full-year results

	Net sales		Operating income		Ordinary income		Profit attributable to the owners of the parent	
		Increase/decrease rate		Increase/decrease rate		Increase/decrease rate		Increase/decrease rate
FY3/20	6,610	1.4%	229	-12.3%	258	-18.4%	181	-25.2%
FY3/19	6,516	7.1%	261	41.6%	316	38.0%	242	43.4%
FY3/18	6,083	3.2%	184	47.7%	229	40.1%	169	34.4%

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

The housing market environment experienced a strong negative impact due to the consumption-tax increase from January 2020 onward, and sales have been trending at low levels, decreasing 13.7% YoY in January, 12.3% in February, and 7.6% in March. In this business environment, in the wooden-construction, earthquake-resistant design business net sales in the residential field were ¥5,580mn (down 3% YoY). However, in the non-residential field, net sales increased significantly to ¥720mn (up 66%). Orders are increasing for buildings of a larger scale than houses following the enforcement of the Act for Promotion of Use of Wood in Public Building in October 2010, which promotes the use of wood in public buildings by the national and local governments.

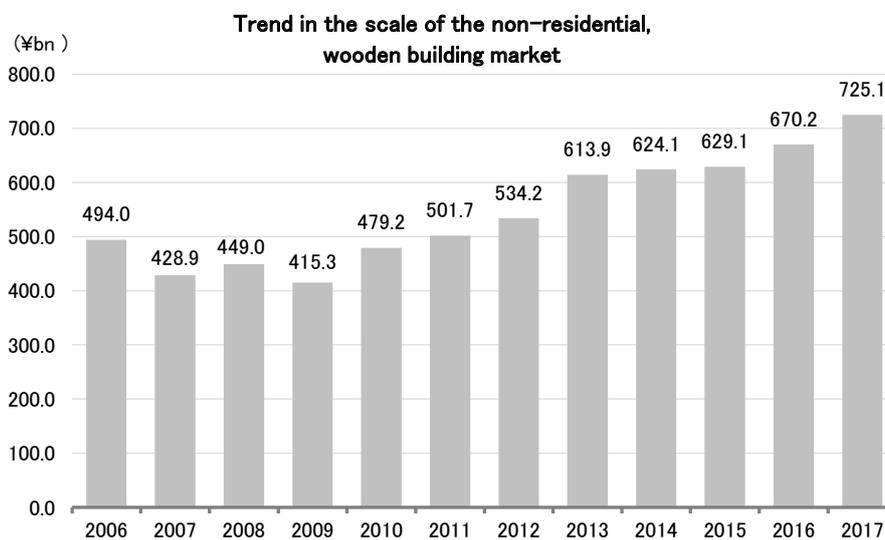


Source: Prepared by FISCO from the Company's financial results briefing materials

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Results trend

In addition, the number of registered construction companies, the number of structural calculations shipments, and the number of structure-processed products shipments are all trending solidly. At the present time, the number of structure-processed product shipments for the SE-Structure Method in March 2020 was 185 buildings (112.8% compared to the same month in the previous fiscal year). This was the highest number since the Company was founded in 1996. Furthermore, the number of structural calculations shipments was 194 buildings. This is the second highest number after September 2019 and 134.7% compared to the same month in the previous fiscal year. In the revised Architect Act of March 1, 2020 (in relation to Enforcement Regulations Article 21), it has become mandatory even for No.4 classification buildings and buildings that do not require a construction certificate to store design documents for 15 years. Since these design documents include structural calculation sheets, wooden homes will naturally have to have structural calculations. This will be a major issue for business continuity for design firms, building contractors, and others going forward.



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

Also, needs are rising for structural calculations for wooden building other than for those constructed with the SE-Structure Method. Based on this, in FY3/20 the Company established Timber Structure Design Co., Ltd. as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAD development. This has widened the Company's business scope, as it will conduct the structural designs and production designs of non-residential wooden buildings that were not constructed using the SE-Structure Method.

Strengths

The SE-Structure Method utilizes the Company's expertise in large-scale buildings for general housing. Established Timber Structure Design as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAD development

1. The SE-Structure Method

The SE-Structure Method utilizes the Company's expertise in large-scale buildings for general housing. Conventionally, the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints) has been the mainstream method for steel-frame and reinforced concrete (RC) structures. The SE-Structure Method is the Company's proprietary construction system for wooden buildings that incorporates this rigid method for wooden housing into a system to construct wooden homes that are safe and convenient to use. This proprietary system constructs wooden buildings that are overwhelmingly strong. Up until now, it has been one of the Company's strengths and intellectual property that other companies cannot duplicate, because it is the result of the Company's accumulation of 20 years of construction experience.

In this method, structural calculations are carried out for all buildings and high-quality custom laminated-wood is used. The joint parts use proprietary SE metal materials developed by the Company. The system enables integrated management of every step of the process, from the structural calculations that realize high earthquake resistance and large spaces by using structural laminated wood and SE metallic materials through to the supply of parts, the construction, the inspection, and the performance guarantee.

2. Establishment of Timber Structure Design

In February 2020, the Company entered into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development (more than 60%). This collaboration is for a structural design business in the large-scale wooden non-residential field handling construction methods other than the SE-Structure Method. The two companies established Timber Structure Design as a joint venture.

First, the Act for Promotion of Use of Wood in Public Building was enforced in October 2010, The Act focuses on the target of public buildings, which have a low wooden-building rate, and for which demand can be expected to increase in the future. It calls on the Japanese government to take the lead in promoting the use of wooden materials, and it also encourages independent efforts by local governments and private-sector businesses in accordance with the national policy. The aim is to increase the demand for wooden materials as a whole, including from the ripple effects to homes and other general buildings. On the other hand, the Building Standards Act defines the following buildings for which safety must be confirmed through structural calculations.

- (1) Wooden buildings, including homes, of three or more floors
- (2) Wooden buildings, including homes, with a total floor space of more than 500 m²
- (3) Wooden buildings, including homes, of more than 13 m in height or with eaves of a height of more than 9 m
- (4) Non-wooden buildings with two or more floors or with a total floor space of more than 200 m²
- (5) Buildings whose main structural parts (columns, beams, walls, etc.) are made of stone, brick, concrete blocks, unreinforced concrete structures, etc., of a height of more than 13 m or eaves of a height of more than 9 m

Strengths

Buildings to which these regulations apply cannot be constructed unless structural calculations are carried out. In other words, structural calculations are not mandatory for general wooden homes of two floors or less or homes of less than 500 m².

However, there are few structural designers who are able to handle wooden buildings other than housing. This causes problems for collaborations with the production side, such as for the pre-cut process. Therefore, the current situation is that the spread and growth of non-residential wooden buildings are sluggish. Given this situation, the Company established Timber Structure Design as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAD development. The establishment of this joint venture is expected to generate synergies for both companies. Also, as the Company will now handle structural designs and production designs for non-residential wooden buildings that were not constructed using the structural design SE-Structure Method, it will play a major role in driving the business for the non-residential wooden building market.

In contrast to the rising needs for non-residential buildings and the market's growth, there are few structural designers able to handle this market. Therefore, the current situation is that information cannot be accurately conveyed to manufacturing plants in accordance with the structural design drawings. In this situation, the ability to provide consulting at the same time for both costs and construction at the structural design stage is a major advantage for clients. Timber Structure Design is able to ensure the correct manufacturing process in accordance with the drawings in pre-cut plants and provide the optimized production design as pre-cut data linked to the structural design. So as it is able to offer a one-of-a-kind, one-stop service for a variety of buildings, the effects of its establishment are likely to be fairly strong.

This collaboration is a win-win relationship for NET EAGLE and the Company: the "new large-scale wooden building market" will create new demand for the pre-cut plants of NET EAGLE's 400 client companies nationwide, while also providing a new market for the Company's 500 registered construction companies that construct wooden housing. The Company is expected to grow to be a company that aims to provide total wooden-construction solutions, using not only the SE construction method, but also other construction methods as appropriate, including the CLT*¹ construction method, the laminated wood*² construction method, and the conventional framework construction method*³. It will do this by utilizing the competitive advantages that it has acquired from supplying more than 24,000 homes and expanding the market share of its structural design systems to large-scale wooden buildings. It has started by focusing on medium-size, low rise buildings of 300 m² to 1,000 m². As the business target in the five-year plan, it is aiming for 1,000 buildings and a total floor area of 500,000 m².

*1 CLT (Cross Laminated Timber): thick laminated panels bonded together in layers so that each layer is perpendicular to the other layers

*2 Laminated wood: wood material made by reconstructing panels bonded with adhesive

*3 Conventional framework construction method: a construction method that simplifies and was developed from traditional Japanese construction methods

Business Outlook

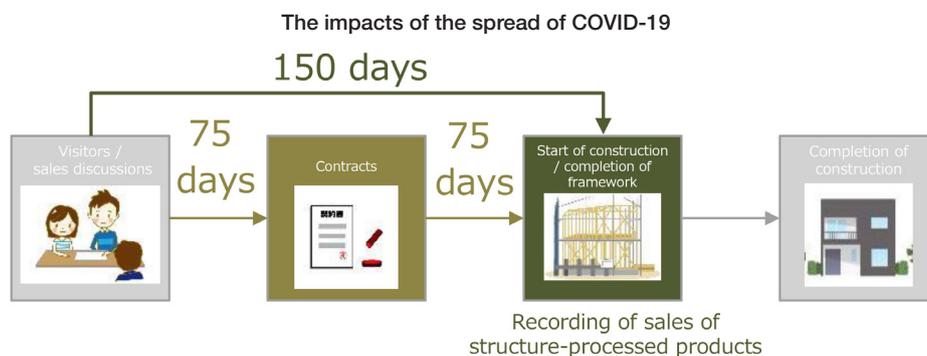
The spread of COVID-19 is forecast to affect net sales from September 2020

For the FY3/21 consolidated results forecasts, the Company is currently confirming the impact of the spread of COVID-19. Therefore, it plans to disclose them at an early stage when it becomes able to rationally calculate them. After the state of emergency declaration is lifted, the Company plans to quickly prepare results forecasts and announce them by August 14, which is when it will announce the 1Q financial results.

However, for period from April 1 to May 31, 2020, the impact of the spread of COVID-19 has not caused a decline in sales. Through having a supply chain that benefits from a nationwide network and by strengthening collaborations with designated pre-cut plants, the Company has avoided impacts such as materials shortages and has been operating as planned. Also, delays due to the spread of COVID-19 are not occurring for materials loading at plants and for the progress made at work sites.

In terms of the impact on results in the future, since March 2020 various house manufacturers and building contractors have closed some of their residential exhibition sites (model homes). As a result, the Company has confirmed that at the current time, the number of visitors (the number of potential customers) has fallen by around 20% YoY. Therefore, it is anticipated that the impact on housing sales of the measures to stop the spread of COVID-19 will be to reduce contracts by around 20% YoY during the period in which the exhibition sites are closed (assumed to be 60 days). It is judged that the negative impact on the housing industry as a whole from the lack of visitors during the self-restraint period will be an annual rate of around 13.4%. It is expected that the impact of this may occur in the future.

Also, with regard to the time when the impact of the decline in the number of exhibition-site visitors will appear in the Company's net sales, according to the Company's KPI data, it takes 75 days from a visit to an exhibition site to a contract, and 75 days from the contract to the start of the construction and the completion of the framework (the time when the Company's sales occur). Therefore, it is calculated that the impact on sales will be after 150 days. From this, the decline in visitors is forecast to affect sales from September 2020 onwards. However, while saying that the period in which the exhibition sites are closed will have an impact, it is difficult to imagine a trend toward cancelling contracts or similar. Therefore, it is considered that this will be gradually reflected in results from the 2H onwards in the form of the sales-recording period being pushed back.



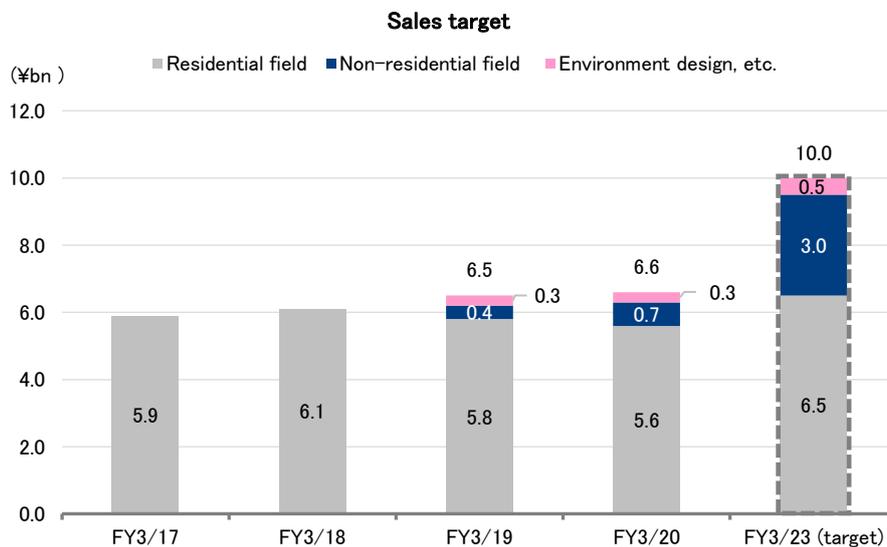
Source: Reprinted from the financial briefing materials

Business Outlook

As its response to mitigate the impact of COVID-19, the Company quickly established a system to hold discussions through TV conferencing and via the Internet. In such ways, it is implementing measures to mitigate the impact to only a slight decrease in orders. As part of its measures implemented at an early stage, it has already announced that it has established an online consultation desk, the effects of which are gradually increasing. Other than these measures, one of the Company's strengths is a sound financial structure that is strong even during a recession. It has net cash of ¥2,125mn (after deducting deposit guarantees, it has no interest-bearing debt), its current assets ratio* is 85.8%, and it has an inventory-less business model (so the asset impairment required is minimal).

* Currents asset ratio = current assets ÷ total assets

For the net sales target, the Company is aiming for ¥10bn in FY3/23 (FY3/20 result, ¥6.6bn), because the non-residential field has major growth potential. It is aiming for growth not only from the SE-Structure Method, but also by developing total solutions for the promotion of wood for building construction (including CLT).



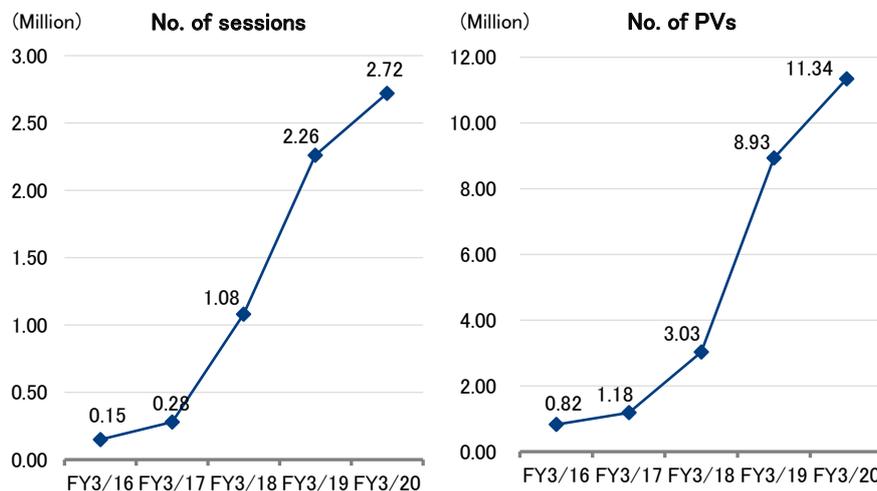
Source: Prepared by FISCO from the Company's financial results briefing materials

Activities for FY3/21

In the large-scale wooden buildings (non-residential) field, major synergies with NET EAGLE are expected from the establishment of Timber Structure Design

As its policy for FY3/21, the Company intends to strengthen measures in the residential fields for increasing the number of registered construction companies and strengthening the “thick wooden-frame house” brand. For the large-scale wooden buildings (non-residential) field, it will conduct measures for the structural calculations of non-residential wooden buildings not constructed with the SE-Structure Method. For strengthening the acquisition of newly registered companies, in the residential field up to FY3/20, the Company had focused on promoting the activities of the approximately 500 already registered companies. Now it plans to strengthen acquisitions of newly registered companies toward further spreading the use of highly earthquake-resistant wooden homes. In FY3/21, it is aiming to newly register around 50 companies. In efforts to strengthen the “thick wooden-frame house” brand, the Company has newly established the Thick Wood Business Department to further strengthen the brand. In addition to the brand’s own website, the Company will deploy proactive promotion activities such as the specially established FAMILY TREE website, publication of the ML WELCOME magazine, and communicating information on Instagram. Visitors to the “thick wooden-frame house” brand site are steadily increasing and the brand’s attention and name-awareness levels are rising. Since FY3/18, the number of sessions and number of PVs (page views) of the brand website’s have been rising at a rapid pace.

Trends on the brand’s website



Source: Prepared by FISCO from the Company’s financial results briefing materials

Activities for FY3/21

Looking at the Company's activities in structural calculations for non-residential wooden buildings not constructed using the SE-Structure Method within the large-scale wooden buildings (non-residential) field, it seems highly likely that the establishment of Timber Structure Design will result in major changes, as previously mentioned. Following the enforcement in October 2010 of the Act for Promotion of Use of Wood in Public Buildings, the non-residential wooden building market has been growing significantly. However, this growth also presents an issue due to the small absolute number of people able to conduct the structural calculations and the manufacturing CAD input for wooden buildings of more than 500 m². In order to solve this growth issue, the Company, which has a track record of conducting structural calculations for more than 24,000 buildings, is collaborating with NET EAGLE, which has a share of more than 60% of the wooden buildings CAD market. This collaboration will enable the one-stop provision of structural calculations through to CAD data, and major synergies can be expected from it.

■ Investment activities for new fields

From proposing new lifestyles that are one step ahead and regional activation

Support for activities that will lead to the realization of affluent lives in Japan in the future

The Group is a corporate group, centered on the Company, combining the technologies field through Timber Structure Design and MAKE HOUSE; the assets fields through SE Home Loan Services; and the lifestyle field through MUJI HOUSE, YADOKARI, and Ichinomiya Realize. In December 2019, the Company concluded a capital and business collaboration agreement with YADOKARI, which provides town-development support.

YADOKARI is a company that increases the choices for ways of living, including through its Minimal Life, Tiny House, and Multi-site Housing. It has announced that it has defined a new affluence from the viewpoint of "homes". In the future, it is forecast that the number of new housing starts will trend downward. In this situation, YADOKARI will propose new lifestyles through collaborating with the Company, which provides "proposals for the new utilization of wood materials." In the future, they will develop products for Tiny House proposed by YADOKARI that will utilize the Company's SE-Structure Method. In addition, through this collaboration, the two companies will communicate new lifestyle proposals that are always one step ahead in the YADOKARI online magazine.

Also, through the Isumi Forest Living project, the Company is utilizing forest resources and cooperating with the local community, conducting management for people to enjoy the forest that is growing naturally, and supplying wooden homes. In addition, it is providing various proposals not limited to housing. It is supporting and participating in this joint project as a company that is conducting activities that will lead to the realization of affluent lives in Japan in the future by widening the possibilities for wood for regional revitalization. The Isumi Forest Living project provides facilities that utilize the resources dormant in the area that enable people to experience new modes of accommodation. The Company is cooperating with Isumi City, Chiba Prefecture, and the local tourism bureau to create a base for regional activation through public sector-private sector collaborations. The base was opened in September 2019.

Investment activities for new fields

In the Isumi Forest Living project, a model house of the new MUJI HOUSE product “Younoie,” has been constructed for visiting. In the glamping camp site, facilities have been provided including an outdoor deck with excellent earthquake resistance constructed using the SE-Structure Method. This facility in the glamping camp site is popular to the extent that reservations are difficult to obtain. User interest is also high in the Younoie model house, and it seems visitor numbers are growing.

■ Corporate Social Responsibility (CSR)

17 Sustainable Development Goals (SDGs) have been defined with 2030 as the deadline to achieve them. Among them, the Company has indicated its respective themes and its plans for measures to achieve the goals through its business. Ever since its establishment with the aims of spreading safe and secure wooden structures in Japan and creating a framework to provide homes with asset value, there has been no change to its corporate philosophy of “spreading around the world wooden homes that can be lived in safely.”

(1) The Company's goal is to make inclusive, safe, strong, and sustainable cities and residential communities based on “11. Sustainable Cities and Communities,” which is the SDG defined on the theme of increasing the earthquake-resistance rate of wooden buildings. Another goal is to ensure a pattern of sustainable consumption and production based on “12. Responsible Consumption and Production.” The Company's specific measures for these goals include promoting the wooden-construction, earthquake-resistant design business and working to achieve 100% earthquake-resistant housing.

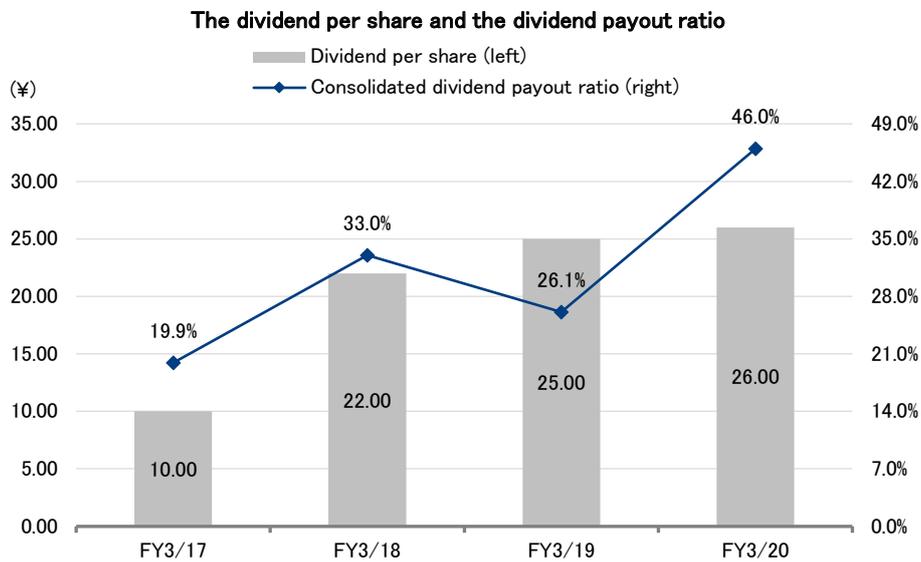
(2) On the theme of raising the rate of the use of wooden materials, based on “9. Industry, Innovation and Infrastructure,” the Company's goal is to provide a strong infrastructure and promote the transition to inclusive and sustainable consulting, while also aiming to expand technological innovation. Based on “15. Life on Land,” it aims to protect ecosystems on land, to promote their recovery and sustainable use, to sustainably manage forests, to deal with desertification, to identify the elements of and reverse land degradation, and to prevent the loss of biodiversity. Its goal is also “12. Responsible Consumption and Production.” Its specific measures include establishing Timber Structure Design and utilizing CLT.

(3) On the theme of spreading the use of energy-saving housing, the Company's goals are to secure access to sustainable and modern energy that is affordable and reliable for everyone based on “7. Affordable and Clean Energy,” and also to contribute to realizing “11. Sustainable Cities and Communities.” Its specific measures include conducting surveys of actual energy-saving conditions.

(4) For the theme of activating local communities from population concentrations in metropolitan areas, the Company's goal is to realize “11. Sustainable Cities and Communities.” Its specific measures include the capital and business collaboration with YADOKARI and the Forest Living project.

Shareholder return policy

The Company considers returning profits to shareholders to be one of its most important management issues. To decide the payout ratio, the Company takes internal reserves into account to implement the business plan and expand the business scale (including for funds for the R&D required for growth and development and for capital investment). Its basic policy is to continuously and stably pay dividends targeting an annual dividend payout ratio of 40% on a stand-alone basis while taking into consideration the profit level and the cash flow conditions in each fiscal period, and also based on the non-consolidated results. In FY3/20, it once again increased the dividend per share to ¥26, which was as initially planned.



Note: Conducted a 1-for-100 share split of ordinary shares on December 4, 2018
Source: Prepared by FISCO from the Company's financial results



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