COMPANY RESEARCH AND ANALYSIS REPORT

Arealink Co., Ltd.

8914

Tokyo Stock Exchange Standard Market

17-May-2022

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Summary

Main business is self-storage management and is aiming steady growth by stock business

Arealink Co., Ltd. <8914> (hereafter, also "the Company") is the leading company in the self-storage industry known for its Hello Storage brand. Through self-storage, the Company is aiming to contribute to better lifestyles for people, and achieve stable growth over the medium- to long-term with cumulative-type businesses. While maintaining a management structure with a small number of highly skilled employees, its main business is self-storage management, which generates stable earnings, and it intends to lead further advancement of the industry by continuing to grow steadily in the long term regardless of economic fluctuations. In addition to its mainstay self-storage business, it conducts the land rights consolidation business and other operational services business. Moreover, it is focusing on pursuing ESG management to solve social issues. The Company was listed on the Second Section of the Tokyo Stock Exchange (hereafter, "TSE") in May 2020, and moved to the Standard Market in line with the TSE's transition to new market segments in April 2022.

1. Summary of FY12/21 results

In the FY12/21 results, net sales were ¥20,572mn (down 8.5% year on year (YoY)), operating income was ¥3,044mn (up 33.8%), ordinary income was ¥3,009mn (up 39.2%), and net income was ¥3,171mn (up 42.5%). In addition, net sales and profits came in above the Company's initial forecasts across the board. Although sales declined in the land rights consolidation business as momentum was weak, sales continued to rise in mainstay self-storage management. On the profit front, strong performance of self-storage management, drove double-digit profit growth, with the occupancy rate reaching a record-high since the Company's listing. Furthermore, net income increased sharply due to the recording of a gain on reversal of provision for loss on repurchases of ¥1,610mn as extraordinary income. As a result, the equity ratio rose to 49.7% (from 44.6% in the previous fiscal year), approaching the Company's target of 50% and indicating a high degree of financial soundness. Regarding indicators of profitability, Return on Assets (ROA) was 7.3% and Return on Equity (ROE) was 16.2%, exceeding the FY3/21 averages for the real estate industry on the TSE First Section of 3.1% and 6.6%, respectively. The Company increased its annual dividend per share by ¥16.0 YoY to ¥47.0.

2. FY12/22 results outlook

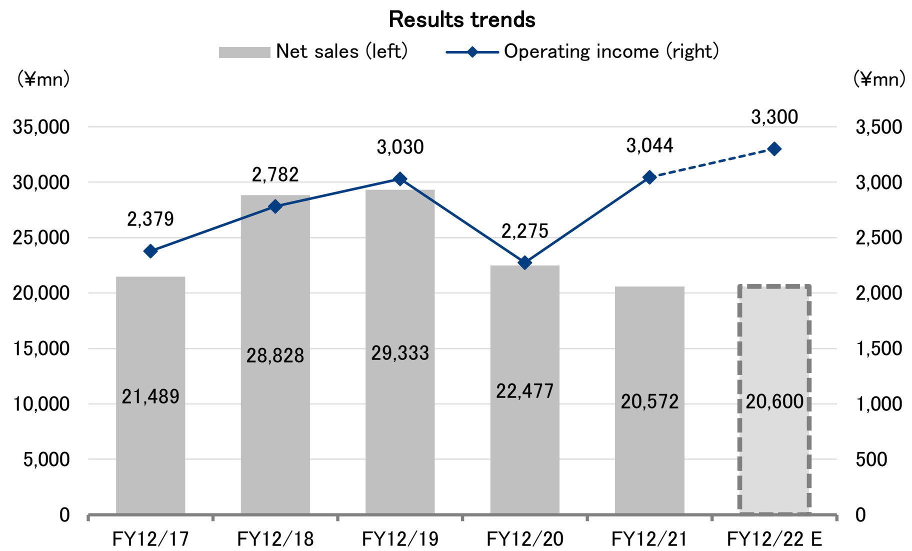
For the FY12/22 results, the Company forecasts net sales of ¥20,600mn (up 0.1% YoY), operating income of ¥3,300mn (up 8.4%), ordinary income of ¥3,200mn (up 6.3%), and net income of ¥2,100mn (down 33.8%), as it continues to promote a shift to cumulative-type business that can generate steady income. The Company plans to increase sales and profits in the mainstay self-storage business by continuing to strive to expand and grow cumulative-type business, mainly self-storage management. Conversely, it expects sales to decline but profits to rise in the land rights consolidation business because it looks to improve the segment's profit margins. It plans to increase its annual dividend per share by ¥3.0 YoY to ¥50.0, for a dividend payout ratio of 30.1%.

3. New medium-term management plan

In February 2022, the Company announced Medium-Term Management Plan 22-24 (hereafter, “the new medium-term management plan”), moving up its profit targets for FY12/23 because profit margins improved significantly and results were above the targets in Medium-Term Management Plan 21-23 announced in February 2021 during its first fiscal year, FY12/21. The management targets in the new medium-term management plan are for net sales of ¥24,000mn (up 16.7% compared to FY12/21), operating income of ¥3,800mn (up 24.8%), and ordinary income of ¥3,700mn (up 22.9%) in FY12/24, the plan’s final year. In advancing the management plan, the Company plans to focus on profit growth underpinned by self-storage management. While the new medium-term management plan’s management targets are ambitious, we at FISCO think the numbers are realistic since the self-storage market in Japan is expected to have substantial growth potential. It should also be noted that the Company is proactively promoting ESG management while pursuing profits as the industry leader. Future ESG initiatives are also key in that the tendency for investors, mainly institutional investors, to invest in companies that take ESG into consideration has been strengthening in recent years.

Key Points

- The leading company in the self-storage industry. Has a management structure with a small number of highly skilled employees, and is aiming for steady profit growth in the long term centered on the self-storage business
- In the FY12/21 results, sales and profits both came in above initial forecasts, and self-storage management did well
- The new medium-term management plan targets steady sales and profit growth in its first year, FY12/22
- Announced the new medium-term plan moving up initial profit targets by one year, advancing the management plan focused on profit growth underpinned by self-storage management



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

Company overview

Growth from the Hello Storage series of container storage and trunk rooms

1. Company overview

The Company was founded by President & CEO Naomichi Hayashi, is the leading company in the self-storage industry, is listed on the TSE Second Section, and has the corporate philosophy of "Provide convenience, enjoyment, and excitement to the world." In addition to its core business offering rental storage space (trunk rooms) under the Hello Storage brand throughout Japan, the Company is also engaged in land rights consolidation business, office business, and asset management business, among others.

Under the leadership of President Hayashi, the Company is continuing to achieve steady growth not affected by economic conditions by leveraging the three strengths described below through a flexible management strategy that responds to environmental changes.

The first strength is that the Company's self-storage business has the leading share in the industry for the number of units, approximately 17% to 18%. In the self-storage industry, there is an overwhelmingly large number of small-scale companies with market shares of less than 1%. Also, in the US, where this industry developed ahead of Japan, about 13.5mn or 10.6% of total households use self-storage, but in Japan, this number is about 600,000, which equates to only about 1.1% of the number of total households. In recent years, needs for storage have risen centered on metropolitan areas, and it can be said that the self-storage market is expected to grow greatly in the future. The Company's business is centered on self-storage management that generates stable earnings, and it is targeting a market share of 50% in the medium term.

The second strength is that the Company's financial structure is highly sound. In FY12/21, its equity ratio was 49.7%, greatly exceeding the 32.3% average for the real estate industry on the TSE First Section in FY3/21, while it seems that it is aiming to raise it to the 50% range in the medium term. It can be said that another of its strengths is that it is the only listed company that conducts a self-storage business for individuals. The Company uses its excellent financial structure as a weapon to develop its business under favorable conditions.

The third strength is that the Company is highly profitable. Specifically, at the end of December 2021, it had 73 employees (excluding directors, temporary employees, and dispatched employees), so its head office costs are small under a management structure with a small number of highly skilled employees. Also, in FY12/21, ROA was 7.3% and ROE was 16.2%, which are higher than the averages of the real estate industry on the TSE First Section in FY3/21 of 3.1% and 6.6% respectively. The Company is aiming to further grow earnings and improve profitability by progressing the new medium-term management plan.

2. History

The Company was established in Funabashi City, Chiba Prefecture, in 1995 as WELL's Giken K.K. by Hayashi, the President and CEO, in order to launch a contracting business for the WELL's 21 cross-industrial exchange stations.

In the year after its establishment (1996), it launched a property leasing business and Hello Parking, a coin-operated parking lot business, and entered the real estate business. Subsequently, continuing on from Hello Parking, it expanded its business area by launching a series of Hello Storage businesses, including the storage space businesses of Hello Container and Hello Trunk; Hello Monthly, a monthly apartment rental business; and Hello Office, an office rental business.

The Company, which develops the Hello Storage brand nationwide, concluded a licensing agreement in 2016 to development properties in collaboration with the popular character Hello Kitty.

The Company, which had been developing the wide-ranging Hello Series, set the self-storage business (container storage and trunk rooms), which has the advantages of little competition as a niche market and low running costs as a non-residential type of real estate, as its core business, and it has aimed to expand and strengthen its business under the slogan of being "overwhelmingly No. 1 for share and quality." On the other hand, alongside changes in the market environment, it has reviewed its growth strategy, which has been dependent on buying and selling (brokerage), and is switching to a policy of aiming for stable growth centered on self-storage management. Also, it announced Medium-Term Management Plan 21-23 in February 2021, but established the new medium-term management plan in February 2022 because results sharply topped targets in the first fiscal year under the previous plan, and is aiming for steady growth based on a new business strategy.

The Company was listed on the TSE Mothers market in August 2003, and its listing was upgraded to the TSE Second Section in May 2020. Also, it moved to the Standard Market in line with the TSE's transition to new market segments in April 2022.

History

Date	History.
April 1995	Established WELL's Giken K.K. for contracts for the WELL's 21 warehousing office. Launched a contracting business for WELL's 21 cross-industrial exchange stations.
April 1996	Launched a property leasing business (currently Mister Kashichi)
June 1996	Launched Hello Parking, a coin-operated parking lot business
March 1999	Launched Hello Container, a business for installing and leasing storage containers on vacant land
October 1999	Changed company name to Mister Kashichi Co., Ltd.
August 2000	Launched a coin-operated laundry business
September 2000	Conducted an absorption merger with Sysnet K.K. (property leasing business was transferred from Sysnet). Changed company name to Arealink Co., Ltd.
December 2000	Acquired all the shares of Hayashi Soken Inc., and made it a wholly owned subsidiary (absorption merger in April 2002). Launched Hello Monthly, a weekly/monthly apartment rental business.
February 2001	Launched the Hello Trunk business using vacant buildings for storage rental space
September 2002	Launched a stock management business to provide management services for the land and properties owned by the Company (currently, the Property Management Service business)
January 2003	Launched the Hello Renewal business to renovate old buildings to add value and improve management efficiency (currently, the Property Revitalization & Liquidation Service business)
June 2003	Opened Hello Bike BOX, indoor parking for motorcycles
August 2003	Listed on TSE Mothers
January 2004	Launched the Hello Office business to lease SOHO utilizing vacant buildings
February 2005	Acquired Space Products K.K., in the same industry that manages Rakuchin BOX
November 2005	Exceeded 10,000 units in the Hello Storage business
January 2008	Exceeded 30,000 units in the Hello Storage business
June 2014	Exceeded 50,000 units in the Hello Storage business
July 2015	Exceeded 60,000 units in the Hello Storage business
August 2015	Launched 2×4 (Two by Four) Trunks, suburban indoor-type rental spaces
June 2016	Concluded a licensing agreement to develop properties in collaboration with Hello Kitty
December 2016	Relocated the Head Office to Sotokanda, Chiyoda-ku, Tokyo, its current location
November 2017	Exceeded 80,000 units in the Hello Storage business
November 2018	Exceeded 90,000 units in the Hello Storage business
May 2020	Listing was upgraded to the TSE Second Section
February 2021	Announced Medium-Term Management Plan 21–23
February 2022	Announced Medium-Term Management Plan 22–24

Source: Prepared by FISCO from the Company's website and securities report

Business description

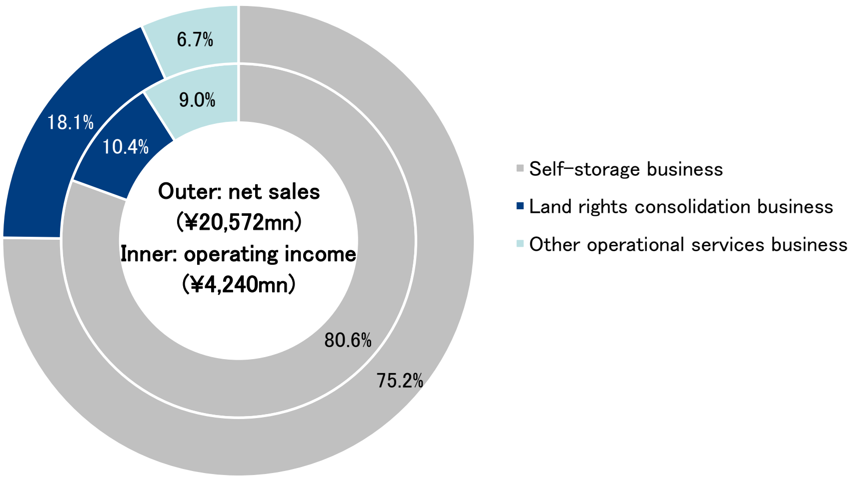
Self-storage management is the core business

1. Business segments

The Company's business is comprised of three business segments: 1) self-storage business, which is comprised of two sub-segments, self-storage management and self-storage brokerage; 2) land rights consolidation business, which includes buying and selling of land with limited proprietary rights and properties and obtaining land with limited proprietary rights lease income, and 3) other operational services business, such as rental offices and asset management. In order to further advance to the forefront of the self-storage business, which is the core business, it changed the reporting segments from FY12/20.

Looking at the breakdown of net sales by segment in FY12/21, the self-storage business provided 75.2% (self-storage management 72.6% and self-storage brokerage 2.6%), land rights consolidation business 18.1%, and other operational services business 6.7%. Turning to the breakdown of operating income (before deducting administrative expenses), the self-storage business provided 80.6% (self-storage management 84.1% and recording of an operating loss for self-storage brokerage), the land rights consolidation business 10.4%, and other operational services business 9.0%. This demonstrates that the self-storage business, and within its self-storage management, is the Company's core business for both sales and profits.

Breakdown of net sales and operating income by business segment
(FY12/21 results)



Note: Breakdown of operating income is previous to deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results

2. Self-storage business

The Company is achieving growth with the self-storage business at its core, and this business also provides an overwhelming share of earnings. This business develops the Hello Brand in various service formats, including for self-storage, parking lots, and rental offices. In the self-storage business, it discloses information for two sub-segments, self-storage management and self-storage brokerage. Self-storage management is a business for the management, tenant recruitment, and administration of rental storage spaces, and it generates stable cumulative-type income. Conversely, self-storage brokerage is a business for the ordering and sales of storage as an investment product, and it can be said to generate temporary, flow-type income.

Hello Storage, which is the main brand in the self-storage business, was created to provide trunk rooms for home and company usage. Large and small indoor spaces are partitioned, and various sizes and product types are prepared and offered at reasonable prices that enable the provision of services that meet the diverse needs of customers. They can also be used safely 24 hours a day. As previously stated, the Company has the No. 1 share in the industry for the number of properties. Specifically, its product types include outdoor-type trunk rooms (container type), indoor-type trunk rooms (inside a building or entire building type), Bike Box individual motorbike storage, and business storage two-story maisonette type.

Outdoor-type trunk rooms are the Company's main product, and it manages a network of storage units nationwide, from Hokkaido in the north to Kyushu in the south, offering storage spaces that utilize durable containers used for maritime transportation. Features include the ability to park cars directly in front of containers, 24-hour access, and an abundance of substantial spaces ranging in size from small to large.

The indoor-type trunk rooms are mainly located in the central Tokyo area and have features including safe and secure 24-hour access thanks to robust security provided by a major security company, and an abundance of popular medium sizes. With some exceptions, they are also equipped with air conditioning systems. In cases where the Company renovates various spaces, such as existing buildings (all or part of a floor) and warehouses, into trunk rooms for self-storage operations, the basic mechanism is the same as that for the outdoor-type containers. As for indoor-type trunk rooms utilizing an entire building, the Company offers indoor storage spaces in buildings specifically designed for trunk rooms under the Trunk House 24 brand. These trunk rooms are compact with a smart design that eliminates waste, and have exteriors that are adapted to their surrounding environments. In addition to featuring construction designed specifically for trunk rooms, 24-hour access, clean exteriors and interiors, robust security via a major security company, and a large number of units in a variety of sizes, these next-generation trunk rooms are equipped with air conditioning and elevators and offer free parking.

Bike Box individual motorbike storage products are independent box-type parking spaces exclusively for users with contracts. They allow for the installation of several locks to enhance security. They are also equipped with storage shelves and wide ladder rails to facilitate smooth storage, combining safety, functionality, and convenience.

The Company has offered business storage two-story maisonettes combining warehouse, office, residential, and parking space functions since 2020.

Hello Storage product lineup

Outdoor-type trunk rooms container type

Indoor-type trunk rooms (inside a building)

Indoor-type trunk rooms (entire building)

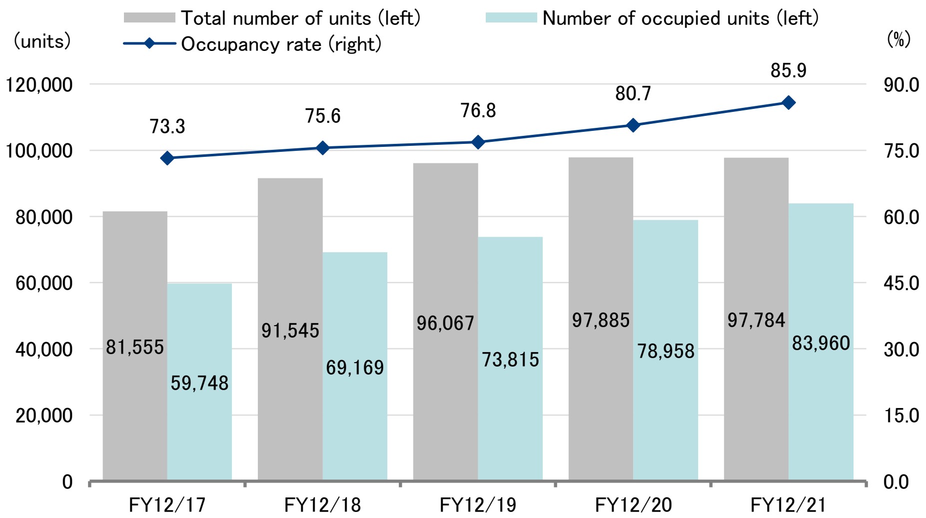
Bike Box individual motorbike storage

Business storage two-story maisonette

Source: Reprinted from the Company's website

The number of Hello Storage units had been steadily increasing each year, but the number of newly opened units in 2021 declined due to impact from the Company temporarily suspending property openings in 2020. As a result, the total number of Hello Storage units were down 101 units compared to the end of the previous fiscal year to 97,784 units in FY12/21 (details described later). Conversely, the occupancy rate rose 5.2 percentage points to 85.9%, reaching a record high since the Company's listing, partly because the occupancy rate for new properties rose due to enhanced accuracy with regard to openings from 2019. Also, it seems storage needs are growing as remote work has increased alongside the coronavirus and there is an increased need for securing storage spaces at home.

Trends in the number of Hello Storage units and occupancy conditions



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

3. Land rights consolidation business

The land rights consolidation business is a business that resolves the issues of landowners and leasehold rights holders through the trading of complex land with limited proprietary rights. Income is generated mainly from the trading of land with limited proprietary rights and real estate and lease income from land with limited proprietary rights, so it generates mainly flow-type income.

The business model for the land rights consolidation business is as follows. As a general practice, a party constructs a building on land that is rented. In this case, the owner of the building has the right to use the land (leasehold rights), and is obligated to pay rental fees as compensation for using the land. On the other hand, the landowner that owns the land cannot freely use the land as their leasehold rights are restricted. Land with attached leasehold rights in this way is called land with limited proprietary rights. Although the landowner's use of the land is restricted, they have the right to receive rental income, and this right to rent the land is called "land with limited proprietary rights."

Situations where the owners of the land and building differ create twisted and complex rights relationships, and this also affects the price of the land, so typically the leasehold rights portion is deducted. In this business, the Company acquires land with limited proprietary rights from landowners and generates income by selling those rights to building owners, while also arranging the rights relationships.

Overview of the land rights consolidation business

Source: Reprinted from the Company's website

4. Other operational services business

The other operational services business is a business based on rental income, such as from offices and asset management, and it generates cumulative-type income. Rental offices are rented in Tokyo's 23 wards as offices for use by a small number of people under the Hello Office brand, and demand for them is growing alongside the increase in remote working due to the coronavirus. Asset management is a business for managing rentals of the real estate the Company owns, but its policy is to maintain the current situation in consideration of unstable market conditions and factors such as the risk that land prices will fall. Furthermore, rental meeting rooms were rented by the hour in major metropolitan areas under the Hello Rental Meeting Room brand, but from the viewpoint of business concentration, the Company withdrew from this business in December 2020.

Results trends

In FY12/21 results, sales and profits were both above initial forecasts, and mainstay self-storage management did well

1. FY12/21 results

In the FY12/21 results, net sales were ¥20,572mn (down 8.5% YoY), operating income was ¥3,044mn (up 33.8%), ordinary income was ¥3,009mn (up 39.2%), and net income was ¥3,171mn (up 42.5%). Also, net sales and profits topped the Company's initial forecasts across the board. Sales declined in the land rights consolidation business due to impact from lackluster momentum, but sales continued to grow in mainstay self-storage management. On the profit front, self-storage management did well, with the occupancy rate reaching a record-high since the Company's listing, and resulted in double-digit profit growth. Net income increased significantly more than operating income and ordinary income due to the recording of ¥1,610mn gain on reversal of provision for loss on repurchases as extraordinary income because within the provision for loss on repurchases that was recorded in FY12/19, the provision for containers that were not actually repurchased was written off.

Regarding impact from the coronavirus, worsening economic conditions brought about trunk room cancellations, but there were also apparently positive effects on the self-storage business, including the movement toward arranging homes alongside the increase in remote working.

Summary of FY12/21 results

(¥mn)

	FY12/20		FY12/21			YoY		vs. forecast	
	Results	vs. sales	Initial forecasts	Results	vs. sales	Change	Rate of change	Difference	Achievement rate
Net sales	22,477	100.0%	19,700	20,572	100.0%	-1,905	-8.5%	872	4.4%
Gross profit	5,499	24.5%	-	6,035	29.3%	535	9.7%	-	-
SG&A expenses	3,223	14.3%	-	2,990	14.5%	-233	-7.2%	-	-
Operating income	2,275	10.1%	2,500	3,044	14.8%	768	33.8%	544	21.8%
Ordinary income	2,161	9.6%	2,400	3,009	14.6%	847	39.2%	609	25.4%
Net income	2,225	9.9%	1,400	3,171	15.4%	946	42.5%	1,771	126.5%

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

The results by segment are as follows.

(1) Self-storage business

In the self-storage business, net sales were ¥15,469mn (up 4.7% YoY) and operating income was ¥3,415mn (up 56.3%), a strong performance. Also, this business's share of total results were 75.2% of net sales (65.7% in the previous fiscal year) and 80.6% of operating income (63.3%), and its operating income margin was 22.1% (14.8%), so it grew significantly as the core business. In the self-storage business, the Company's policy since FY12/19 has been for the earnings foundation to be self-storage management, a cumulative-type business that stably accumulates monthly income, and it can be said that the results of this policy have materialized.

Within the segment, self-storage management, which is the core business, posted net sales of ¥14,941mn (up 6.5% YoY) and operating income of ¥3,568mn (up 52.9%). Net sales rose for the 18th consecutive fiscal year since the Company's listing, and profit grew sharply because the operating income margin improved 7.3 percentage points YoY. In addition to a decline in the number of newly opened units in 2021 due to impact from the Company temporarily suspending opening activities in 2020, there were the periodic closures that occur each year. As a result, the total number of Hello Storage units was down 101 units compared to the end of the previous fiscal year to 97,784 units. Conversely, the occupancy rate at large-scale properties that were opened from 2016 to 2018 rose over time, and the occupancy rate at new properties rose due to enhanced accuracy with regard to openings from 2019 to contribute significantly to growth in the overall occupancy rate. As a result, the occupancy rate increased 5.20 percentage points compared to the end of the previous fiscal year to 85.86%, an all-time high since the Company's listing in 2003. Moreover, the repurchases of containers that were advanced over the roughly two years from 2020 had a beneficial effect on profit margins, and a reversal of provision for loss on subleases that was recorded in FY12/18 arose in connection with the rise in the occupancy rate and the Company's policy shift towards opening properties that it owns.

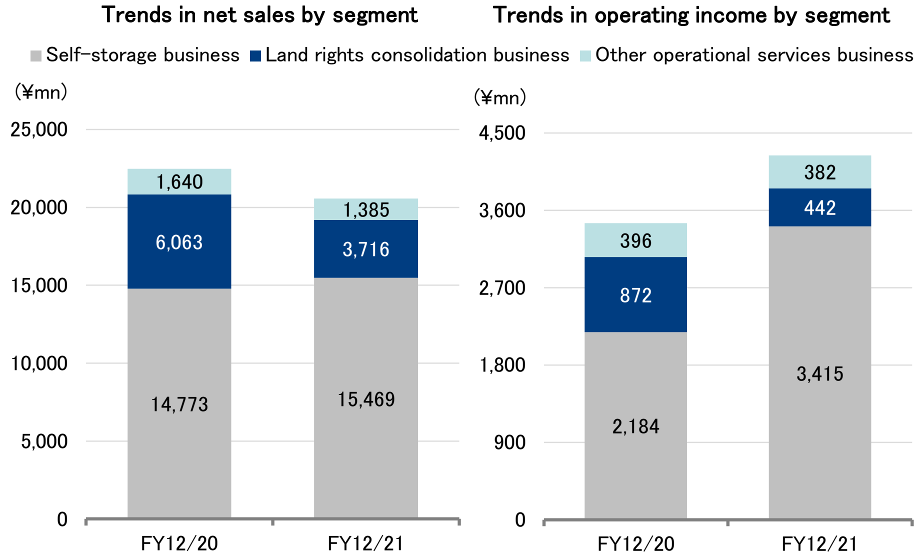
Conversely, the "temporary" revenue rate declined due to sales to investors, and therefore in self-storage brokerage, net sales were ¥528mn (down 29.2%) and operating loss was ¥152mn (compared to a loss of ¥148mn in the previous fiscal year).

(2) Land rights consolidation business

In the land rights consolidation business, net sales were ¥3,716mn (down 38.7% YoY) and operating income was ¥442mn (down 49.3%). This business's share of total results were 18.1% of net sales (27.0% in the previous fiscal year) and 10.4% of operating income (25.3%), while its operating income margin was 11.9% (14.4%). The Company switched its policy from a focus on quantity to quality, and took steps to optimize the scale of the business.

(3) Other operational services business

In other operational services business, net sales were ¥1,385mn (down 15.5% YoY) and operating income was ¥382mn (down 3.5%). This business's share of total results were 6.7% of net sales (7.3% in the previous fiscal year) and 9.0% of operating income (11.5%), while its operating income margin was 27.6% (24.2%). In the asset management business, sales and profits declined due to impact from ongoing rent reductions for some tenants affected by the coronavirus, but occupancy remained high. In the office business, sales increased as occupancy conditions were solid, but profits decreased due to impact from costs for opening new properties in April 2021. The Company withdrew from the rental meeting rooms business in December 2020, with a view to concentrating management resources in core business.



Note: The breakdown of operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results

2. Financial condition and management indicators

At the end of FY12/21, current assets were up ¥1,372mn compared to the end of the previous fiscal year to ¥17,319mn. This was mainly due to a ¥3,663mn increase in cash and deposits, which offset a ¥1,315mn decline in real estate for sale, real estate for sale in process. Noncurrent assets increased ¥126mn to ¥24,882mn, primarily due to an increase of ¥1,065mn for tools, furniture and fixtures because of the effects of repurchases of containers. As a result, total assets rose ¥1,499mn to ¥42,202mn.

Current liabilities were down ¥917mn compared to the end of the previous fiscal year to ¥5,867mn. This mainly owes to a decrease of ¥2,297mn in provision for loss of repurchases, which offset an increase of ¥557mn in income taxes payable. Noncurrent liabilities decreased ¥406mn to ¥15,371mn. Main items included decreases of ¥280mn in lease obligations and ¥157mn in corporate bonds. As a result, total liabilities decreased ¥1,324mn to ¥21,239mn.

Net assets were up ¥2,823mn compared to the end of the previous fiscal year to ¥20,963mn, mainly due to an increase in retained earnings carried forward of ¥2,780mn.

From the above, interest-bearing debt decreased ¥433mn YoY to ¥11,944mn. The equity ratio improved significantly, from 44.6% in the previous period to 49.7%, greatly exceeding the 32.3% average of the real estate industry on the TSE First Section in FY3/21. Therefore, the Company can be evaluated as securing a high degree of financial stability, and it is steadily approaching its equity ratio target of 50%. Regarding indicators of profitability, ROA was 7.3% and ROE was 16.2%, also greatly above the averages of the real estate industry on the TSE First Section in FY3/21 of 3.1% and 6.6%, respectively.

Balance sheet and management indicators

(¥mn)

	FY12/20	FY12/21	Change
Current assets	15,947	17,319	1,372
Cash and deposits	9,776	13,440	3,663
Real estate for sale, real estate for sale in process	4,654	3,338	-1,315
Noncurrent assets	24,755	24,882	126
Property, plant and equipment	20,356	21,217	861
Intangible assets	55	49	-6
Investments and other assets	4,343	3,615	-728
Total assets	40,702	42,202	1,499
Current liabilities	6,785	5,867	-917
Accounts payable, construction-related payables	158	162	3
Short-term loans payable, etc.	2,086	2,252	166
Noncurrent liabilities	15,777	15,371	-406
Long-term loans payable, corporate bonds, etc.	10,289	9,690	-599
(Interest-bearing debt)	12,377	11,944	-433
Total liabilities	22,563	21,239	-1,324
Total net assets	18,139	20,963	2,823
Stability			
Equity ratio	44.6%	49.7%	5.1pt
Profitability			
ROA (Return on Assets)	5.2%	7.3%	2.1pt
ROE (Return on Equity)	12.9%	16.2%	3.3pt

Note: Interest-bearing debt is the total of long- and short-term loans payable, corporate bonds, and lease obligations
Source: Prepared by FISCO from the Company's financial results

At the end of FY12/21, the balance of cash and cash equivalents was up ¥3,663mn compared to the end of the previous fiscal year to ¥13,440mn. Cash flow provided by operating activities was ¥5,741mn. The main inflows were from income before income taxes of ¥4,519mn, a decrease of ¥1,476mn in inventories, and the recording of ¥879mn in depreciation, while the main outflows were from a decrease of ¥2,297mn in provision for loss on repurchases and income taxes paid, etc. of ¥236mn. Cash flow used in investing activities was ¥1,264mn, but mainly reflects an outflow of ¥1,822mn for the purchase of property, plant and equipment. Cash flow used in financing activities was ¥825mn. The main inflow was ¥2,001mn in proceeds from long-term loans payable, while the main outflows included the repayment of long-term loans payable of ¥2,363mn.

Cash flow statement

(¥mn)

	FY12/20	FY12/21
Cash flow from operating activities	2,520	5,741
Cash flow from investing activities	-2,228	-1,264
Cash flow from financing activities	-2,213	-825
Balance of cash and cash equivalents at the end of the period	9,776	13,440

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

Future outlook

The new medium-term management plan targets steady sales and profit growth in its first year, FY12/22

● Outlook for FY12/22

For the FY12/22 results, the Company forecasts net sales of ¥20,600mn (up 0.1% YoY), operating income of ¥3,300mn (up 8.4%), ordinary income of ¥3,200mn (up 6.3%), and net income of ¥2,100mn (down 33.8%), as it continues to promote a shift to cumulative-type business that can generate steady income. Only net income is forecast to decline, owing to a pullback from extraordinary income recorded in the previous fiscal year. Since the Company has a strong tendency to announce conservative forecasts in the initial plan for the fiscal year, we at FISCO believe it is highly likely to achieve the forecasts as long as the business environment does not deteriorate.

FY12/22 results forecasts

(¥mn)

	FY12/21		FY12/22		YoY	
	Results	vs. sales	Forecasts	vs. sales	Change	Rate of change
Net sales	20,572	100.0%	20,600	100.0%	27	0.1%
Operating income	3,044	14.8%	3,300	16.0%	255	8.4%
Ordinary income	3,009	14.6%	3,200	15.5%	190	6.3%
Net income	3,171	15.4%	2,100	10.2%	-1,071	-33.8%

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

The results forecasts by segment are as follows.

(1) Self-storage business

The forecasts are for net sales of ¥16,000mn (up 3.4% YoY), operating income of ¥3,650mn (up 6.9%), and an operating income margin of 22.8% (22.2% in the previous fiscal year). The Company will aim to expand and grow the cumulative-type business, centered on self-storage management. Its policy will be to establish a management structure unaffected by conditions in the real estate and financial markets by solidifying the stable earnings foundation from cumulative-type income.

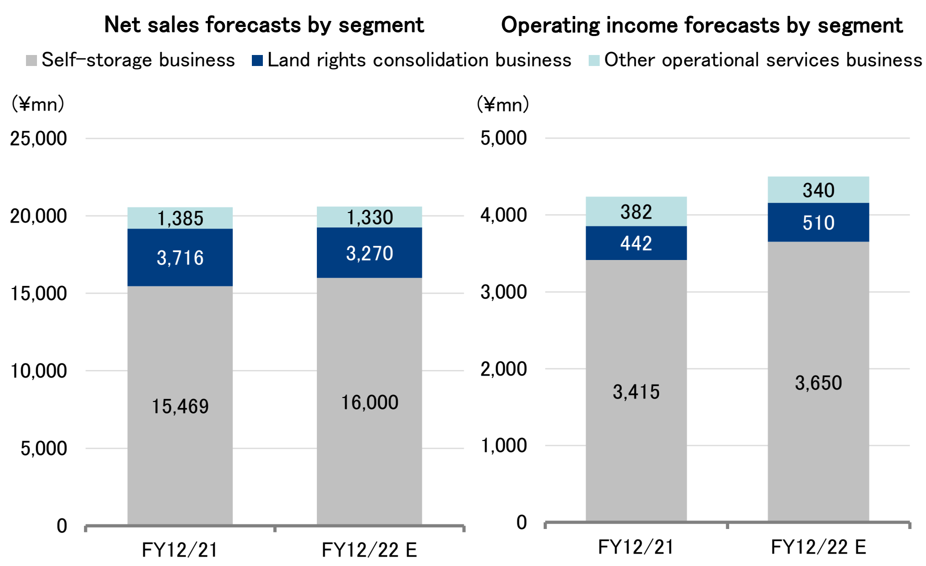
Self-storage management is the core business within the segment that supports the stable earnings foundation. The Company is therefore aiming to grow and expand it further, including by developing services ancillary to storage, raising customer satisfaction, and enhancing brand power and recognition thorough Hello Storage. In principle, the Company plans to open properties that it will own, except for some properties. Self-storage management profitability is therefore expected to improve further. However, the Company plans to maintain self-storage management profitability by curbing profit margins at the time of sale when conducting sales as self-storage brokerage. Although temporary income from self-storage brokerage will not be recorded because of this, growth in overall self-storage business sales and profits is expected to lead to the strengthening of cumulative-type business over the medium to long term.

(2) Land rights consolidation business

In the land rights consolidation business, the forecasts are for net sales of ¥3,270mn (down 12.0% YoY), operating income of ¥510mn (up 15.3%), and an operating income margin of 15.2% (11.9% in the previous fiscal year). The Company is forecasting a decline in sales but growth in profits because it expects the operating income margin to improve as effects emerge from steps taken in FY12/21 to improve the quality of inventory and revamp the business to an appropriate scale.

(3) Other operational services business

In other operational services business, the forecasts are for net sales of ¥1,330mn (down 4.0% YoY), operating income of ¥340mn (down 11.1%), and an operating income margin of 26.9% (27.6% in the previous fiscal year). This is partly because the Company withdrew from the parking business in March 2021.



Note: Operating income is before deducting administrative expenses
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Growth strategy

Announced the new medium-term plan moving up initial profit targets by one year, advancing the management plan focused on profit growth underpinned by self-storage management

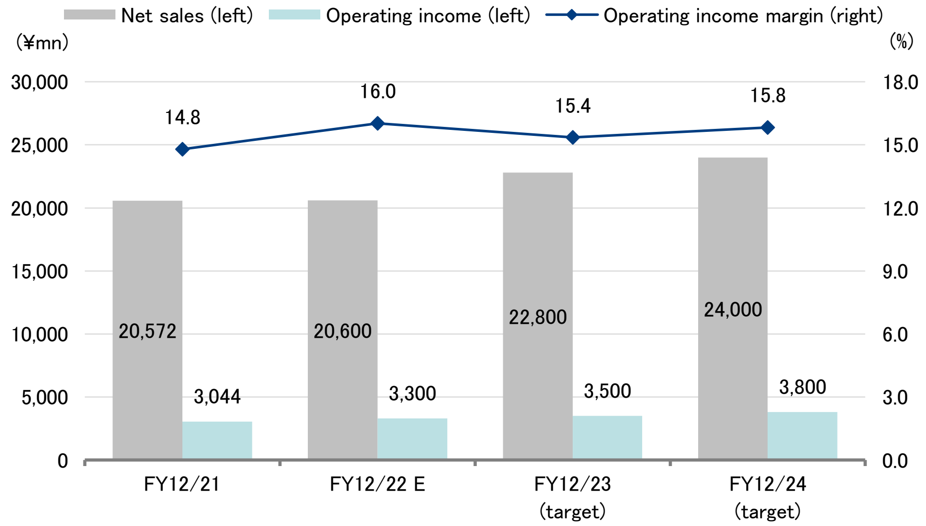
1. Summary of targets in the new medium-term management plan

In February 2021, the Company announced Medium-Term Management Plan 21-23. However, profit margins improved significantly and results were above the targets during the first fiscal year under the plan, FY12/21. Therefore, the Company announced in February 2022 the new medium-term management plan, which has moved up the profit targets for FY12/23. The management targets in the new medium-term management plan are for net sales of ¥24,000mn (up 16.7% compared to FY12/21), operating income of ¥3,800mn (up 24.8%), and ordinary income of ¥3,700mn (up 22.9%) in FY12/24, the plan's final year. While the operating income margin is expected to decline in FY12/23, this is because the Company will move forward with opening investor-owned properties, which do not contribute to earnings, to procure funds to strengthen Storage Mini* property openings. The management plan calls for driving forward the transition to cumulative-type businesses through structural reform, and focuses more on profit growth than sales growth.

* Storage Mini are small-scale, indoor self-storage locations with a total of 40-60 units. They are three-story wooden structures with total land area of around 198m2. Five have been opened as of February 2022. Being highly durable, they will also contribute to CO_2 reduction through long-term use.

While the new medium-term management plan's management targets are ambitious, we at FISCO think the numbers are realistic since the self-storage market in Japan is expected to have substantial growth potential. It should also be noted that the Company is proactively promoting ESG management while pursuing profits as the industry leader. Future ESG initiatives are also key in that the tendency for investors, mainly institutional investors, to invest in companies that take ESG into consideration has been strengthening in recent years.

Management targets in the new medium-term management plan



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

Self-storage management remains the pillar under the new medium-term management plan. The plan is for self-storage management to drive earnings growth (especially profit growth), while earnings increase slightly or hold steady in the land rights consolidation business and the other operational services business.

An overview for each segment is as follows.

(1) Self-storage business

In the self-storage business, the Company aims to enhance the quality of self-storage. In addition to continuous on-site improvements for both containers and self-storage with land, the Company looks to significantly upgrade both exteriors and interiors. It will also work to enhance efficiency through "cockpit management." It will strengthen and expand Storage Mini property openings. The Company is also considering resuming some self-storage brokerage in the future, and plans on sales to investors, which do not contribute to earnings, to procure funds to bolster Storage Mini property openings.

(2) Land rights consolidation business

In the land rights consolidation business, the Company aims to stabilize earnings in the brokerage business. By promoting a shift from a rapid-growth to a steady-earning business, it looks to raise the inventory turnover ratio and achieve high efficiency.

(3) Other operational services business

In other operational services business, the Company aims to maintain stable earning sources. With rental offices and asset management as the two pillars, it will maintain high occupancy rates. Also, it will make periodic capital investments to promote long-term use.

2. Priority measures

As its basic policy, the Company has discontinued a management and growth strategy that relies on trading (brokerage) and is instead aiming for growth centered on self-storage management. In addition to instability caused by market conditions, the trading (brokerage) that the Company has engaged in so far has presented other issues, such as the extreme difficulty of managing large-scale storage with land that is expected to be traded. Therefore, after analyzing case studies to date, the Company has set the following four main measures: (1) implement the management philosophy, (2) change life in Japan with self-storage, (3) grow through cumulative-type businesses centered on self-storage management, and (4) realize per-head management.

(1) Implement the Management Philosophy- "Above and Beyond" Declaration

The Company has set its management philosophy as "Provide convenience, enjoyment, and excitement to the world through products and services," its mission as "Change life in Japan with self-storage," its vision as "Be the undisputed leader in the self-storage industry," and its value as ""Above and Beyond" Declaration—Increase the Self-Storage Fans" (thoroughly implementing the management philosophy).

The "Above and Beyond" declaration and implementation of the management philosophy are interrelated. In short, the idea is that actions that are conscious of the Company's philosophy guidelines will result in actions that go "Above and Beyond," which will lead to implementation of the philosophy guidelines.

(2) "Change Life in Japan with Self-Storage" – Make Self-Storage an Essential Part of Society

According to the Company, about 13.5mn or 10.6% of total households in the US use self-storage. Meanwhile, the number of self-storage units currently being supplied in Japan is about 600,000, which equates to only about 1.1% of the number of total households. So based on simple calculations comparing Japan and the US, it can be said that there is potential for future development of Japan's self-storage market to 10 times its current scale. From the perspective of everyday living, however, if "home" in Japan is redefined as "a comfortable space to lead a good life," there could be even more potential for future development of Japan's self-storage market than based on simple calculations comparing Japan and the US (currently room to grow ten-fold). That is because storage space is one element for living comfortably, and self-storage could become a pillar for that.

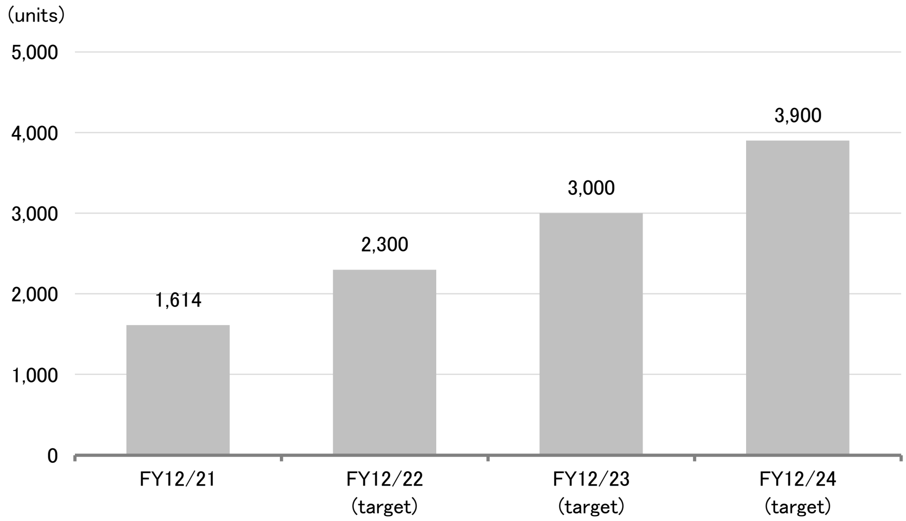
Against this self-storage market backdrop, the Company thinks it can "Change life in Japan with self-storage," and is undertaking various activities to promote the spread of self-storage. To give an example, the Company is backing up the Japan Self Storage Association's activities, and planning major events aiming to increase awareness and development of self-storage (trunk room) business. It also aims to realize a recycling-based society through self-storage. In addition to fostering a culture that values things through the use of self-storage, and thereby helping to reduce waste, it will promote the construction of eco-conscious self-storage facilities and their long-term use to help reduce CO_2 emissions.

(3) Grow through Cumulative-Type Businesses Centered on Self-Storage Management

Since FY12/19, the Company has promoted a policy for the earnings foundation to be self-storage management, a cumulative-type business that stably accumulates monthly income. As a result, cumulative-type businesses' share of operating income increased to 89.7% in FY12/21 (from 50.7% in FY12/19). The Company aims to grow further moving ahead by steadily making improvements and maintaining the cumulative-type business ratio at about 90%.

To achieve growth in cumulative-type businesses, the Company plans to accelerate self-storage property openings. It is speeding up property openings from FY12/22, aiming to open 3,900 units in FY12/24 and 10,000 units in FY12/30. As for specific measures, it aims to enhance customer satisfaction by raising the level of self-storage service (service development, site improvement) and expand use, in addition to steadily expanding Storage Mini. Also, it will promote greater management efficiency through "cockpit management." In addition to these measures, there is room for opening self-storage properties as there are few restrictions on opening locations, and the Company can obtain information on candidate locations for openings as it has built a network with real estate companies nationwide. Based on this, we at FISCO think the targets are attainable.

Number of new units planned



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

Trunk House 24 Todoroki-cho

Storage Mini Trunk House 24 Kasukabe Mashitomi

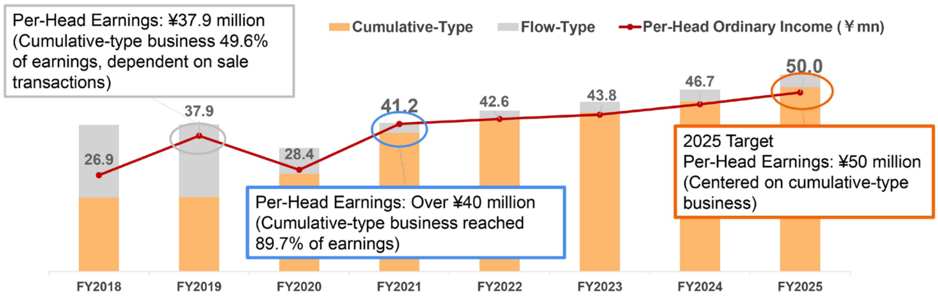
Interior of Storage Mini

Source: The Company's results briefing materials

(4) Realize Per-head Management <Human Resource Development/Arealink Master>

The Company will also strengthen human resource development to achieve the new medium-term management plan. While it is maintaining a management structure of a small number of highly skilled employees, its per-head (per-employee) ordinary income topped ¥40mn in FY12/21 alongside a rise in the ratio of cumulative-type business. Moving ahead, it looks to raise efficiency further and targets per-head profit of ¥50mn in FY12/25. As a source for realizing per-head management, it is introducing the Arealink Master system and promoting human resource development. Through the Arealink Master system, it aims to equip rank-and-file employees with work skills to think ahead and take action, and strengthen the management capabilities of management (executives and upper-level management) through the continued raising of issues and working out of fundamental solutions.

Ordinary income per employee



Source: The Company's results briefing materials

Shareholder return policy

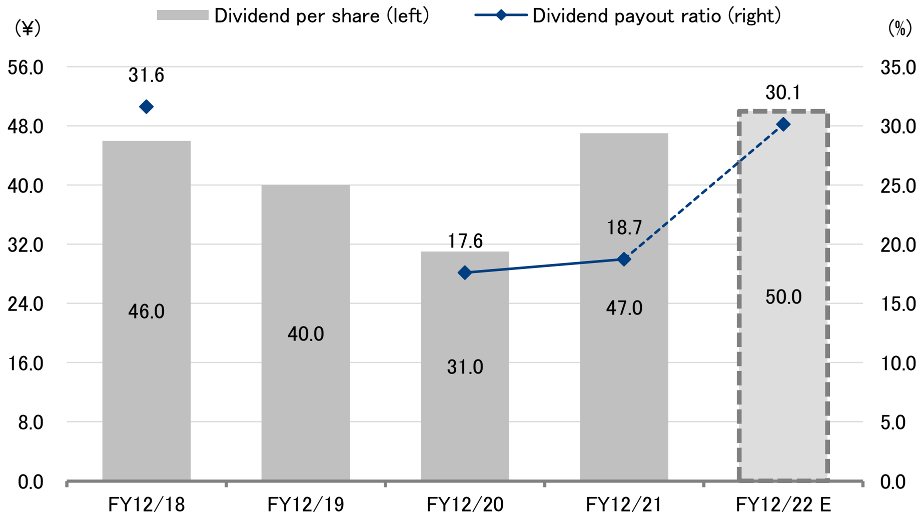
In FY12/22, will maintain the dividend payout ratio at above 30% after excluding extraordinary income-loss

Returning profits to shareholders is an important management issue for the Company, which it fundamentally performs through paying dividends. Its basic policy is to pay a single dividend at the end of the fiscal period, targeting a dividend payout ratio of 30%. It decides on the dividend based on its medium- to long-term business plan and while observing the market environment and the timing of capital investment, comprehensively taking into consideration factors such as securing internal funds, its financial condition, and the level of profits.

The Company paid a dividend of ¥47.0 per share (up ¥16.0 from the previous fiscal year) in FY12/21 based on results after excluding extraordinary loss. Also, it plans to increase its dividend per share by ¥3.0 YoY to ¥50.0 in FY12/22, for a dividend payout ratio of 30.1%.

Due to changes in the management policy, the Company plans to stably increase profits going forward centered on a cumulative-type business based on the new medium-term management plan. Therefore, we at FISCO think that further dividend increases can be expected by achieving results.

Trends in dividend per share and the dividend payout ratio



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

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