COMPANY RESEARCH AND ANALYSIS REPORT

INTELLEX Co., Ltd.

8940

Tokyo Stock Exchange Prime Market

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Index

Summary

Outlook is for profit to return to a growth track from FY5/24 as an environmental solutions company in the real estate domain

INTELLEX Co., Ltd. <8940> (hereafter, also "the Company") is its industry's pioneer and largest company, conducting a renovated condominiums business of renovating and selling used condominiums, having sold a cumulative total of more than 25,000 units. Also, since FY5/16 it has launched the Asset Sharing Business (sales of small-lot real estate) and the Leaseback Business, as it has worked to diversify and stabilize its earnings portfolio. In 2021, the Company began selling the ECOCUBE energy-saving renovation product, and announced its medium-term management plan which aims to achieve growth while contributing to the decarbonization of society.

1. Overview of results for FY5/22

In FY5/22 consolidated results, net sales decreased 12.0% year on year (YoY) to ¥36,139mn and ordinary profit decreased 44.9% to ¥1,061mn, as both sales and profit turned lower. Profit decreased due to the number of renovated condominiums sold falling by 20.5% to 1,129 units while sales volume declined 16.2% to ¥26,240mn, as well as due to the non-recurrence of the sale of highly-profitable income real estate that contributed to earnings in FY5/21. However, the purchase price of income real estate properties turned higher, rising 36.4% to ¥24.2bn, and the fiscal year-end balance of holdings increased by ¥6.2bn compared to the end of FY5/21, as future increases in net sales can be expected.

2. Medium-term management plan

In July 2022, the Company released its three-year medium-term management plan. In the plan, the Company states that its renovations will contribute to reducing CO_2 and improving QOL (Quality of Life), and it is aiming for net sales of ¥59.1bn and ordinary profit of ¥2.3bn in FY5/25, the final fiscal year of the plan. In FY5/23, the first fiscal year of the plan, the Company expects an increase in sales and a decline in profit due to the burden of upfront investments, but it is looking for profits to also transition to a high-growth stage from FY5/24. The driver behind this growth will be ECOCUBE. The ECOCUBE is a product that achieves both significant reductions in heating and cooling costs as well as provides comfortable living and a healthy living environment by installing optimal insulation based on heat calculations, high-efficiency air conditioners, and high-performance ventilation systems. The Company plans for ECOCUBE to make up approximately 50% of its sales target of 1,603 units of renovated condominiums in FY5/25. Elsewhere, in the Solutions Business (asset sharing, leaseback, etc.), the Company plans to steadily grow this business as a stable earnings base. The price of ECOCUBE is around 10% higher than existing products, but it is eligible for energy-saving home loan tax breaks and provides reductions in heating and cooling costs, so it does not seem too expensive, and therefore we at FISCO think there is a solid chance that it will be a driver of the Company's earnings going forward. ECOCUBE will also receive a tailwind from the government's promotion of energy-saving efforts in the residential sector as part of its effort to decarbonize society. In order to quickly promote the penetration of ECOCUBE, the Company began a franchise business in April 2022, and future developments in this area will be watched closely.

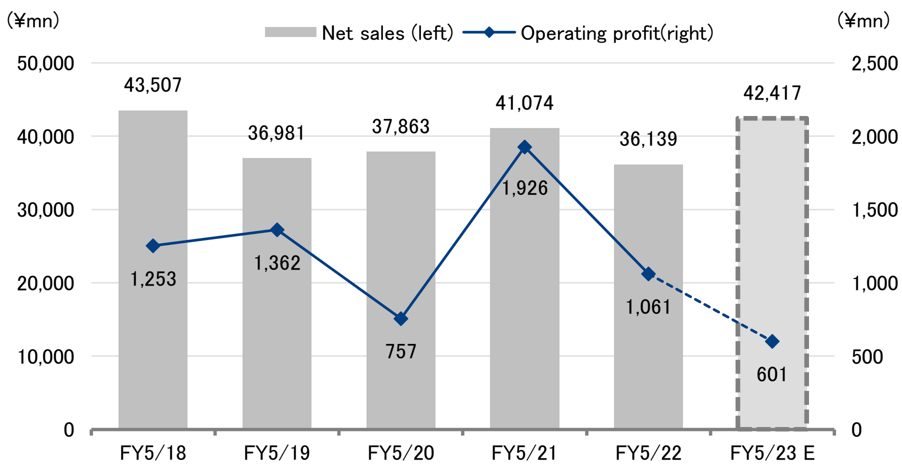
3. Outlook for FY5/23 results

The outlook for FY5/23 consolidated results calls for net sales to increase 17.4% YoY to ¥42,417mn, and ordinary profit to decline 43.4% to ¥601mn. The Company expects the amount of sales of renovated condominiums to turn higher and increase 17.3% to ¥30,776mn, due to the increase in the number of units sold as well as a rise in the average price. Meanwhile, the main factors behind the decline in profit will be the ¥700mn increase in upfront investment, including for the development of new business domains and to bolster branding. In new business domains, efforts include expanding the scope of properties on the buyers' direct sales site FLIE from the Tokyo metropolitan area to nationwide, as well as developing "Smaview," a function that allows users to freely view properties anytime.

Key Points

- Despite declines in both sales and profit in FY5/22, profit ended up on par with the Company's forecast
- By expanding sales of ECOCUBE, the Company will aim for high growth while contributing to the realization of a decarbonized society and enhancing Quality of Life (QOL)
- Aiming for ordinary profit of ¥3.2bn in FY5/27 in order to meet the continued listing criteria for the Tokyo Stock Exchange's Prime Market

Results trends



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

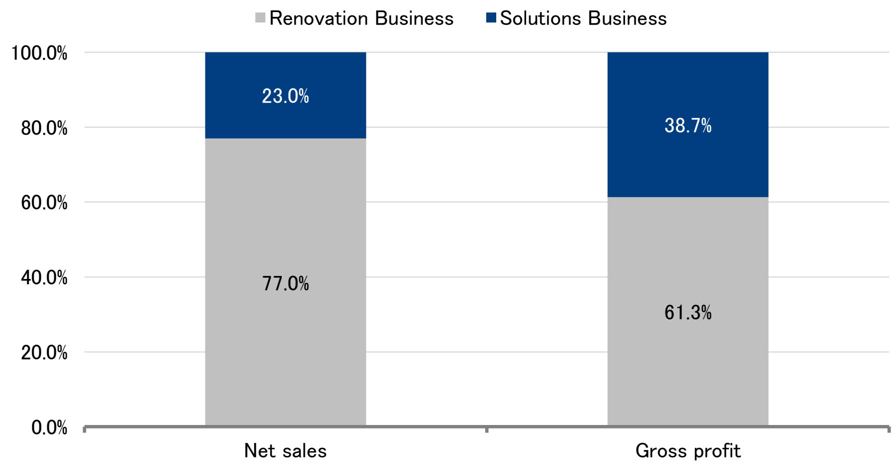
Business overview

On the main axis of the Renovation Business, developing the Solutions Business, which includes the Leaseback Business and Asset Sharing Business

1. Descriptions of business segments

The Company's business segments are the Renovation Business, in which it purchases, renovates and resells individual used condominium units, and the Solutions Business. Previously, the Company was divided into the Renovated Condominium Business and Other Real Estate Business, but it has restructured its business segments as of FY5/22 based on its current business situation in connection with expansion of solutions businesses that utilize the Leaseback Business and Asset Sharing Business, etc., and development of service businesses derived from real estate businesses, including Renovation Business and Accommodation Business. The restructuring mainly consists of transferring renovation services, which had been recorded in Other Real Estate Business, to the Renovation Business. Looking at percentages of results by business segment in FY5/22, the Renovation Business accounted for 77.0% of net sales and 61.3% of gross profit.

Percentage of results by business segment (FY5/22)



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

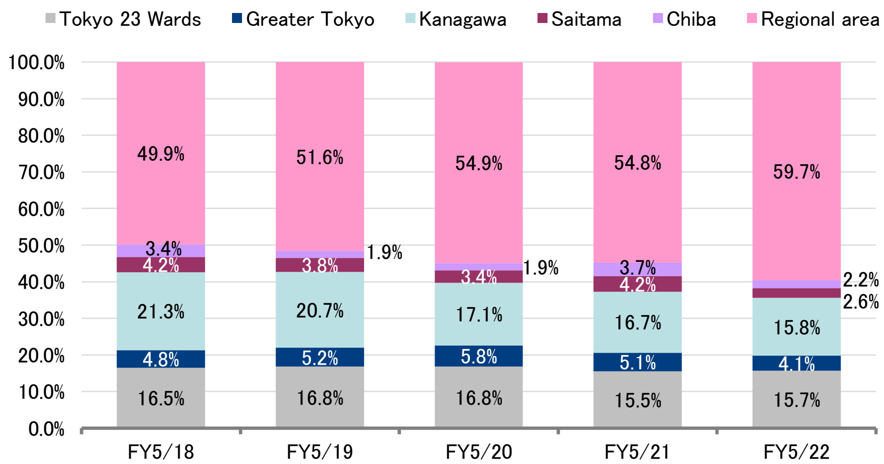
(1) Renovation Business Field

The Renovation Business field includes resale, leasing, and brokerage of renovated condominiums and detached housing, renovation services, and the FLIE platform for real estate transactions. Renovated condominium sales account for over 90% of segment sales.

In terms of business flow, subsidiary INTELLEX Space Plan Co., Ltd. creates optimal renovation plans for properties purchased based on information from real estate brokers and performs the renovations, and then the properties are sold through real estate brokers, etc. (The Company also started direct purchases and sales.) The Company emphasizes as a management indicator the project period from the purchase to the sale of the property, targeting around 120 days. If the period is longer than this, its basic policy is to adjust the sales price and complete the sale at an early stage. This is because if the stock retention period becomes longer, the risk of profitability declining increases. It conducts business management setting a gross profit margin of 12% to 13% as the appropriate level. In addition, INTELLEX Space Plan contracts renovation work to partner companies.

The Company's sales areas started from the metropolitan Tokyo area, and since 2013 it has gradually entered-into the major regional cities (Sapporo, Sendai, Nagoya, Kyoto, Osaka, Hiroshima, and Fukuoka). In the metropolitan Tokyo area, the number of participating companies is increasing, including major real estate sales companies, and competition is intensifying. But in the regions, there are still only a few companies involved in renovating condominiums, so this market is steadily being developed and in FY5/22, it rose to constitute 59.7% of units sold. Nearly half the number of condominium stocks nationwide was in the metropolitan Tokyo area, so a sales ratio in which both the metropolitan Tokyo area and the regions provide around half of sales is considered to be an appropriate level. Going forward, it pursues a strategy that involves regaining lost ground by expanding sales of the ECOCUBE as the strategic product even in the metropolitan Tokyo area and raising the percentages of units to approximately 50%.

Percentages of units sold by area



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

In renovation condominium services, the Company undertakes consignment work from general individuals as well as from other companies in the same industry that sell renovated condominiums. In FY5/22, these services accounted for about 4% of total sales. For each individual property, expertise in condominium renovation work is necessary, so the Company receives many inquiries from other companies in the industry, including major real estate sales companies, and nearly 70% of sales are from corporate clients.

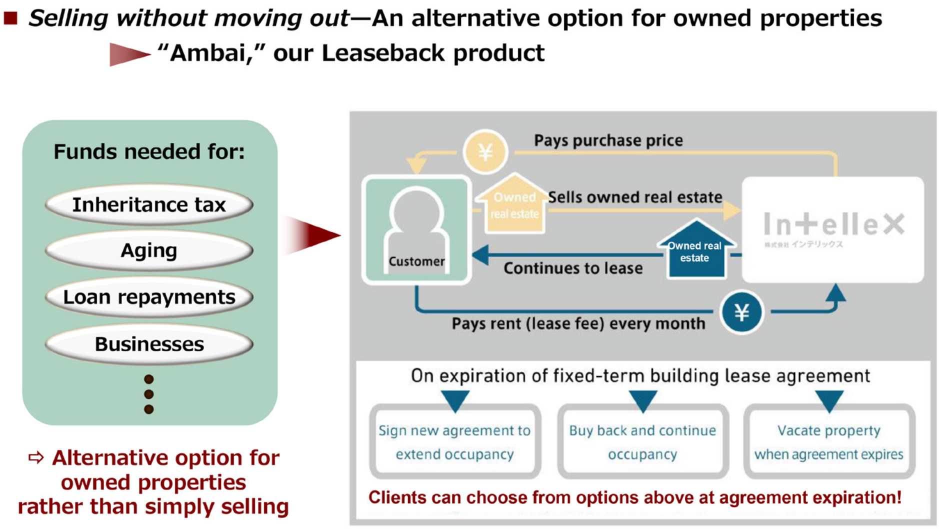
(2) Solutions Business Field

The Solutions Business field includes development, sales, leasing, management, brokerage, etc. for other revenue-generating real estate (buildings, land, etc.), development and sales of newly built condominiums, and the leaseback, asset sharing, and hotel and accommodation businesses.

a) Leaseback Business

The Leaseback Business is a service the Company started providing in FY5/17. The Company purchases owned real estate from the users, and at the same, it newly concludes with them a fixed-period property rental contract (2 years) and collects the rent. In the contract, users approaching the end of their contract period can choose whether to re-sign and continue to live in the home, to leave it, or to purchase the owned real estate. In the event that a home owner requires funds, such as for inheritance tax, retirement, or to repay a loan, this service makes it possible for them to sell the property they own and continue to live in it, and its market has grown in the last few years.

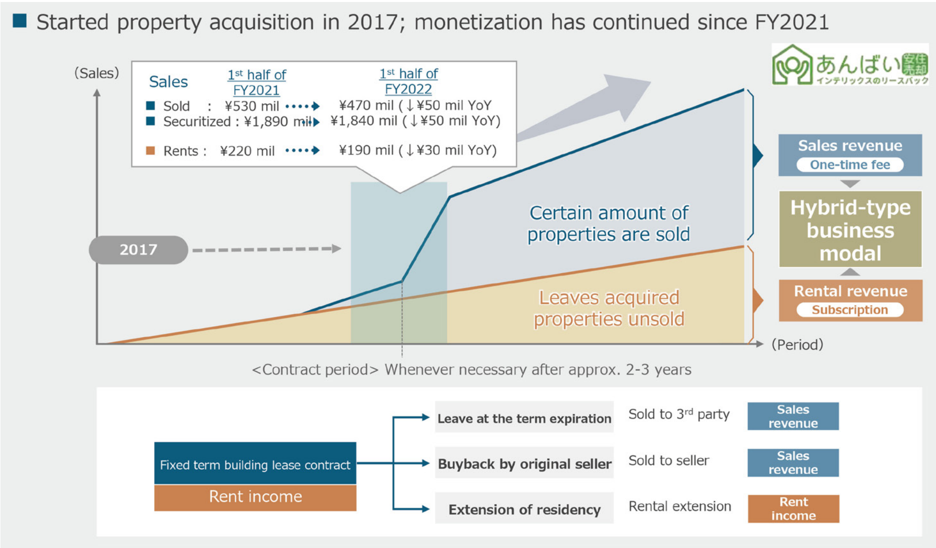
Framework of the Leaseback Business



Source: The Company's results briefing materials

Net sales are recorded as contract fees at the time a property is acquired as well as rental income, and also as sales income when a property is sold. Conversely, costs include acquisition tax and registration costs at the time a property is acquired, and also the recording of depreciations costs. Therefore, a feature of the business model is that costs are incurred for a fixed period after the property acquisition, but at the time the property is sold, the profit margin becomes higher due to the progress of depreciation. There are instances in which sales are done on an individual unit basis, but the efficiency of funding is increased by bundling multiple units and selling them to a real estate fund as real estate trust beneficiary rights.

Status of profit in the Leaseback Business



Source: The Company's results briefing materials

For the Leaseback Business, &Do Holdings Co., Ltd. <3457> was a pioneer in the industry in launching a service in 2013, and currently the number of participating companies, including finance companies, is increasing. However, the Company's strategy is to grow this business by expanding purchase and sales routes, while also strengthening partnerships with major real estate companies (including CENTURY 21 REAL ESTATE OF JAPAN LTD. <8898>).

b) Asset Sharing Business

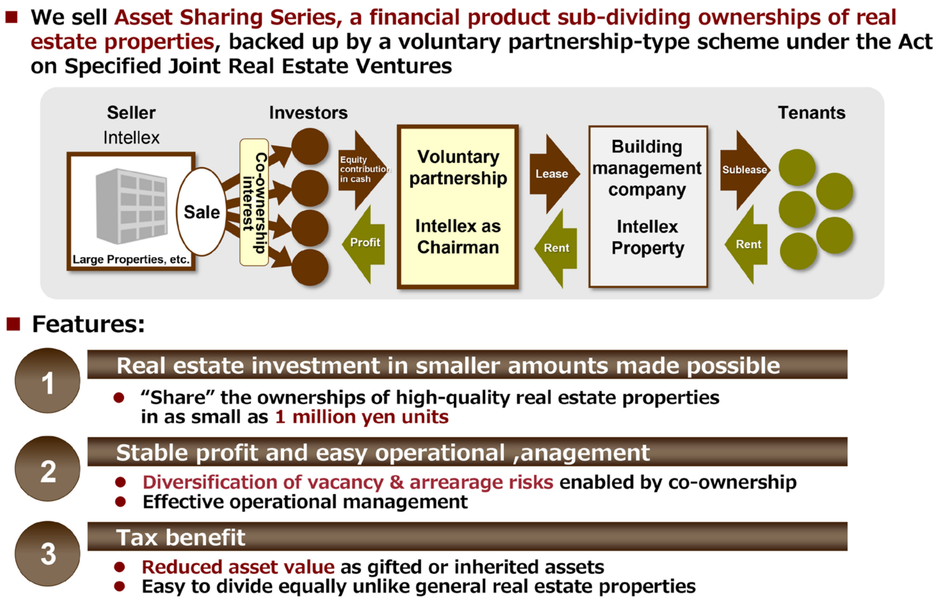
Asset Sharing Business refers to a business of selling real estate small-lot products through utilizing the "voluntary partnership-type" scheme in the Act on Specified Joint Real Estate Ventures. The features of these products include that they enable high-quality real estate properties, both newly built and used, to be acquired through joint ownership on units of ¥1mn per lot, that the risk of vacancies and non-payment of rent can be dispersed through joint ownership, that they can be expected to stably generate earnings, and that the asset value can be significantly kept down as an inheritance or gifted asset.

The real estate property management is mainly carried out by the subsidiary INTELLEX Property Co., Ltd. The Group as a whole can acquire flow income from small-lot sales and also stock (recurring) income from voluntary partnership chairperson fees and property management fees. Conversely, as investors' expected rate of return, its policy is to compose products targeting an expected distribution yield of at least 3%*.

* Annual income from deducting actual costs generated (administrative expenses, etc.) from rental income ÷ investment amount

This business includes other companies that launched a business ahead of the Company, including Aoyama Zaisan Networks Co., Ltd. <8929> and Financial Products Group Co., Ltd. <7148>. But the Company's strengths include that it can utilize the network and expertise it has constructed up to the present time as a real estate company, and that it can develop a wide range of products, of both newly built and used properties and from residential-use through to commercial-use. In terms of sales, it conducts sales through various sales channels, including by holding seminars, its own website, and via professionals such as tax accountants and financial institutions and other organizations.

Framework of the Asset Sharing Business (sales of real estate small-lot products)



Source: The Company's results briefing materials

Strengths including a system for rapid purchases and renovation expertise it has developed independently

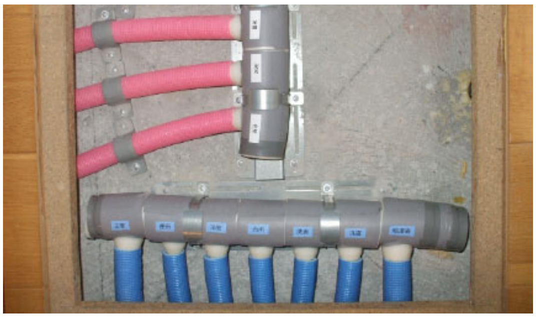
2. The Company's strengths

In the Renovation Business, the Company's first strength is that it is building a system to rapidly purchase excellent properties that can be expected to be profitable. With regards to the information on properties or sale obtained from real estate brokerage companies (2,500 to 3,000 cases per month), the Company's responsible person confirms conditions on site 1 or 2 days after receiving the information and makes a decision on the final purchase. In the case of major real estate companies, it is said that the purchase decision normally takes around one week, so in the event of receiving the information on the property for sale on the same timing, the Company is able to acquire excellent properties in advance of its industry peers. However, in the last few years in the metropolitan Tokyo area, an increasing number of companies have been participating in the used condominiums market, including major developers, so compared to previously, it has become more difficult to purchase excellent properties at appropriate prices. For this reason, the Company is also beginning to strengthen its system to make purchases directly from sellers.

The Company's second strength is its renovation expertise that it has independently developed for renovations of individual condominiums. Compared to detached houses, renovations of individual condominiums require consideration for the adjacent condominiums, so the renovation must be conducted in a short period with measures to minimize noise and vibrations. As its methods to address such problems that are based on its experience of renovating many properties up to the present time, the Company has established renovation methods specifically for condominiums. Specifically, it conducts quiet renovation to minimize noise when drilling holes and screwing screws, while it also has systemized infrastructure and underground equipment, including adopting header pipes that collect into one place the water supply and hot water supply. In such ways, it employs condominium renovation methods only it is capable of, to homogenize the quality of the renovation as well as efficiency in subsequent maintenance work. Moreover, in the case of condominiums, the living infrastructure is shared, such as the electrical wiring, water supply, and gas pipes, so it is necessary to pay full attention to handling these shared elements when conducting construction work. The Company has prepared a renovation manual for condominium renovations, and it works to maintain and improve the quality of the services of its partner companies that carry out the renovation. Its renovation technologies have been highly evaluated within the industry and it receives many renovation consignment projects from major real estate companies.

Condominium renovation methods

Quiet renovation



Header pipes

Source: reprinted from the Company's website

Results trends

In FY5/22, both sales and profit declined but profit ended up on par with the Company's forecast

1. Overview of results for FY5/22

In FY5/22 consolidated results, net sales decreased 12.0% YoY to ¥36,139mn, operating profit decreased 37.2% to ¥1,364mn, ordinary profit declined 44.9% to ¥1,061mn, and profit attributable to owners of parent fell 42.9% to ¥643mn, as sales fell for the first time in three fiscal years and profit dropped for the first time in two fiscal years. Net sales were 16.4% lower than the Company's forecast due to sales units of renovated condominiums falling short of the forecast, but operating profit and ordinary profit ended up exceeding the Company's forecast by 5.0-6.0% due to the Company's efforts to curb SG&A expenses.

Consolidated results for FY5/22

(¥mn)

	FY5/21		FY5/22				
	Results	% of sales	Company forecast	Results	% of sales	YoY	vs. forecast
Net sales	41,074	-	43,234	36,139	-	-12.0%	-16.4%
Gross profit	6,991	17.0%	6,553	6,109	16.9%	-12.6%	-6.8%
SG&A expenses	4,820	11.7%	5,269	4,745	13.1%	-1.6%	-9.9%
Operating profit	2,170	5.3%	1,283	1,364	3.8%	-37.2%	6.3%
Ordinary profit	1,926	4.7%	1,004	1,061	2.9%	-44.9%	5.7%
Profit attributable to owners of parent	1,127	2.7%	689	643	1.8%	-42.9%	-6.6%
Renovated condominium sales							
No. of sales (units)	1,420	-	1,400	1,129	-	-20.5%	19.4%
Sales amount (¥mn)	31,299	76.2%	31,280	26,240	72.6%	-16.2%	16.1%

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

Although average sales prices for the Company's mainstay renovated condominiums increased 5.4% YoY, the number of units sold declined 20.5% YoY to 1,129 units, resulting in a 16.2% decline in the sales amount to ¥26,240mn. Gross profit declined 12.6% due to the decrease in profit accompanying the decline in sales of renovated condominiums, in addition to the non-recurrence of the gain on the sale of highly profitable properties recorded in FY5/21.

SG&A expenses decreased by 1.6% YoY due to a decline in sales brokerage commissions accompanying the drop in sales of renovated condominiums and the curtailment of other expenses, despite an increase in investment costs in new business areas. The number of employees at the end of FY5/22 was 327, an increase of two employees from the end of FY5/21 (at the start of the period, the Company had planned to increase employees by 46 YoY on a full-year basis), and this is one reason that SG&A expenses were lower than the Company's forecast. In addition, in February 2022, RECOSYS inc. was newly established as a consolidated subsidiary to develop the ECOCUBE franchising business, and the business started in April 2022.

The number of renovated condominium sales declined, but purchases increased, reversing a trend

2. Trends by business segment

(1) Renovation Business

Net sales in the Renovation Business declined by 16.0% YoY to ¥27,816mn, and operating profit decreased 11.7% to ¥1,334mn. Looking at a breakdown of net sales, sales of renovated condominiums decreased by 17.2% to ¥26,129mn due to a decline in units sold, rents decreased 15.3% to ¥150mn due to the decline in rental properties on hand, while other income increased 11.6% to ¥1,535mn (of this, ¥1,480mn was renovation work) due to an increase in orders for renovation work. Although gross profit fell 7.8% to ¥4,301mn, the profit margin increased 1.4 percentage points to 15.5%. The main factor for this was the fact that the profit margin for property sales increased from 13.8% to 15.4% due to steady progress on sales of renovated condominiums.

Renovation Business results

(¥mn)

	Net sales			Gross profit			Gross profit margin	
	FY5/21	FY5/22	YoY change %	FY5/21	FY5/22	YoY change %	FY5/21	FY5/22
Property sales	31,543	26,129	-17.2%	4,358	4,033	-7.4%	13.8%	15.4%
Rents	178	150	-15.3%	126	108	-14.4%	71.2%	72.0%
Other income	1,376	1,535	11.6%	179	159	-11.2%	13.1%	10.4%
Total	33,098	27,816	-16.0%	4,664	4,301	-7.8%	14.1%	15.5%

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

The number of renovated condominiums sold decreased by 20.5% YoY to 1,129 units, the first decrease in three fiscal years. One reason for this was the fact that since the spring of 2020 there have been fewer used condominiums on the market due to the spread of the novel coronavirus (hereafter, "COVID-19"), so the period started with a low level of inventory. Another reason was delays in procuring housing equipment caused by the shortage of semiconductors, which resulted in delays in getting properties ready to sell. By region, the number of sales in the Tokyo metropolitan area declined 29.1% to 455 units, while in regional areas there was a 13.4% decline to 674 units. However, demand continued to be robust, so sales themselves have been steady and the average sales price increased 5.4% to ¥2,324mn.

Meanwhile, the number of units purchased increased for the first time in fiscal two years, rising 7.4% YoY to 1,268 units. By area, purchases in the Tokyo metropolitan area rose 17.0% to 565 units and in regional areas increased 0.7% to 703 units, while the average purchase price increased 15.9% to ¥15.81mn, rising for the first time in four fiscal years and reflecting proactive purchasing in the Tokyo metropolitan area. By Company office, the Tokyo 23 wards area saw a 48.8% increase, recovering to the level of two fiscal years prior, while the Kanagawa area, which had been declining since FY5/15, saw a 3.1% increase, stopping the decline. In regional offices, with the exception of the Nagoya area, all offices turned higher. For the Nagoya office, in addition to intensifying competition, the fact that it is taking time to rebuild the sales structure was thought to be a factor behind the weak performance.

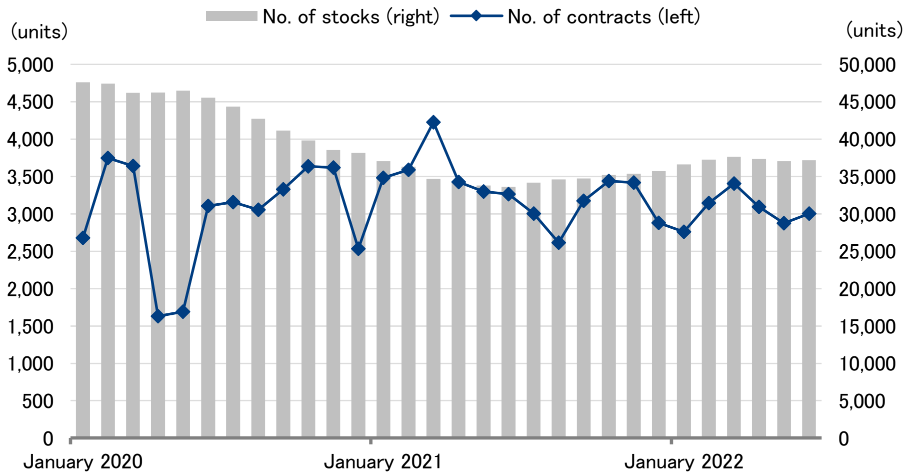
Number of renovated condominium units purchased and sold by area, the amount, and the average price

	No. of purchases				No. of sales			
	FY5/20	FY5/21	FY5/22	YoY	FY5/20	FY5/21	FY5/22	YoY
Total of metropolitan Tokyo area	599	483	565	17.0%	602	642	455	-29.1%
Tokyo 23 Wards	250	166	247	48.8%	225	220	177	-19.5%
Greater Tokyo	68	63	56	-11.1%	77	72	46	-36.1%
Kanagawa	216	194	200	3.1%	228	237	178	-24.9%
Saitama	47	41	36	-12.2%	46	60	29	-51.7%
Chiba	18	19	26	36.8%	26	53	25	-52.8%
Total of Regional area	830	698	703	0.7%	734	778	674	-13.4%
Sapporo	150	117	157	34.2%	132	141	139	-1.4%
Sendai	82	79	88	11.4%	85	83	87	4.8%
Nagoya	169	185	83	-55.1%	163	135	92	-31.9%
Osaka	255	177	206	16.4%	208	246	191	-22.4%
Hiroshima	35	33	40	21.2%	36	36	38	5.6%
Fukuoka	139	107	129	20.6%	110	137	127	-7.3%
Total	1,429	1,181	1,268	7.4%	1,336	1,420	1,129	-20.5%
Total amount (¥mn)	21,388	16,105	20,051	24.5%	30,570	31,299	26,240	-16.2%
Average price (¥10,000)	1,497	1,364	1,581	15.9%	2,288	2,204	2,324	5.4%

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

Regarding trends in the used condominium industry in the Tokyo metropolitan area in the period under review (June 2021 - May 2022), the number of contract closings declined 8.4% YoY to 37,074, reversing the previous trend. The inventory was 37,000 units as of May 2022, as there was a slight increase from the year-earlier period. Compared to the pre-COVID-19 level (January 2020), inventory is still around 20.0% lower, and there are no signs of excess inventory, so supply-and-demand for the time being is expected to remain tight.

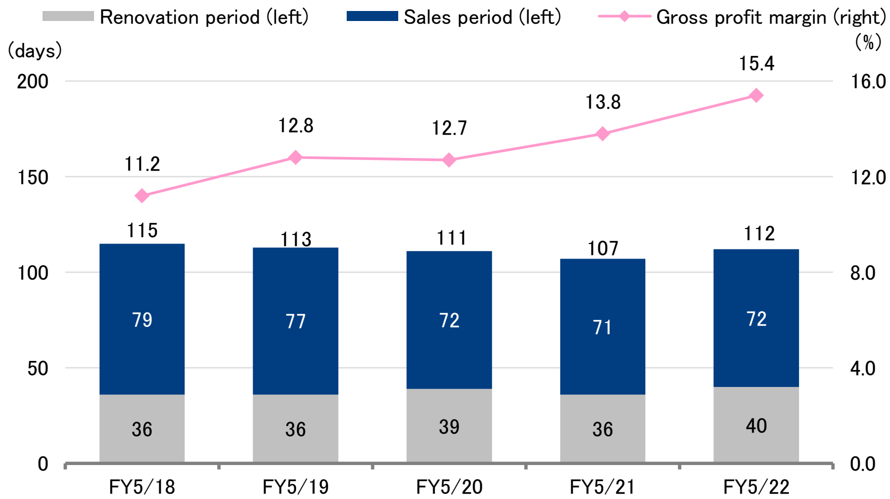
The number of used condominium contracts and the number of stocks in the metropolitan Tokyo area



Source: Prepared by FISCO based on Real Estate Information Network System data

The project period, which impacts the gross profit margin on renovated condominium sales, was 112 days in FY5/22, five days longer than in the year-earlier period. Looking at the breakdown, the sales period increased one day to 72 days, while the renovation work period increased four days to 40 days, so one can see that the impact of equipment procurement delays led to a slight lengthening of the renovation work period. Still, the fact that the Company is able to quickly sell properties without lowering prices seems to have led to the increase in the gross profit margin.

Renovated condominium project period and gross profit margin



* The gross profit margin since FY5/21 is for units sold in the Renovation Business
Source: Prepared by FISCO from the Company's results briefing materials

(2) Solutions Business Field

In the Solutions Business field, net sales increased 4.4% YoY to ¥8,323mn and operating profit decreased 40.1% to ¥840mn. Looking at the breakdown of sales, property sales increased 2.9% to ¥7,080mn, rental income increased 10.7% to ¥1,002mn and other income, which is primarily the hotel and accommodations business, increased 25.1% to ¥240mn. Also, gross profit decreased 22.3% to ¥1,807mn due to the effect of the aforementioned absence of sales of highly profitable properties.

Solutions Business Field

(¥mn)

	Net sales			Gross profit			Gross profit margin	
	FY5/21	FY5/22	YoY change %	FY5/21	FY5/22	YoY change %	FY5/21	FY5/22
Property sales	6,878	7,080	2.9%	2,026	1,307	-35.5%	29.5%	18.5%
Rents	905	1,002	10.7%	402	533	32.5%	44.5%	53.2%
Other income	192	240	25.1%	-102	-33	-	-53.4%	-14.0%
Total	7,976	8,323	4.4%	2,326	1,807	-22.3%	29.2%	21.7%

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

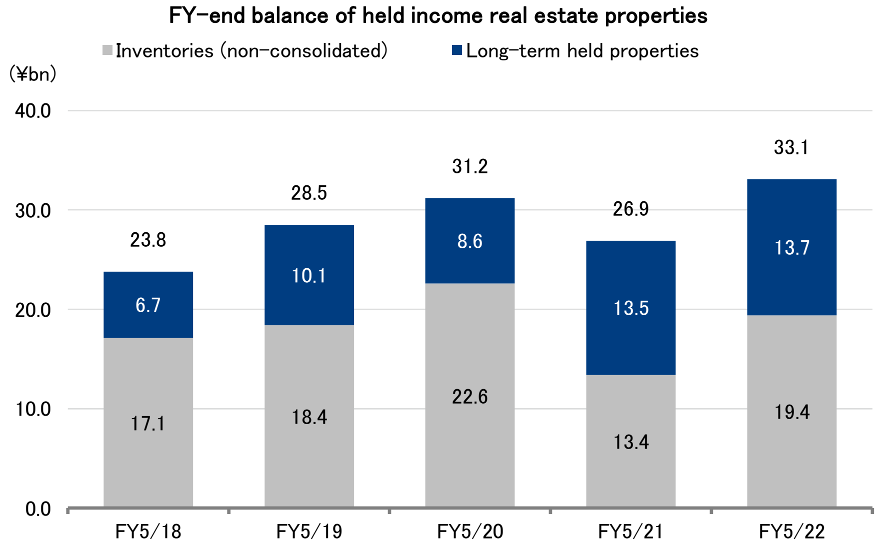
Of property sales, net sales in the Leaseback Business increased from ¥2.9bn in the previous fiscal year to ¥5.31bn. In terms of the breakdown, sales to real estate funds were ¥4,437mn*, while property sales were ¥880mn. Sales of other income real estate properties declined, while there were no sales in the Asset Sharing Business (compared to ¥560mn in FY5/21). Rents increased due to the increase in properties held, while other income increased due to the rise in the occupancy rate at LANDABOUT (Taito-ku, Tokyo), the hotel which began operating in January 2020, and other factors.

* In August 2021, the Company transferred 88 leaseback properties to LLC Ambai LB No.2 for ¥1,843mn, while in March 2022 the Company transferred 173 properties to LLC Ambai LB No. 3 for ¥2,594mn. The total book value is ¥3,666mn.

Increase in total assets from aggressive purchasing

3. Financial conditions and management indicators

Total assets at the end of FY5/22 increased ¥4,636mn from the end of FY5/22 to ¥40,932mn. Looking at the main change factors, in current assets, cash and deposits decreased ¥1,786mn, but inventories increased ¥6,127mn. Looking at the breakdown of inventories, regular properties increased ¥3.9bn to ¥12.5bn and rental properties increased ¥2.1bn to ¥6.9bn. In non-current assets, long-term income properties increased ¥0.1bn to ¥13.7bn, and the total of income real estate properties increased ¥6.1bn from the end of FY5/21 to ¥33.1bn, rising to the highest level of the past few years. This is aimed at expanding the business going forward, and we at FISCO view it positively. The amount of properties purchased increased ¥6.2bn YoY to ¥24.2bn. Of this, renovated condominiums increased ¥3.9bn to ¥20.0bn, while other properties increased ¥2.5bn to ¥4.1bn.



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

Total liabilities increased ¥4,243mn from the end of the previous period to ¥28,953mn. Income taxes payable decreased ¥486mn, investment deposits from anonymous partnerships declined ¥453mn, and other current liabilities fell ¥497mn, respectively, while interest-bearing debt increased ¥5,612mn as funds for the acquisition of income real estate properties. Also, total net assets increased ¥392mn from the end of the previous period to ¥11,978mn. This was mainly because although expenditure on dividends was ¥325mn, assets increased by ¥66mn through the disposal of treasury stock in addition to the recording of profit attributable to owners of parent of ¥643mn.

Looking at management indicators, owing to an increase in the balance of interest-bearing debt, the capital ratio fell from 31.9% at the end of FY5/21 to 29.2%, and the interest-bearing debt ratio increased from 179.2% to 220.4%. With regard to interest-bearing debt, it is a means of procuring funds for business expansion, but recently the Company has been working to diversify its financing, including through the use of crowdfunding. Since the start of FY5/23, the Company has announced that it newly raised funds from The Keiyo Bank, Ltd. through a sustainability-linked loan (SLL)*, and going forward the Company will utilize sustainable financing to develop the energy-saving renovation ECOCUBE.

* Sustainability-linked loans are loans that support sustainable economic activity by encouraging borrowers to achieve certain targets. This is done by having the terms of the loan change along with the extent to which the borrower is achieving its Sustainability Performance Targets (SPTs) in its SDGs/ESG strategy. For this most recent SLL, the Company selected for the KPI the number of ECOCUBE specification renovated condominiums that it sells, and it established increasing the number of units sold as its SPTs.

Consolidated balance sheet

(¥mn)

	FY5/19	FY5/20	FY5/21	FY5/22	YoY change
Current Assets	25,101	28,327	20,559	25,101	4,541
(Cash and Deposits)	5,500	4,947	6,215	4,428	-1,786
(Inventories)	18,648	22,918	13,642	19,769	6,127
Non-current Assets	11,654	10,269	15,736	15,831	94
Total Assets	36,756	38,596	36,296	40,932	4,636
Current Liabilities	14,863	17,698	15,610	18,775	3,164
Non-current Liabilities	11,229	10,262	9,098	10,178	1,079
Total Liabilities	26,093	27,961	24,709	28,953	4,243
(Interest-bearing Debt)	23,879	24,924	20,750	26,363	5,612
Total Net Assets	10,663	10,635	11,586	11,978	392
(Security)					
Capital Ratio	29.0%	27.5%	31.9%	29.2%	-2.7pt
Interest-bearing Debt Ratio	224.3%	234.7%	179.1%	220.4%	41.3pt
(Profitability)					
ROA (Return on Assets)	4.0%	2.0%	5.1%	2.7%	-2.4pt
ROE (Return on Equity)	8.0%	4.9%	10.2%	5.5%	-4.7pt
Operating margin	4.5%	2.9%	5.3%	3.8%	-1.5pt

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

Outlook

By expanding sales of ECOCUBE, the Company will aim for high growth while contributing to the realization of a decarbonized society and enhancing QOL (Quality of Life)

1. Medium-term management plan

In July 2022, the Company released its medium-term management plan. The Company's vision is to "Enriched Life for Everyone Through Renovation." The Company will aim to achieve high growth while contributing to the creation of a sustainable society by carrying out its circular-type renovation model. Specifically, the Company will reduce CO_2 and provide comfortable living environments, as well as contribute to enhancing the QOL of residents, by expanding its energy-saving renovation ECOCUBE nationwide. In addition, in order to advance the digital transformation of real estate transactions, the Company plans to continue to develop FLIE, the real estate direct sale platform that allows more participants access to fair transactions.

The Company has set numerical targets for FY5/25 of net sales of ¥59.1bn, operating profit of ¥2.6bn, ordinary profit of ¥2.3bn, and profit attributable to owners of parent of ¥1.5bn, along with ROE of at least 10.0%. The target three-year average annual growth rates for net sales and operating profit are 17.9% and 26.0%, respectively. In FY3/23, the Company expects an increase in sales and a decline in profit due to the burden of upfront investments in new business fields, but the Company is looking for profits to also transition to a high-growth stage from FY5/24. By business segment, the Company expects the Renovation Business field to drive growth, while the Company is aiming for steady growth in the Solutions Business field as a foundation for stable earnings. Looking at the makeup of operating profit, the Company expects the Renovation Business field to account for approximately 70% of operating profit in FY5/25, an increase from roughly 60% in FY5/22. Also, the Company is planning for a cumulative total of ¥3.1bn in new business investment, branding enhancement, and growth investment in personnel, systems and other areas.

Medium-term results target

(¥bn)

	FY5/22 Results	FY5/23 Forecast	FY5/24 Forecast	FY5/25 Forecast	Annual average growth rate
Net sales	36.1	42.4	50.7	59.1	17.9%
Operating profit	1.3	0.9	1.7	2.6	26.0%
Ordinary profit	1.0	0.6	1.3	2.3	32.0%
Profit attributable to owners of parent	0.6	0.4	0.9	1.5	35.7%

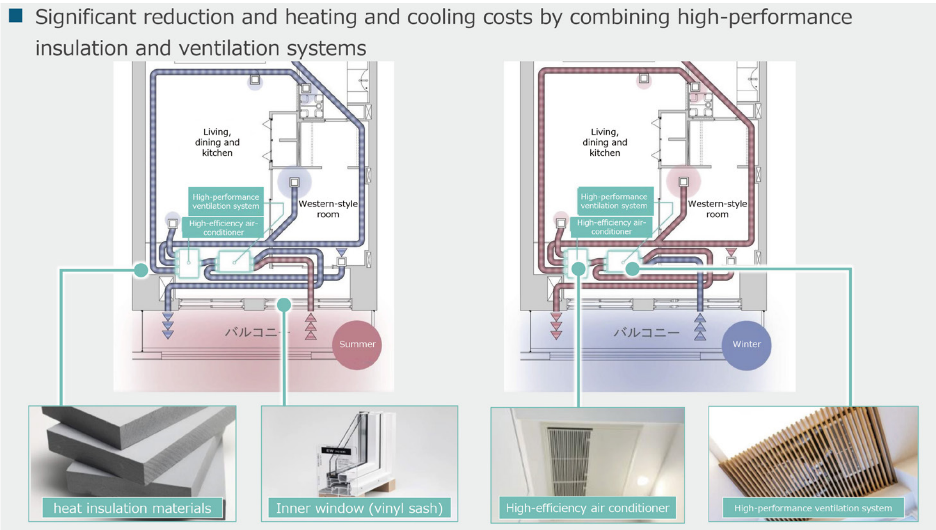
Source: Prepared by FISCO from the Company's results briefing materials

(1) The ECOCUBE

ECOCUBE, the Company's strategic product, is an energy-saving renovation condominium, and is a product that delivers comfortable living and economic benefits through energy saving, by performing unit-specific heat calculations* and performing insulation work that maintains optimal heat insulation and airtightness (such as installing high-performance heat insulation materials and inner windows with vinyl sashes, etc.) and by installing high-efficiency air conditioners and high-performance ventilation systems. The Company began development and sales of an energy-saving product in 2011, and then the product was re-released in July 2021 as ECOCUBE following repeated improvements. It adds added value of "energy-saving + better quality of life" to renovations of existing residences, and it is a product that contributes to the realization of a decarbonized society that the Japanese government is aiming for.

* Using the Company's standards matching the conditions, such as the location and the structure of a property, in energy-saving housing design support tools, the Company simulates the energy consumption, cooling and heating costs, and air conditioning of the unit before and after renovation, and then designs a renovation plan in order to create comfortable housing performance.

ECOCUBE's insulation and ventilation system



Source: The Company's medium-term management plan

ECOCUBE features

Features	Content
Pleasant air	Type 1 heat-exchange-type ventilating equipment with embedded air filters that remove pollen, dust and other particles constantly and efficiently provide fresh air.
Good for health	Studies have shown that highly insulated houses with an indoor temperature above a certain level can help prevent heat shock and high blood pressure.
Reduced condensation	Increasing the level of insulation with insulating materials and vinyl sashes reduces indoor temperature differences and reduces condensation to limit the occurrence of mold.
Energy-saving and economical	Air conditioning efficiency is increased by raising airtightness and insulation levels with vinyl sashes and insulating materials based on heat calculations and also installing type 1 heat-exchanger-type ventilation equipment for taking in outside air close to the indoor temperature. This can reduce heating and cooling costs compared to before the renovation.
CO_2 reduction	Increased insulation performance to reduce heating and cooling energy consumption and thereby contribute to CO_2 reduction.

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

Although the sale price is about 10% higher than the average renovated condominium, the electricity consumption of air conditioning and heating equipment can be significantly reduced*, and there are cases where the property is eligible for energy-saving housing loans and subsidized projects of local governments. Therefore, the sense that it is expensive will likely fade, and it is expected that demand will increase in the future as an energy-saving renovation product.

* In the case of a 1LDK (roughly 65m^2) with two residents and average outdoor temperature of 16ºC, there are cases of annual heating and cooling costs being reduced by approximately 89%, from ¥108,000 to ¥11,000.

Outline of housing loan tax reduction for ECOCUBE

	Borrowing limit		Deduction period
	22-23 year living period	24-25 year living period	
ZEH level energy-saving residence	¥45mn	¥35mn	13 years
Home that conforms with energy-saving standards	¥40mn	¥30mn	

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

FLIE Magazine conducted a questionnaire survey regarding energy-saving homes. The results showed that 69.5% of respondents were aware of energy-saving homes, and of these respondents, 76.8% answered "Yes" to a question asking them if they would choose an energy-saving home when purchasing a home. Just under 90.0% of the people said that lower utility costs would be the reason they chose such a home, followed by reasons including concern for the environment and comfort level. On the other hand, the most common reason for those who answered "No" was the relatively high price (64.0%), followed by the limited number of candidate properties (40.0%). From these survey results, it can be seen that there is a lot of room for ECOCUBE to grow. Regarding the price aspect, if the use of subsidies and tax reduction systems, as well as the effect of reducing utility costs are recognized, this concern about price will resolve itself to some extent. Also, with respect to the answer that there are limited candidate properties, this can be viewed as meaning that there are potential customers interested in buying a property if there is one they like.

Questionnaire survey regarding energy-saving housing

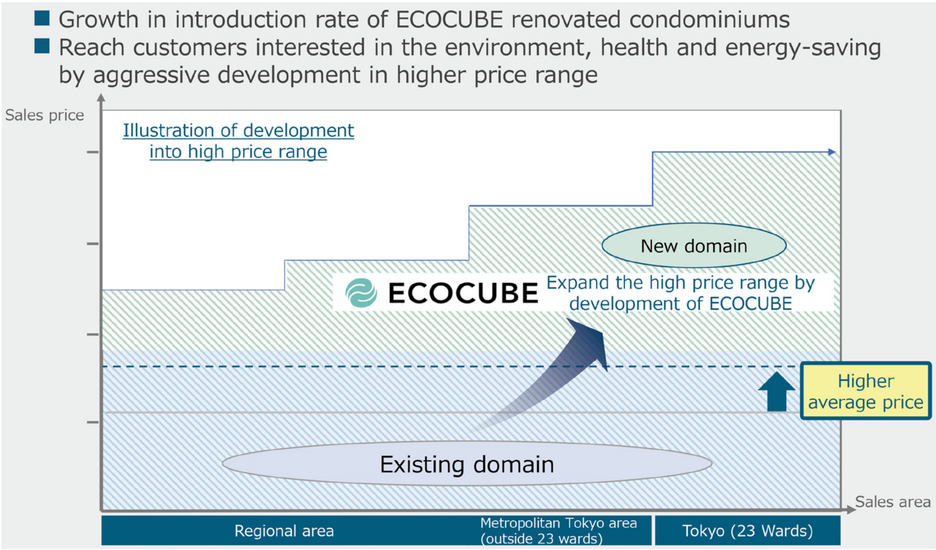
Would you choose an energy-saving house when purchasing a home?

Yes	76.8%	No	23.2%
Reasons		Reasons	
To lower the utility costs	89.9%	Price is high	64.0%
To be eco-friendly	42.6%	Limited candidate properties	40.2%
High level of comfort	32.7%	I will respond with energy-saving appliances, etc.	15.9%
There are subsidies, tax breaks	29.8%	I have no knowledge about energy-saving	13.4%
Easy to sell	2.9%	Setup and operation seem complex	11.6%
Other	0.4%	I don't understand the need to save energy	9.1%
		Other	4.3%

Source: FLIE Magazine (June 14-18, 2022; surveyed 1,018 people aged 20 and higher)

In the medium-term management plan recently released, the Company has a sales target of 1,603 renovated condominiums in FY5/25, and plans for approximately 50% of these (800 units) to be ECOCUBE. The data for FY5/22 is not disclosed, but based on the number of renovations, it seems like over 100 were ECOCUBE. Also, because ECOCUBE is a high-value-added product, the Company plans to proactively purchase properties in the high price range and approach customers who are interested in the environment, health, and saving energy. Therefore, the average sale price of renovated condominiums is expected to increase going forward.

Expansion of the high price range through the Company's high-value-added renovation



Source: The Company's medium-term management plan

Renovated condominium sales targets and ECOCUBE introduction forecast

	FY5/22 Results	FY5/23 Forecasts	FY5/24 Forecasts	FY5/25 Forecasts	Annual average growth rate
Number of units sold	1,129	1,247	1,439	1,603	12.4%
Of these, number of ECOCUBE	-	500	650	800	-
ECOCUBE introduction rate	-	40%	45%	50%	-

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

If the Company sells a cumulative total of 1,950 ECOCUBE units over the next three years, the CO_2 reduction effect is estimated* to be 975 tons per year, or approximately 111,000 cedar trees (approximately 24 Tokyo Dome's worth). As an initiative towards a decarbonized society, the Japanese government has set a target of reducing greenhouse gas emissions by 46.0% (versus 2013 levels) by 2030. Within this, the government has set a goal of reducing Household sector CO_2 emissions by 66.0%. The Household sector accounts for 15.9% of CO_2 emissions in Japan. In order to achieve this target, in May 2022 the government passed the revised Building Energy Conservation Act, which requires all new housing, etc. to comply with energy-saving standards from FY2025. However, housing in compliance with the current energy-saving standards (above a certain standard of insulation performance) makes up only 10.0% of existing homes (approximately 50 million homes), and the government has started to provide subsidies, tax breaks, and other forms of support to encourage energy-saving renovations of existing homes. Based on this, there is no doubt that the environment is in place for ECOCUBE to penetrate the market, and it can be said that a good opportunity has arrived for the Company to expand the renovation business with ECOCUBE as the strategic product.

* Assuming a condominium with 65m^2 of floor space. According to estimates by the Environmental System Research Laboratory, Graduate School of Engineering, Hokkaido University.

To accelerate the penetration of ECOCUBE, the Company established Ricosys as a subsidiary to develop the ECOCUBE franchising business, and this business started in April 2022. Companies generally start a franchising business after the company itself has established a certain track record of sales on its own, but the Company has prioritized the fast growth of ECOCUBE because this product will contribute to society. In terms of the service details, the service will perform heat calculations, apply for subsidies on behalf of customers, as well design and construction, equipment procurement, sales, and other types of support. The Company's goal is to quickly build a network of 100 affiliates and develop this as a business that will promote the Group's stable growth. In addition to existing cooperating companies involved in renovation work, the Company expects to add other companies as partners, including companies that purchase and resell used condominiums.

In addition, as a differentiation strategy in the renovation condominium industry, the Company is also working to enhance its after-sales service. On top of extending the after-sales service warranty period to 20 years* for the first time in the industry, the Company plans to introduce a one-year inspection service, beginning in the Tokyo metropolitan area, and then gradually expanding the coverage area. By conducting regular inspection services, the Company aims to improve LTV (customer lifetime value) and plans to develop new services.

* From June 2021, the Company extended the after-service warranty period from 10 years to a maximum of 20 years.

(2) The FLIE real estate direct sales platform

In November 2019 the Company established consolidated subsidiary FLIE Co., Ltd., and began operating FLIE, a website for direct sales of used condominiums. On this platform, buyers and sellers (real estate companies) communicate directly, so the buyer does not need to pay a broker fee (approximately 3% of the property price), which is an advantage for them. As of July 2022, the number of listed properties is over 1,500 in the Tokyo metropolitan area alone, and the number of listing companies exceeds 20, including the Company, making it one of the largest direct sales sites in Japan. The Company plans to expand the property listing area nationwide in the future, and is developing data linkage functions and functions that lead to improved convenience for users.

Currently, the Company is developing a contactless self-viewing system called "Smaview" that allows people to freely view properties on their smartphone at any time, and the Company is conducting test operations for some properties. In addition, since the ban on electronic contracts for real estate properties has been lifted, it is expected that a function for concluding electronic contracts will be added to the site eventually. Investment in development will take precedence for the time being, but it is expected to contribute to earnings if the transaction volume increases as a result of nationwide expansion. Currently, closing fees are booked as sales, but in the future, by providing various additional functions, the Company expects to also earn usage fees when listing companies use these functions.

(3) Breakdown of growth investment

The Company plans to spend a cumulative total of ¥3.1bn on growth investment in the three-year period through FY5/25. Of this, ¥1.0bn will be in new business areas, ¥1.1bn will be on branding enhancement, and ¥1.0bn will be on bolstering personnel and systems. In new business areas, the growth investment includes development costs for expanding the functionality of FLIE, etc., as well as costs related to ECOCUBE. For branding enhancement, the main target will be branding costs for renovated condominiums, including ECOCUBE. With respect to renovated condominiums, in addition to ECOCUBE, the Company aims to contribute to improving quality of life by offering a variety of design options. Regarding personnel, the Company plans to increase the number of employees to 1.3 times the current level of 327 employees as of the end of FY5/22 to 428 employees by the end of FY5/25. Approximately one-third of the Company's employees are sales staffs, and the Company plans to maintain the current level of sales staffs while improving the productivity per person (increase in properties purchased, etc.), with the majority of the new employees hired to work in new business domains or in back-office departments.

Breakdown of upfront investment

(¥bn)

	FY5/23	FY5/24	FY5/25	3-year total
New business areas	0.4	0.3	0.3	1.0
Branding enhancement	0.2	0.4	0.5	1.1
Bolster personnel/systems	0.1	0.2	0.7	1.0
Total	0.7	0.9	1.5	3.1

*Figures for each fiscal period are additional investment costs based on FY5/22 values
Source: Prepared by FISCO from the Company's medium-term management plan

The Company is expecting an increase in sales but a decline in profit in FY5/23 due to upfront investments in new business areas

2. Outlook for FY5/23 results

In the outlook for FY5/23 consolidated results, the Company is forecasting net sales to increase 17.4% YoY to ¥42,417mn, operating profit to decrease 31.8% to ¥930mn, ordinary profit to decrease 43.4% to ¥601mn, and profit attributable to owners of parent to decrease 34.6% to ¥420mn. Net sales will turn higher as the sales amount of renovated condominiums recovers, rising 17.3% to ¥30,776mn, but profit will decline due to an increase of about ¥700mn in upfront investment costs in new business areas and other factors.

Outlook for FY5/23 results

(¥mn)

	FY5/22 (result)		FY5/23 (forecast)				
	Full fiscal year	% of sales	1H	2H	Full fiscal year	% of sales	YoY
Net Sales	36,139	-	19,247	23,170	42,417	-	17.4%
Gross profit	6,109	16.9%	3,128	3,856	6,984	16.5%	14.3%
SG&A expenses	4,745	13.1%	2,941	3,113	6,054	14.3%	27.6%
Operating profit	1,364	3.8%	187	743	930	2.2%	-31.8%
Ordinary profit	1,061	2.9%	27	574	601	1.4%	-43.4%
Profit attributable to owners of parent	643	1.8%	22	398	420	1.0%	-34.6%
Earnings per share (EPS) (¥)	74.55	-	2.58	46.02	48.60	-	-

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

Looking at net sales by business segment, in the Renovation Business the Company expects net sales to increase 21.5% YoY to ¥33.8bn. The Company is forecasting sales units of renovated condominiums to increase 10.5% to 1,247 units, and for the average sales price to rise 6.2% to ¥2,468mn. The rise in sales prices is the result of an increase in sales of ECOCUBE and passing the higher prices of materials and equipment along to customers. There are still some impacts remaining from the delays in procurement of equipment and materials, but it appears that the Company has been able to deal with this through measures such as replacement with standard items. The Company expects the gross profit margin to fall slightly compared to FY5/22. Also, the Company expects net sales in the renovation business to increase 23.0% to ¥1.82bn, primarily due to the increase in orders received for corporate projects.

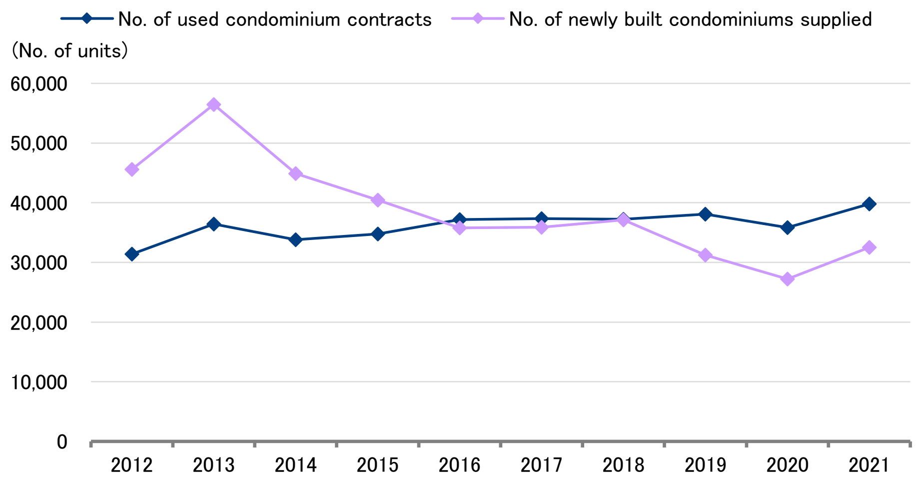
The Company expects net sales in the Solutions Business to increase 3.3% to ¥8.6bn. With respect to properties sold, the Company executed two securitizations in the Leaseback Business in FY5/22, but only plans to carry out one securitization in FY5/23 and has no plans to sell Asset Sharing products, and expects an increase in sales of other income real estate properties. Regarding the Leaseback Business, in addition to purchasing properties from collaborating partners, the Company plans to air TV commercials to improve the name recognition of Ambai, the Company's service brand, as part of its effort to bolster its own purchasing.

The leading role in the condominium market is changing from being newly-built condominiums to the used market, and the outlook is that demand for energy-saving renovated condominiums will increase

3. Medium- to long-term outlook for the renovated condominiums market

Looking at 2021 condominium sales trends in the Tokyo metropolitan area, used condominiums increased 11.1% YoY to 39,812 units, setting a record high, and new condominiums also reversed the previous trend, rising 23.5% to 33,636 units. Used condominiums have outstripped new condominiums for six consecutive years since 2016, and the position of used condominiums in the condominium market has been increasing year after year. In 2022, new condominium sales are projected to continue to increase at a pace of 32,500 units, but the used condominium market was a bit weak in the January – June period, dropping 14.1% YoY to 18,285 units, so there is a possibility that the gap between the two will contract a little.

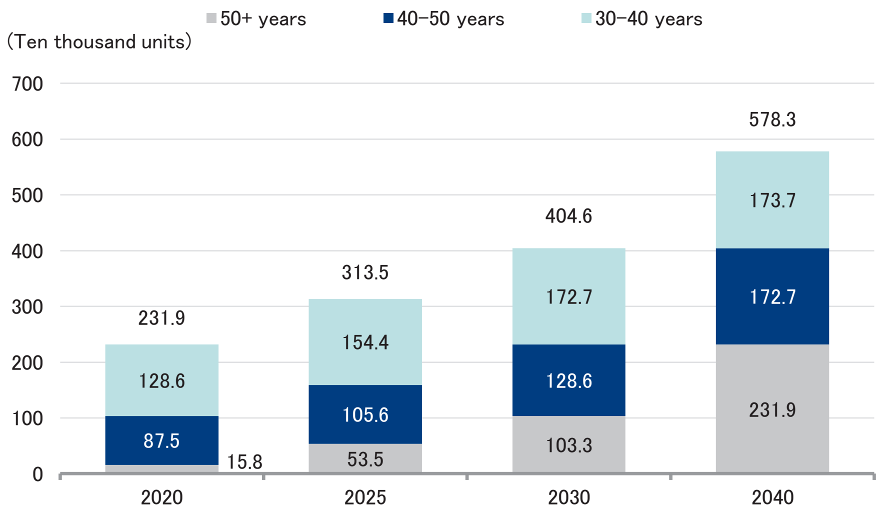
Condominium market trends in metropolitan Tokyo area



Source: Prepared by FISCO based on data from the Real Estate Information Network System and the Real Estate Economic Institute Co., Ltd.

However, looking over the medium to long term, the used condominium market is expected to be stable, and steady growth in renovated condominiums is expected. This is because, according to a survey by the Ministry of Land, Infrastructure, Transport and Tourism, nationwide condominium stocks in 2020 were 6,753,000 units, of which, condominiums constructed at least 30 years ago for which renovation is deemed essential totaled 2,319,000 units, or slightly more than 30%. However, by 2040 in 20 years' time, this number is forecast to grow by approximately 2.5 times to 5,783,000 units. The consent of residents is necessary to change an entire condominium building, and this is not easy to achieve, so the growth of the renovated condominium market will be supported by projects for single condominiums. In fact, up to the present time, nationwide, only 263 condominium buildings have been rebuilt (as of April 2021). Going forward, among renovated condominiums, demand for energy-saving renovations is expected to increase, and we at FISCO believe that, for the Company, which is a first-mover in this field and has an abundance of expertise and track record for renovation work, there is still plenty of room for growth.

Estimated number of condominium units in stock by building age

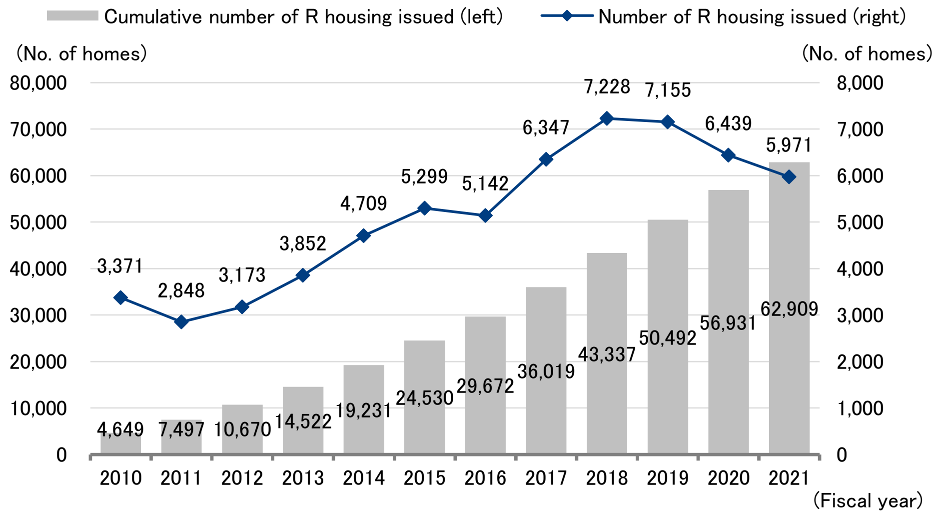


Source: Prepared by FISCO from data from the Ministry of Land, Infrastructure, Transport and Tourism

With the aims of increasing name awareness and promoting the flow of renovated housing, the Renovation Council was launched by the Company and others to issue warranties for Compliant Renovated Housing (R Housing), which is housing that complies with its standards for excellent renovation quality. At the end of FY2021, warranties had been issued for a cumulative total of 62,909 homes, of which, the Company held the leading share of approximately 23.0%. Also, in FY2021, the number of warranties issued declined 7.4% YoY to 5,971, of which the Company held the highest share at approximately 18.0%, representing 1,064. Because the number of members has increased since the Renovation Council's founding in 2009*, the Company's most recent share has dropped a bit, but by proactively rolling out energy-saving renovation products as the largest player in the industry, the Company is expected to continue to drive the market going forward.

* As of March 2022, there were 826 members, an increase of approximately seven times since the founding in 2009.

No. of homes issued Compliant Renovated Housing (R Housing)



Source: Prepared by FISCO from materials from the Renovation Council

By targeting ordinary profit of ¥3.2bn in FY5/27 the Company plans to meet the criteria for maintaining its listing on the TSE's Prime Market

4. Initiatives for conformance with continued Prime Market listing criteria

(1) Basic policy for conformance with continued listing criteria

The Company chose to be listed on the Prime Market after the Tokyo Stock Exchange restructured its market divisions in April 2022. The status of the Company's conformance with continued listing criteria for the Prime Market as of the transfer record date (June 30, 2021) is as follows. It cleared the standards for number of tradeable shares, tradeable share ratio, and average daily trading value, but its tradeable shares market cap was ¥3.593bn, below the required level of ¥10.0bn. The Company therefore submitted a plan for meeting the continued listing criteria (with a plan period to FY5/27) to the TSE in December 2021.

Conformance status with Prime Market's continued listing criteria

	Number of tradeable shares	Tradeable shares market cap	Tradeable share ratio	Average daily trading value
As of transition period preparation	46,151 unit	¥3.593bn	51.6%	¥22mn
Continued listing criteria	20,000 unit	¥10bn	35%	¥20mn
Conformance status	○	×	○	○

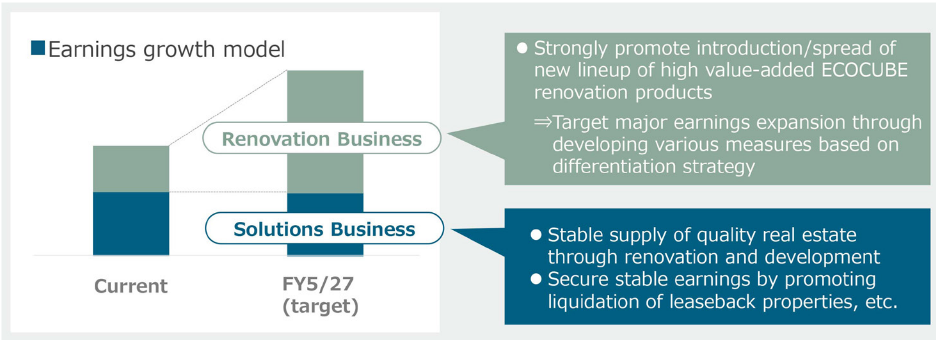
Source: Prepared by FISCO from the Company's results briefing materials

The Company has given the following three points as its basic policy for tradeable share market cap of ¥10.0bn.

a) Improve results in line with medium-term management plan and plan for conformance with new market division continued listing criteria

In its plan for conformance with new market division continued listing criteria and its medium-term management plan, the Company has formulated a plan of aiming to build a stable business portfolio and achieve stable growth in earnings by expanding the penetration of the energy-saving renovation ECOCUBE, developing the platform business and working on steady growth in the Solutions Business. For quantitative numerical targets, the Company set FY5/27 targets of ordinary profit of ¥3.2bn, profit attributable to owners of parent of ¥2.2bn, net assets of ¥17.5bn and ROE of 13.0%. Compared to FY5/21 results, this represents 1.7 times higher ordinary profit and around double the profit attributable to owners of parent and net assets.

Company's growth model via differentiate strategy



Source: The Company's results briefing materials

If its earnings target is achieved, the possibility also goes up that the Company's tradeable shares market cap will also clear ¥10.0bn. This is because assuming a P/E ratio of 9.0 times, which is the Company's average for the past five years to FY5/21, its tradeable shares market cap, converted based on profit attributable to owners of parent in FY5/27, will be ¥10.2bn*. Also, looking at its P/B ratio (ratio of net assets per share), it is currently 0.4 times, which is a valuation below the liquidation value. The real estate sector average on the TSE Prime Market is 1.1 times, and Star Mica Holdings <2975>, which is a competitor in renovated condominiums and has nearly the same level of net sales, is valued at a P/B ratio of 1.3 times, so considering this, there is no denying the Company's valuation is insufficient.

* 9.0 times × 2.2bn × 51.6% = ¥10.2bn. If the valuation rises to 11.0 times, the average P/E ratio of the real estate sector on the TSE Prime Market as of July 2022, it becomes ¥12.5bn.

One factor for this, in FISCO's view, is that the Company's results over the past several years have stagnated due to intensified competition in the renovated condominium market, which has stripped away growth expectations. Conversely, if a path to getting results back on a growth track is identified, there is a higher chance that the Company will be valued at a P/B ratio of at least 1.0 times. If net assets increase to ¥17.5bn in FY5/27 and the Company is valued at a P/B ratio of around 1.1 times, its tradeable shares market cap will be ¥9.9bn*. Profit will decline in FY5/23 due to the burden of upfront investments, but if it becomes highly probable that profits will grow from FY5/24 onward, we at FISCO think that the P/B ratio, which is currently valued relatively low, will be corrected. It is worth noting that, as of the end of FY5/22, the balance of income real estate properties the Company holds (total of long-term and short-term) is ¥33.1bn, and if the average gross profit margin for these properties is 16.0%, they hold ¥5.3bn worth of profit, which is higher than the current market capitalization (approximately ¥5.0bn).

* 1.1times x ¥17.5bn x 51.6% = ¥9.9bn.

b) Enhance corporate governance

The Company is positioning the reinforcement of corporate governance as a key management issue in order to sustain growth and raise corporate value over the medium to long term. In particular, it plans to work toward active application of the Corporate Governance Code, which was revised in June 2021, centering on the general principles applicable to the Prime Market.

Content of revised Corporate Governance Code applicable exclusively to the Prime Market

Content	Company's response
Use of electronic voting rights exercise platform for institutional investors	Started using from the 27th Annual General Meeting of Shareholders held in August 2022
Disclosure and provision of the necessary information in English from among disclosure documents	Provided English versions of the convocation notice for annual general meetings of shareholders, summary of financial results, results briefing materials, etc.
Qualitative and quantitative disclosure enhancements for disclosure equivalent to TCFD* on the impact of climate change-related risks and earnings opportunities on the Company	• Newly established the Sustainability Committee chaired by the Representative Director, President & CEO in June 2022 • Launched a project aimed at TCFD-related disclosure and aims to provide disclosure for FY5/24
Full-time appointment of independent outside directors as at least one-third of directors	Appointments of one-third of directors (three out of nine) as independent outside directors completed
Establishment of nomination and remuneration committee with independent outside directors as the majority and disclosure of approach, authorization, roles, etc. related the independence of its composition	Established nomination and remuneration committee, disclosed information on approach, authorization, roles, etc. related to its independence in the Corporate Governance Report.

* TCFD: Task Force on Climate-Related Financial Disclosures
Source: Prepared by FISCO from the Company's results briefing materials

c) Strengthen IR activities

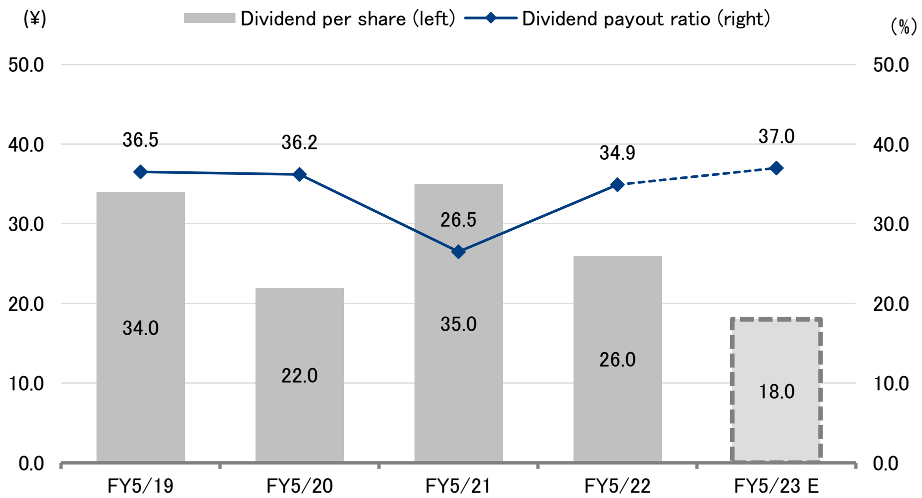
Starting with the announcement of its five-year medium-term management plan, which will start in FY5/23, the Company will work to actively provide IR information and communicate with investors from a medium- to long-term perspective in order to promote recognition, understanding, support, and investment opportunities with respect to the Company. Also, the Company plans to actively develop various IR initiatives directed at not only institutional investors but also individual investors, including briefings and media exposure, and also to raise awareness of itself as a company that contributes to a sustainable society and thereby appeal to ESG investors. In particular, if the growth of ECOCUBE leads to increased recognition of the Company as an environmental solutions company, one can expect the Company's stock price valuation to also correct to a higher level.

Shareholder return policy

Basic dividend policy is to target a dividend payout ratio of at least 30.0%

The Company's shareholder return policy is to return profits to shareholders by paying dividends. As its dividend policy, it has introduced a policy of linking the dividend to results while also aiming to strengthen its financial position and to supplement retained earnings. Specifically, its policy is to pay a dividend targeting a dividend payout ratio (on a consolidated basis) of at least 30.0%. As the forecast for FY5/23 is for profits to decline, it plans to decrease the dividend per share by ¥8.0 YoY to ¥18.0 (dividend payout ratio, 37.0%). If results proceed according to the medium-term management plan, the Company is expected to turn to increasing dividends from FY5/24 onward.

Dividend per share and dividend payout ratio



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

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