COMPANY RESEARCH AND ANALYSIS REPORT

FJ Next Holdings Co., Ltd.

8935

Tokyo Stock Exchange Prime Market

30-Aug.-2024

FISCO Ltd. Analyst
Ikuo Shibata

FISCO Ltd.
https://www.fisco.co.jp

Contents

Summary

Sales and profit growth exceeding forecast in FY3/24, with net sales over ¥100bn for the first time. Entering new stage with new president

1. Company profile

FJ Next Holdings Co., Ltd. <8935> (hereafter, also "the Company") conducts its mainstay business of the development and sales of the Gala Condominium series, which is its own brand of asset management-type condominiums for single people located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and development that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results have been steadily expanding because demand is strong from individuals who feel concerned about the amount of future pension income, and also who are facing new problems, such as planning a response to inheritance tax. The Company's results temporarily worsened in FY3/21 under the impact of the COVID-19 pandemic, but they achieved a V-shaped recovery in FY3/22, and in FY3/24, net sales exceeded ¥100bn for the first time, indicating that the Company is still in a growth phase. New president Mr. Keisuke Hida took over after the annual general meeting of shareholders in June 2024.

2. Summary of the FY3/24 results

In the FY3/24 results, net sales increased 18.6% year on year (YoY) to ¥100,405mn and operating income was up 14.3% to ¥9,431mn, with sales and profit increasing far ahead of forecasts. The number of condominium units sold in the Company's mainstay real estate development business increased to 2,770 units (up 209 units YoY), which, including pre-owned condominiums, was a record-high level. The real estate management business also steadily expanded as the Company increased the number of managed rental units, and the construction business posted a sharp sales increase to mark a record high as a result of an uptick in the number of completed projects. Profit also surpassed the Company's forecast despite a rise in construction costs and higher ratio of pre-owned condominium sales weighing on the gross margin, underpinned by profit growth due to increased sales and expense cuts.

3. Forecast for FY3/25

For the FY3/25 results, the Company is forecasting higher sales but lower profits, with net sales to increase 2.6% YoY to ¥103,000mn, and operating income to decrease 20.5% YoY to ¥7,500mn. Growth of the real estate development business and an increase in the number of managed rental units in the real estate management business will continue to drive the increase in net sales. The number of condominium units sold in the real estate development business is expected to be 2,900 units (up 130 units YoY). The Company forecasts a profit decline because of its conservative outlook for raw material price increases in all segments and higher sales ratio for pre-owned condominiums in the real estate business.

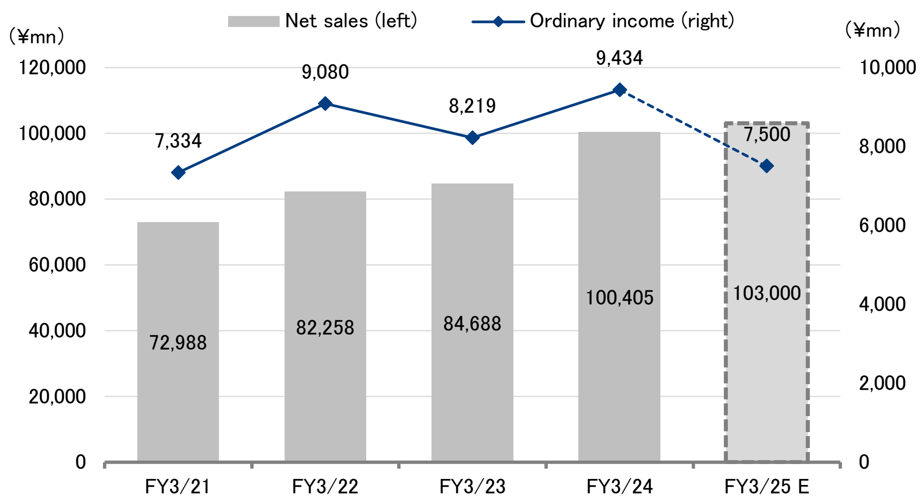
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a socially significant role through its asset management-type condominium business, including by providing high-quality housing in the city center areas into which the population is returning, and providing opportunities for long-term asset management, mainly for general office workers. Despite the uncertain outlook for monetary policy and prices, real estate for rent has been stable as a whole, which has confirmed that demand for asset management-type condominiums is firmly rooted. We believe it will be important for the Company to continue with activities that link its own growth to the development of the market as a whole through conducting sales with an eye to the future, such as utilizing content marketing (a membership base of around 300,000 people), crowdfunding efforts, and real estate DX. A focus of interest will be how the Company continues to evolve as it moves into a new stage with net sales exceeding ¥100bn.

Key Points

- In FY3/24, sales and profit increased, exceeding the plan, with net sales surpassing ¥100bn for the first time
- Condominium sales were strong, including pre-owned condominiums, against the backdrop of firmly rooted demand for asset management-type condominiums
- For FY3/25, sales are expected to grow, but profit is projected to decrease due to rising raw material prices and a higher sales ratio for pre-owned condominiums
- Going forward, the Company's strategy is to link its own sustainable growth to the development of the market as a whole, as a leading company

Results trends



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

Company profile

Develops asset management-type condominiums under the Gala brand. Mainstay business is asset management-type condominiums located mainly in the center of Tokyo

1. Business overview

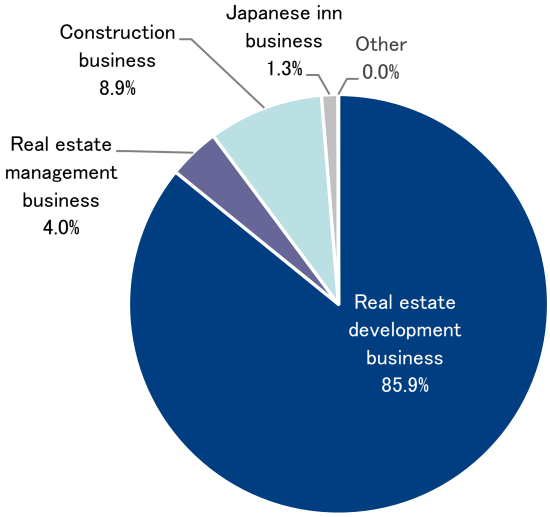
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset management-type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments: the real estate development business, the real estate management business, the construction business, and the Japanese inn business. The mainstay real estate development business contributes 85.9% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio-type condominium Gala Condominium series, which are mainly for asset management, and the family-type condominium Gala Residence series. It also conducts sub-lot sales, sales, and brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of pre-owned condominiums. Mainly conducted by the Company's consolidated subsidiary FJ Next Co., Ltd. and FJ Next Residencial Co., Ltd.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ Community Co., Ltd. Resort management operations in the Izu area in Shizuoka prefecture are handled by Ito-Ippeki Management Services Co., Ltd., a consolidated subsidiary (second-tier subsidiary) of the Company.
Construction business	The Company mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary Resitec Corporation Co., Ltd.
Japanese inn business	The Japanese inn business manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture, and the Seiryuso hot spring ryokan in Shimoda City, Shizuoka Prefecture. Operations are conducted by the Company's consolidated subsidiary FJ Resort Management Co., Ltd.

Source: Prepared by FISCO from the Company's materials

Sales ratios by segmet (FY3/24)



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

2. History

Mr. Yukiharu Hida, the Company's current Chairman, has said, "We want to support customers' asset management and increase the value of their real estate by creating high-quality living spaces that people will enjoy living in, and by building a comprehensive asset management and operation system in order to maintain asset value over the long term," while the Company's management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In June 1991, the Company changed its company name to FJ Next Co., Ltd. In 1994, it launched sales of its own brand, Gala Condominium series, which are asset management-type condominiums, and its results have steadily expanded against the backdrop of growth in demand for rental properties and also demand for purchases in the Tokyo metropolitan area. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability based on a calculation of a profit-return method.

When the Company was listed on JASDAQ in 2004, its credit and financial strength as a listed company, in addition to its track record of supplying properties up to that time, gave it an advantage in sales and supply development, which accelerated its growth. In 2005, the Company ranked first for the first time in the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.) and since then has consistently maintained a top-level ranking. It was listed on the Second Section of the Tokyo Stock Exchange (TSE) in March 2007, and then upgraded to the First Section in October 2013. On October 1, 2021, with the aim of improving the corporate value of the Group, the Company transitioned to a holding company structure, and changed its corporate name to FJ Next Holdings Co., Ltd. From April 2022, the Company moved to the new TSE Prime Market. New president Mr. Keisuke Hida took over in June 2024.

Characteristics of the Company

Leveraging its position in the industry, the Company's strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers: expanding the asset management-type condominium market itself and maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects: whether the asset management-type condominium market in the Tokyo metropolitan area will develop, and how the Company will be able to demonstrate its competitive advantages considering this development. In addition, a feature of the real estate management business, which is ancillary to the main business, is that it supports profits as a recurring revenue business.

Recently, the Company has expanded its handling of pre-owned condominiums. In FY3/24, the Company sold 1,836 pre-owned condominiums. With a company history of over 40 years and many customers gained over this time, the Company believes after-sale follow up services are also important, so it makes a point of communicating with customers on a regular basis. By quickly identifying customer needs such as restructuring of portfolios, and offering appropriate advice, the Company singlehandedly undertakes the sale of properties that customers wish to sell. Appropriate management by Group companies after the sub lotting of condominiums developed by the Company maintains their asset value, and purchased pre-owned condominiums can be immediately sold without implementing special value enhancement measures. The Company's comprehensive capabilities of after-sale follow-up services and management operations that maintain condominium asset value, as well as its strong customer base, have contributed to the expansion of its pre-owned condominiums business, which has become one of the Company's strengths.

The Company has also been active in the development and sale* of family-type condominiums. Its mainstay business is providing asset management-type condominiums on the assumption they will be held for the long term. However, business development into fields utilizing the management resources it has cultivated up to the present time (including its financial base and information capabilities) can be expected to improve results while also reducing risk, and thereby have the effect of adding depth to the profit structure (management stability).

* The (cumulative) number of family-type condominiums supplied in the Gala Residence series has steadily increased to 2,616 units (up to FY3/24). Looking to the future also, the Company is currently progressing new projects including Gala Residence Yashio (scheduled to be completed in March 2025) and Gala Residence Musashi Urawa (scheduled to be completed in March 2025).

2. An overview of asset management-type condominiums and their future development potential

In order to judge the future development potential of asset management-type condominiums, it is necessary to understand their mechanism, product potential, and social significance.

(1) Mechanism

The objective for asset management-type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) The aim and merits for the owners

Many owners in recent years have been general office workers, and in most cases, they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, another feature is that they have various other financial benefits, including replacing life insurance with a home loan set with group credit life insurance, responding to inheritance tax measures (reducing the inheritance tax assessment amount) and diversifying investments. In particular, in addition to the prolonged low interest rate policy and concerns about the amount of future pension income, the need for new measures to respond to inheritance tax (such as the increase of taxable income due to the reduction in the basic exemption) has drawn attention to asset management-type condominiums.

(3) Social significance

The main customer group for asset management-type condominiums is general office workers, and the business has the social significance of providing opportunities for long-term asset management while offering high-quality rental properties in city center areas into which the population is returning. In the future also, it is forecast that the trends of an increase in the number of single-person households and the return of the population to city centers will continue. It considered that the importance of providing infrastructure to support single persons living actively in city centers will continue to increase.

3. The Company's features (competitive advantages)

The Company boasts the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be summarized as follows.

(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset management-type Gala Condominium series and the family-type condominium Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset management-type Gala Condominium series are entrances with a dignified feeling, external appearances featuring excellent designs, and facility specifications that emphasize safety and comfort. The construction business divisions within the Group are responsible for construction inspections, which contributes to improving the quality of properties sold. Gala Prime Yokohama-Kannai won the National Association of Living Industries'*1 14th Excellent Project Award*2 in 2024. This is the Company's third award, following the 4th and 7th Excellent Project Awards in 2014 and 2017, respectively. In addition, based on the expertise that the Company has cultivated for asset management-type condominiums, the features of the family-type condominium Gala Residence series are easy traffic access, a surrounding environment that has comfortable transportation access and is rich in amenities and convenience, and advanced design features with high basic performance.

*1 This organization has 1,700 companies in Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.

*2 With the aim to promote quality housing provision and development of living environments, etc., this award is bestowed upon selected projects implemented by members of the National Association of Living Industries that excel in creativity to form good living environments through sociability, product planning, residential performance and design, as well as harmony with the townscape, surrounding environment, etc.

Gala Prime Yokohama-Kannai (a total of 199 units)

Exterior of building's southwest side

Entrance approach

Windbreak room

Entrance hall

Source: The Company's press release

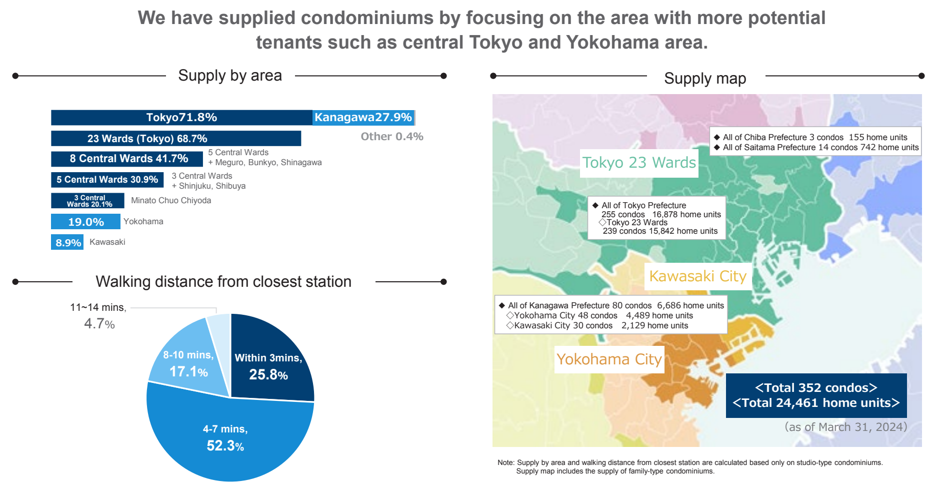
On June 7, 2024, it was announced that the Gala Residence series won the top award in both the Quality and Price Balance category and the Customer Service Satisfaction category at the SUUMO AWARD (2024 Tokyo Metropolitan area)* customer satisfaction rankings as selected by new condominium buyers. The Company has won awards in both categories for three consecutive years. This can be seen as evidence that the Company's track record of supplying over 24,000 units and having provided higher quality home building and services are winning the trust of customers.

* Rankings for various aspects of satisfaction such as quality, price, and initiatives of condominium developers and sublot condominium sellers compiled by Recruit Co., Ltd. based on the views of new condominium buyers in the Tokyo metropolitan area.

(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competitiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results, strong brand power, and a stable financial base. The Company also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves the Company's sales results (it has a record of providing a cumulative total of more than 24,000 units up until now) and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it provides housing in carefully selected locations; for example, more than 95% of its properties are within 10 minutes of their nearest station.

Supply area of condominiums in the Gala brand



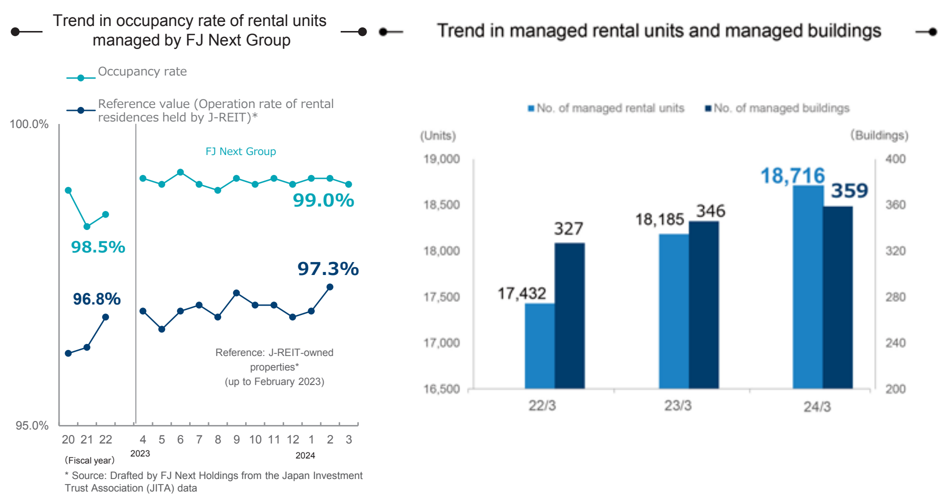
Source: The Company's supplementary results briefing materials

(3) High-level rental management expertise and extensive after-sales support

The Company aims to retain its occupancy rates by maintaining its asset value through real estate management of properties it sold and provision of services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/24, it had increased to 18,716 units. Meanwhile, the occupancy rates have trended stably at extremely high levels, 99.0%* at the end of March 2024, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for J-REIT-owned properties is 97.3% (as of February 29, 2024; Source: The Investment Trusts Association, Japan), so the Company's occupancy rate is above this rate.

Trend in occupancy rate and number of managed rental units and number of managed properties



Source: The Company's supplementary results briefing materials

The Company is also partnering with other companies to provide various added-value services for safer, more comfortable residential living. To date, this has been accomplished by introducing an electric vehicle charging service in August 2022 and an electricity plan called Gala Eleco Denki, also in August 2022. On May 27, 2024, the Company also announced the introduction of MOBAKAN*, a condominium management IoT service to digitize the operation of the homeowners' association and promote the use of IT as part of a drive for real estate DX.

* A package type cloud service to utilize IT in condominium management provided by Electric Works Company, Panasonic Corporation. This service converts homeowners' association paperwork (general meeting voting papers) into electronic files, eliminating the return of paper documents to reduce homeowners' workload. Other homeowner association-related documents can be viewed online, improving convenience for homeowners and streamlining administration by going paperless.

Examples of added-value services provided in partnership with other companies

		Partner	Service
Installation of delivery lockers for fresh goods	Oct. 2020	Cookpad Inc. <2193>	Installation of delivery lockers at large-scale properties with a total of at least 100 units, allowing residents to have fresh goods ordered via an app delivered to the common area of their condominium property
Installation of monitoring system with sensors for flooding and earthquakes	Oct. 2021	Security company	Permanent monitoring system for heavy rain and earthquakes. The system works by sensors detecting flooding and earthquakes, notifying the security company, which rushes to the scene. This enables a swift initial response, and helps prevent or reduce the impact of a natural disaster on the condominium.
Services provided using out-of-hours emergency platform	Apr. 2022	FASTDoctor, Inc.	Provides free medical diagnosis during night time and holidays when hospital access is difficult
Installation of electric vehicle charging service	Aug. 2022	Terra Motors Corporation	Installation of Terra Charge, an electric vehicle charging service for condominiums
Provision of Gala Eleco Denki electricity plan	Aug. 2022	Mitsuuroko Green Energy Co., Ltd.	Switching to the Gala Eleco Denki plan reduces the cost of electricity used in condominium common areas
Installation of condominium management IoT service MOBAKAN	May 2024	Electric Works Company, Panasonic Corporation	Aims to reduce homeowners' workload by promoting IT and digitization of homeowner association operations and streamlining administration by going paperless

Source: Prepared by FISCO from the Company's press releases

(4) Attributes of owners and residents

Most owners are general office workers and public servants, and approximately 84% of new customers are in their 20s to 40s. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is asset management. On the other hand, the residents are often company workers in their 20s to 30s living alone, and because the properties have excellent locations, facilities, and specifications, there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

Industry environment

Investment condominiums in the Tokyo metropolitan area are trending strongly, supported by individual investment needs

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward as a succession of businesses fell into bankruptcy and withdrawal due to soaring land prices and the economic crisis triggered by the global financial crisis in 2008. However, this decline bottomed out in 2010, and since then, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the return of the population to the city center*. In addition to the continuing low interest rates and concerns about the amount of future pension income, a new need has emerged for measures to respond to inheritance tax (due to the reduction in the basic exemption, etc.). In recent years, while the overall condominium industry is headed towards an adjustment phase due to a rise in property prices, robust demand for purchases from individuals has supported a strong performance. The background to this is considered to be that as an asset management method for the future, purchasing an investment condominium can be expected to provide tax benefits and an insurance function, while also offering a sense of security as a stable source of cash flow and an investment in a tangible asset when compared to other assets, such as stocks, investment trusts and bonds. In recent years, small-lot financial products starting from ¥10,000 per unit have made investing easier, creating investment opportunities for a younger generation and expanding the range of real estate investment.

* According to “Population, Demographics and Counts of Households Derived from Basic Resident Registration” released by the Ministry of Internal Affairs and Communications in July 2023, in net migration by prefecture (in-migrants from other prefecture less out-migrants to other prefectures (excluding foreigners)), the top four rankings were occupied by Tokyo and the three surrounding prefectures, so there has been no change in the fact that the Company’s supply area holds the top rankings. In addition, according to the Company, in demographic projections provided by the Tokyo Metropolitan Government (Statistics Division, Bureau of General Affairs), while Japan’s population is decreasing overall, the population of central Tokyo (23 wards) is expected to continue increasing until 2045, centering on single-person households, and thereafter it is expected to be flat or to decrease moderately.

2. The purchase and development environment

In terms of purchases and development, as land purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its creditworthiness, financial strength, and abundant information capabilities, and has consistently emphasized profitability in purchasing activities since its establishment.

3. Competitive environment

The Company’s industry peers are mostly specialists in investment condominiums, and the industry structure is made up of many companies that are comparatively small in scale. In this situation, the Company has constantly achieved the leading sales results in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area.

Results trends

Sales and profit growth exceeding forecast in FY3/24, with net sales over ¥100bn for the first time. Brisk sales of asset management-type condominiums (including pre-owned condominiums)

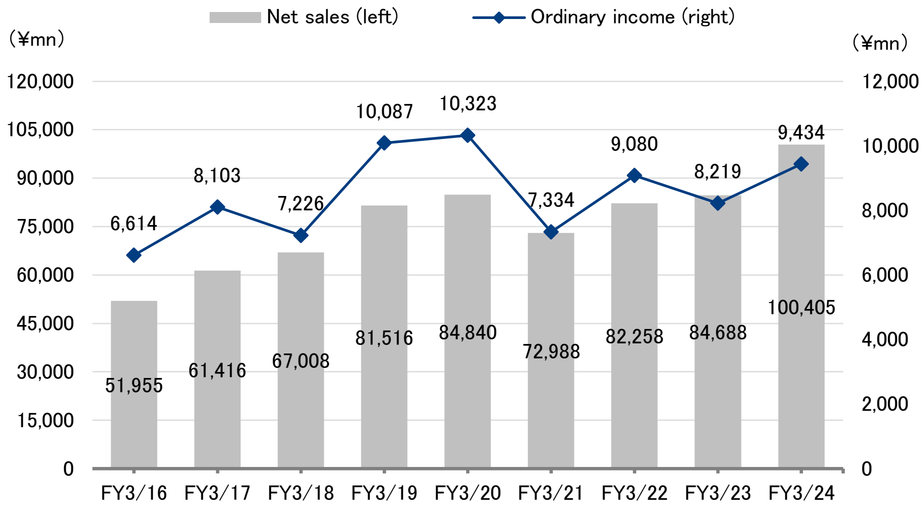
1. Trends in past results

On looking back on past results, it can be said that they have trended steadily as a whole, supported by growth in rental demand and the demand for purchases of asset management-type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the 2008 global financial crisis. But based on its policy of continuing to make purchases based on profitability rather than focusing only on purchasing, and steadily advancing property development, the Company was able to ride out the recession with a comparatively small decline in contrast to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. Since FY3/16, its sales and profits have continued to increase significantly, and net sales achieved record highs for five consecutive years until FY3/20. Sales temporarily worsened in FY3/21 under the impact of the COVID-19 pandemic, but they achieved a V-shaped recovery FY3/22, and in FY3/24, net sales exceeded ¥100bn for the first time. This shows that even though the Company has built up a history, it is still in a growth phase.

Financially, the interest-bearing debt balance has increased alongside the growth in the results, but the equity ratio is also maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

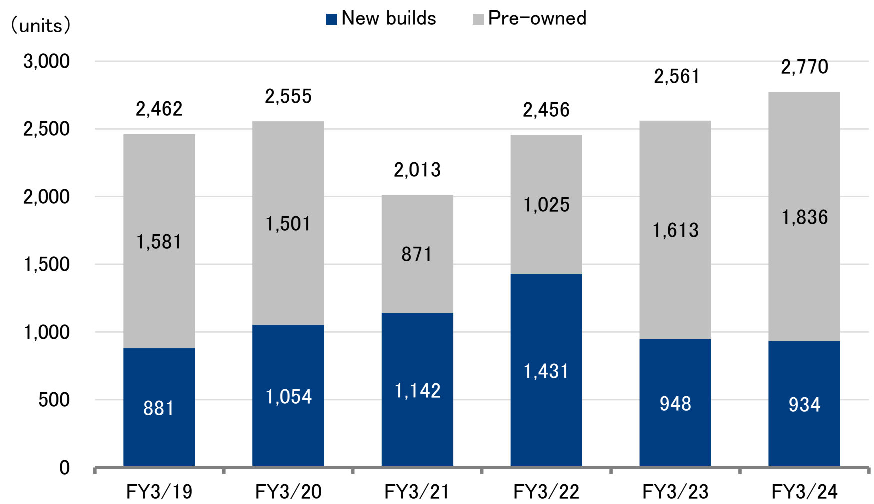
The reasons why the Company was able to ride out the severe market environment that followed the economic crisis triggered by the 2008 global financial crisis comparatively smoothly can be said to be as follows: the high asset value of the Gala brand that prioritizes profitability based on a profit-return method, the strict selection of good locations, and the stability of its financial base.

Trends in net sales and ordinary income

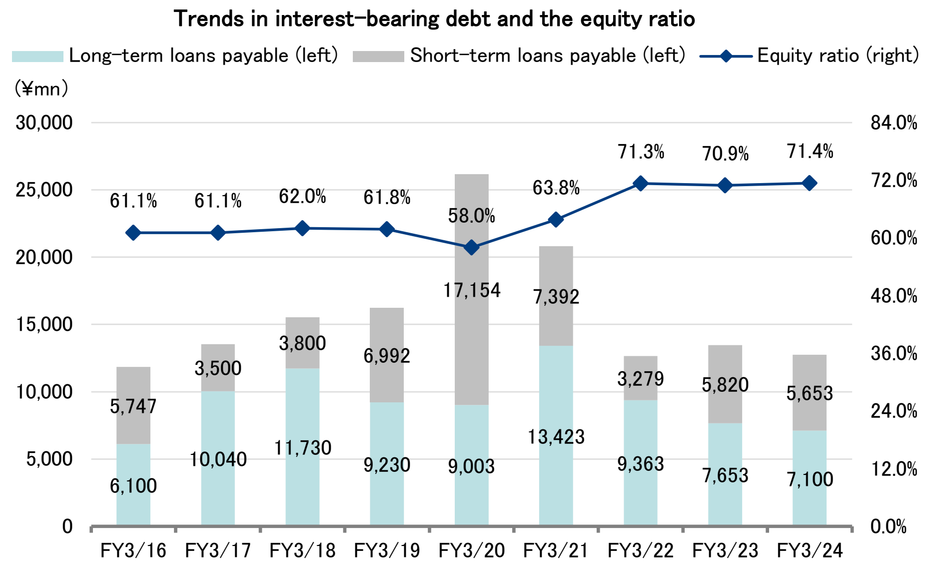


Source: Prepared by FISCO from the Company's financial results

Trend in condominium unit sales



Source: The Company's supplementary results briefing materials



Note: Short-term loans payable include long-term loans payable scheduled to be repaid within one year
Source: Prepared by FISCO from the Company's financial results

2. Summary of the FY3/24 results

In the FY3/24 results, net sales improved 18.6% YoY to ¥100,405mn, operating income increased 14.3% YoY to ¥9,431mn, ordinary income rose 14.8% YoY to ¥9,434mn, and net income attributable to shareholders of parent company increased 14.8% YoY to ¥6,453mn, with net sales exceeding ¥100bn for the first time.

Net sales increased in the real estate development, real estate management, and construction businesses. The number of condominium units sold in the Company's mainstay real estate development business increased to 2,770 units (up 209 units YoY), which, including pre-owned condominiums, was a record-high level. Demand for asset management-type condominiums remained robust amid the gradual recovery of Japan's economy while construction costs and land prices continued to increase. Consequently, the average sales price of new and pre-owned condominiums increased YoY. The main reason for net sales exceeding the Company's forecast was 270 more condominium units than expected being sold, mostly due to sales of pre-owned condominiums. The real estate management business also steadily expanded as the Company increased the number of managed rental units, and the construction business posted a sharp sales increase to reach a record high as a result of the uptick in the number of completed projects (mostly condominium construction and large-scale repair work). The Japanese inn business, which was the only one to post a minor net sales decline, recorded a slightly lower occupancy rate in reaction to the boost in demand a year earlier resulting from government measures to stimulate travel demand.

On the profit front, despite a rise in construction costs and higher ratio of pre-owned condominium sales weighing on the gross margin, profit increased more than expected, underpinned by profit growth due to increased sales and expense cuts.

Regarding inventory assets (pipeline), the balance of real estate for sale (completed condominiums) and the balance of real estate for sale in process (development land and condominiums being developed) both increased from the end of the previous fiscal year. This indicates that the Company is continuing to make purchases with an emphasis on profitability despite purchase conditions being challenging, and has ensured that it has a sufficient pipeline.

Looking at the Company's financial condition, as previously stated, inventory assets increased, which led total assets to increase 7.1% from the end of the previous fiscal year to ¥95,281mn. At the same time, shareholder's equity rose 8.0% to ¥68,031mn as a result of building up internal reserves, so the equity ratio went up to 71.4% (70.9% at the end of the previous fiscal year). Interest-bearing debt decreased 5.3% YoY to ¥12,753mn and interest-bearing debt dependence* fell from 15.1% at the end of the previous fiscal year to 13.4%. ROE, which shows capital efficiency, improved to 9.8% (9.2% at the end of the previous fiscal year), showing an overall improvement of the Company's financial condition.

* Calculated as interest-bearing debt/(total liabilities + net assets)

Overview of FY3/24 results

(¥mn)

	FY3/23		FY3/24		Change		FY3/24		YoY	
	Results	% of sales	Results	% of sales	Change	Change (%)	Initial forecast	% of sales	Change	Change (%)
Net sales	84,688		100,405		15,717	18.6%	93,000		7,405	8.0%
Real estate development business	74,925	88.5%	86,206	85.9%	11,281	15.1%	-	-	-	-
Real estate management business	3,652	4.3%	3,982	4.0%	330	9.0%	-	-	-	-
Construction business	4,777	5.6%	8,907	8.9%	4,130	86.5%	-	-	-	-
Japanese inn business	1,279	1.5%	1,260	1.3%	-19	-1.5%	-	-	-	-
Cost of sales	65,840	77.7%	80,231	79.9%	14,391	21.9%	-	-	-	-
Gross profit	18,848	22.3%	20,174	20.1%	1,326	7.0%	-	-	-	-
SG&A expenses	10,597	12.5%	10,742	10.7%	145	1.4%	-	-	-	-
Operating income	8,250	9.7%	9,431	9.4%	1,181	14.3%	7,500	8.1%	1,931	25.8%
Real estate development business	7,064	8.3%	7,930	7.9%	866	12.3%	-	-	-	-
Real estate management business	948	1.1%	1,087	1.1%	139	14.7%	-	-	-	-
Construction business	148	0.2%	380	0.4%	232	156.8%	-	-	-	-
Japanese inn business	47	0.1%	3	0.0%	-44	-93.6%	-	-	-	-
Ordinary income	8,219	9.7%	9,434	9.4%	1,215	14.8%	7,500	8.1%	1,934	25.8%
Net income attributable to shareholders of parent company	5,621	6.6%	6,453	6.4%	832	14.8%	5,000	5.4%	1,453	29.1%
Condominium unit sales (unit)	2,561		2,770		209	8.2%	2,500		270	10.8%
Gala Condominium series	721		603		-118	-16.4%	-	-	-	-
Gala Residence series	227		331		104	45.8%	-	-	-	-
Pre-owned condominiums	1,613		1,836		223	13.8%				
Balance of inventory assets	37,619		40,650		3,031	8.1%				
Real estate for sale	11,130		12,491		1,361	12.2%				
Real estate for sale in process	26,489		28,159		1,670	6.3%				
Total assets	88,938		95,281		6,343	7.1%				
Shareholders' equity	63,022		68,031		5,009	8.0%				
Equity ratio	70.9%		71.4%		0.5pt	-				
Interest-bearing debt	13,473		12,753		-720	-5.3%				
ROE	9.2%		9.8%		0.6pt	-				

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

3. Forecast for FY3/25

For the FY3/25 results, the Company is forecasting higher sales but lower profits, with net sales to increase 2.6% YoY to ¥103,000mn, and operating income to decrease 20.5% YoY to ¥7,500mn, ordinary income to decrease 20.5% YoY to ¥7,500mn, and net income attributable to shareholders of parent company to decrease 22.5% YoY to ¥5,000mn.

Growth of the real estate development business and increase in the number of managed rental units in the real estate management business will continue to drive the increase in net sales. The number of condominium units sold in the real estate development business is expected to be 2,900 units (up 130 units YoY). The Company forecasts a modest rate of net sales increase in reaction to the sharp increase in net sales of the construction business in FY3/24.

The Company forecasts a profit decline because of its outlook for raw material price increases in all segments and higher sales ratio for pre-owned condominiums in the real estate business. It expects the operating margin to drop to 7.3% (9.4% in the previous fiscal year).

Forecast for FY3/25

(¥mn)

	FY3/24		FY3/25		YoY	
	Results	% of sales	Forecast	% of sales	Change	Change (%)
Net sales	100,405		103,000		2,595	2.6%
Operating income	9,431	9.4%	7,500	7.3%	-1,931	-20.5%
Ordinary income	9,434	9.4%	7,500	7.3%	-1,934	-20.5%
Net income attributable to shareholders of parent company	6,453	6.4%	5,000	4.9%	-1,453	-22.5%

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

At FISCO, we think that it will be necessary to monitor the uncertain outlook for monetary policy and prices, but the Company's net sales forecast looks fully achievable. This is because rental demand is solid in the Tokyo metropolitan area, purchase demand, including pre-owned condominiums, is solidly rooted, and the Company has secured an adequate pipeline. Although it expects a profit decline in FY3/25, we think negative factors such as higher raw material prices are conservatively reflected in its forecast. Therefore, attention should be paid to the we see potential upside to the Company's forecasts if the number of pre-owned condominiums sold is higher than expected, as it was in FY3/24. We will continue to focus on the pipeline for results growth in FY3/25 and onward as well as initiatives with an eye to the future, such as business alliances with other companies.

Growth strategy

A top niche strategy that connects overall market expansion with Company growth. Seeks to create new investment opportunities through crowdfunding

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset management-type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy that connects overall market expansion with its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company, which leads its industry, would seem to be how it will promote the sound development of the asset management-type condominium market.

Through partnerships with other companies, the Company is creating a database of prospective customers who have expressed an interest in its products (potential owners), and it is focusing its efforts on expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset management-type condominiums through various measures, such as content marketing (Gala Navi)*1, which regularly provides potential customers with information by email and other means. In April 2016, the Company newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners by such means as seminars and individual consultation sessions. There are also high expectations for the results of other activities, in which the Company promotes tie-up seminars (FJ College)*2 with specialists in companies offering services for asset management (including online seminars). On May 10, 2022, the Company commenced crowdfunding.*3 The No. 1 Fund GALA FUNDING#1 (Shirokane Takanawa) reached its full target amount within five minutes of opening for applications, demonstrating a high level of interest. Since then to the present, it has created 18 funds, including those planned for management, and this has drawn interest in future developments as a method for creating new opportunities for investment in asset management-type condominiums.

*1 The Company distributes content on asset management-type condominiums and a wide range of themes such as information on life plans, money, etc. (regularly providing content exclusively for members on the website and via an e-mail magazine), and it has more than 300,000 members and continues to grow.
*2 The Company says it has had more than 4,000 visitors (including from online seminars). Many of these visitors were young investors aiming to form assets for the future.
*3 A service that raises funds from multiple investors through the Internet, and conducts real estate investment using such funds. The terms at the time of accepting applications for funds currently under management were set at ¥10,000 per investment unit, with an expected distribution rate of 3.0% after a six-month investment period.

In addition, while focusing on asset management-type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family-type condominium business is to steadily accumulate a track record of results.

FISCO thinks it will be necessary to monitor the external environment from various angles, including the sharp increases in land purchase prices and construction costs and trends in prices and interest rates. However, the demand from residents and owners for asset management-type condominiums in the Tokyo metropolitan area is strong, and there remains sufficient room for growth in the future. Moreover, the Company has a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies). Given these factors, we at FISCO consider the Company to have high potential for sustainable growth. A key focus will be how the eight-year process of increasing net sales from ¥50.0bn to ¥100.0bn will evolve to the stage of net sales reaching ¥150.0bn and then ¥200.0bn. Compared to eight years ago, there is significantly more public awareness and appreciation of asset management-type condominiums, which is reflected in the Company's growth. However, there is a major shift in the operating environment, not only in terms of changing demographics, but also diversification of consumers' lifestyles and awareness of asset formation, and new trends such as real estate DX and crowdfunding. A key point is to what extent the Company can turn these changes to its advantage. To this end, we think that it must utilize content marketing (a membership base of around 300,000 people), which it has been working on so far, as well as crowdfunding efforts, and also increase the value of its assets and pioneer marketing channels through various business alliances so it can keep its business model current. Scale expansion and business reforms through M&A are also options that the Company should consider. Whatever direction it takes, we at FISCO look for skilled leadership from its new president, who is responsible for the Company's progress.

Initiatives for sustainability and information security

Promoting sustainability as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting, environmentally friendly plywood (for example, sustainable timber supplied from forests with permission for afforestation from the government of the producing country), interior materials with low formaldehyde specifications to address sick building syndrome, air conditioners that are compliant with energy-saving standards (installed as standard), water-saving toilets, and electric vehicle charging services. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

Moreover, the Company is participating in the “Fun to Share” activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz (introduction of casual business dress code), converting office lighting to LED, recycling used clear holders, and gradually switching to LIMEX, a new alternative to paper with a low environmental impact, for business cards, company pamphlets, and the like. In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and is planting trees in developing countries (in Africa and Asia) through Green Site License. In April 2022, it participated in the initiatives of BRING UNIFORM*.

* Promotes the recycling of work uniforms worn by the Company’s condominium management work staff to reduce CO_2 emissions.

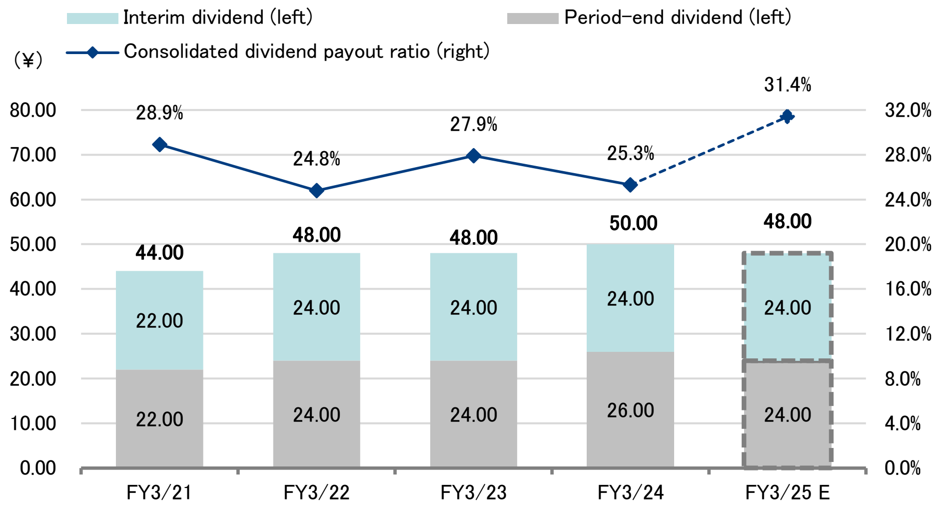
The Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system by implementing the PDCA cycle.

Shareholder returns and share price valuation

Plans FY3/25 dividend of ¥48 per share

The Company's basic policy for shareholder return is to "stably and continuously pay dividends according to profits after comprehensively considering various factors, including internal reserves for active business development and maintaining capital efficiency." In FY3/24, the Company paid a dividend of ¥50 per share, up ¥2 YoY (interim ¥24, period-end ¥26, dividend payout ratio of 25.3%) due to a special dividend of ¥2 per share resulting from the robust business performance. The Company plans to pay a dividend of ¥48 per share (interim ¥24, period-end ¥24, dividend payout ratio of 31.4%) in FY3/25, the same as the previous year, despite the forecasted profit decline. Going forward, we can expect continuous dividends alongside the Company's profit growth, based on the relative stability of its business and its high level of profits.

Trends in dividend per share and consolidated dividend payout ratio



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

Also, as a measure for individual shareholders and to promote greater understanding of its Group businesses, the Company has introduced a shareholder benefits program. Benefits include shareholders with over 1,000 shares as of March 31 of each year receiving vouchers (worth up to ¥60,000) that can be used at four hot spring Japanese inns managed by the Group, while shareholders who have held shares for at least three years will also be able to select an item from a department store gift catalog with a value of ¥5,000.

Looking at how the share price has trended over the past few years, on March 23, 2021, it temporarily reached its highest price since listing at that time of ¥1,325, as the Company was highly evaluated for its strong results even during the COVID-19 pandemic. Subsequently, the share price declined gradually and trended at a level slightly above ¥1,000, but due to the Company's recent strong results and business model that has been highly evaluated, the price reached ¥1,425 on March 29, 2024, the highest price since listing to date. The current share price (closing price on July 5, 2024: ¥1,338) is firming up with a PER (forecast) of 8.75 times and PBR (actual) at 0.64 times, while the dividend yield (forecast) has reached 3.59%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model; but, starting with the fact that the average PER (forecast) of the TSE Prime Market is 16.85 times and the average PBR (actual) is 1.45 times on the same day, and also considering various factors, such as the strong demand for asset management-type condominiums in the Tokyo metropolitan area, future development potential, and the Company's comparatively robust business model, there is the sense that its current share price level remains undervalued. Therefore, as the leading company in its industry, it is considered that there is plenty of room for its share price to further rise with asset management-type condominiums becoming further recognized as a long-term investment product.

Disclaimer

FISCO Ltd. (“FISCO”) offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers’ securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp