COMPANY RESEARCH AND ANALYSIS REPORT

SALA Corporation

2734

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst
Hideo Kakuta

FISCO

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

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Summary

Stronger earnings in Housing business lifts FY11/24 operating profit; investing in growth to improve P/B ratio and shareholder returns

SALA Corporation <2734> (hereafter, also "the Company") is a unique business group based in Toyohashi City, Aichi Prefecture, Japan. The Company operates diverse businesses, ranging from energy and engineering to housing and real estate, car importing, and animal health products. Net sales reached ¥240.4bn in FY11/24. In the energy field, the Company provides last-mile services to roughly 540,000 customers, mainly in eastern Aichi Prefecture and western Shizuoka Prefecture. It has approximately 5,000 employees working at 332 locations in 22 prefectures, from Hokkaido to Yamaguchi. In 2020 the Company announced the 2030 Vision, which sets out a clear goal of achieving dramatic growth in the housing business, under the slogan, "SALA: Common in Your Town, Value to Your Life."

1. Business overview

The Company's operations are divided into six business segments. In addition to the core Energy & Solutions business segment, the Company has the Engineering & Maintenance, Housing, Car Life Support, Animal Health Care, and Properties business segments. It employs two business models: a community-based business model, which leverages the Company's high brand visibility and market share, and a wide-area business model, which focuses on specialized businesses. The community-based business model includes the Energy & Solutions, Engineering & Maintenance, Housing, and Properties businesses, based in eastern Aichi and western Shizuoka prefectures, where the Company has gained high market shares in energy and other community-based businesses. The specialized/wide-area business model aims to capture large shares of the national market by developing highly specialized niche markets over a wider area. The Car Life Support business (which operates authorized Volkswagen and Audi dealers) and the Animal Health Care business both fall under this category.

2. Overview of FY11/24

FY11/24 consolidated net sales declined 0.6% year on year (YoY) to ¥240,498mn, operating profit rose 3.7% to ¥6,308mn, and ordinary profit increased 4.1% to ¥8,193mn. While operating profit and ordinary profit rose, net profit attributable to owners of parent declined 13.9% YoY to ¥5,249mn, reflecting the absence of gain on revision of the retirement benefit plan that was booked under extraordinary income in the previous fiscal year. The small decline in net sales YoY reflected a drop in sales in the Energy & Solutions business, which accounts for a high share of net sales. Growth in operating profit was driven by a large rise in profit in the Housing business.

3. FY11/25 forecast

For FY11/25, the Company forecasts consolidated net sales of ¥254,000mn, up 5.6% YoY, and operating profit of ¥7,000mn, up 11.0%, both record highs. By business segment, it sees net sales rising in all six segments and operating profit increasing in five segments (exception is the Engineering & Maintenance business). In the Energy & Solutions business, it aims to expand its business by offering energy-efficient and carbon-neutral solutions and by starting operations in the energy storage business. In the Engineering & Maintenance business, it plans to capture steady orders supported by stable public investment and expand its business by proposing facilities and infrastructure that contribute to decarbonization through energy conservation, energy creation, and carbon offsetting, and by proposing Net-zero Energy Buildings (ZEBs). In the Housing business, it expects the launch of new products with high thermal insulation and other performance features to drive growth in orders. In the Car Life Support business, the Company expects to secure vehicle stock and increase sales of new and used vehicles. In the Animal Health Care business, it forecasts higher sales and profits as the benefits of business restructuring implemented in the previous fiscal year start to feed through. In the Properties business, the real estate properties department will improve profitability by stepping up transactions with corporate customers and by expanding the asset management and operations business. YASUE Corp. <1439> became a consolidated subsidiary in December 2024, but it has not been included in the Company's forecasts, as the earnings impact is currently being assessed.

4. Growth strategy and topics

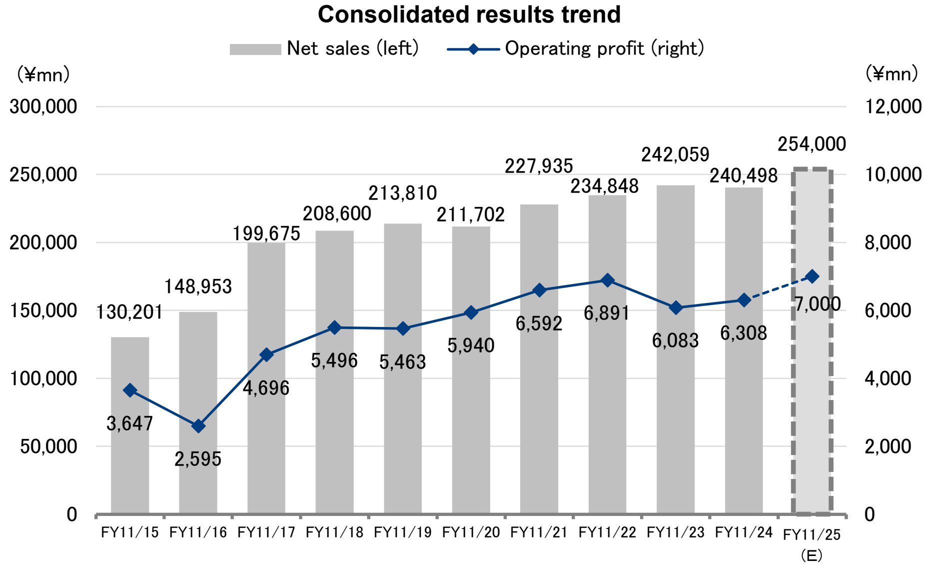
With 2030 Vision, the Company is targeting net sales of ¥280.0bn and operating profit of ¥12.0bn in FY11/30 by expanding into non-energy fields to establish itself as "SALA for all aspects of life." Under this vision, the Company is investing heavily, including the acquisition and consolidation of YASUE as a subsidiary. YASUE's home renovation business generates more than 80% of its sales. In this business, it provides comprehensive services for a wide range of price points and customers, from the replacement and maintenance of screen doors in detached houses and condominiums to design-oriented remodeling and renovation using natural materials, as well as building extensions. YASUE's consolidated net sales are roughly ¥8.0bn. Synergies with the Company's existing renovation business (net sales of ¥10.5bn) have the potential to accelerate growth in the housing field. The Company also recognizes that improving the P/B ratio is a key management issue. It has implemented a raft of measures in quick succession since 2024, such as formulating a capital allocation policy, improving shareholder returns, disclosing an ROE target, and introducing performance-linked stock compensation for directors.

5. Shareholder return policy

In line with its capital allocation policy announced in July 2024, the Company has introduced a progressive dividend and lifted its payout ratio target from "around 30%" to "more than 40%" to improve shareholder returns. Looking at data since FY11/18, it has maintained or increased the annual dividend, while the payout ratio has remained above 25% and has been on an upward trend. For FY11/24, the Company paid a dividend of ¥30.00 per share (interim: ¥13.00, year-end: ¥17.00), giving a payout ratio of 36.6%. Because the payout ratio target has been raised, it plans to pay an annual dividend of ¥32.00 for FY11/25 (interim: ¥16.00, year-end: ¥16.00), for a payout ratio of 41.1%.

Key Points

- FY11/24 operating profit rose YoY, supported by steady earnings in mainstay energy and engineering fields and improved profitability in Housing business
- Forecasts FY11/25 net sales of ¥254.0bn and operating profit of ¥7.0bn, both record highs
- Aiming for expansion in non-energy fields to establish position as "SALA for all aspects of life"; 2030 targets are net sales ¥280.0bn, operating profit ¥12.0bn, ROE at least 10%
- FY11/25 annual dividend forecast is ¥32.00, up ¥2.00 YoY, for payout ratio of 41.1%



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

Company profile

Community-based company, mainly engaged in energy and urban infrastructure construction and engineering, housing, and real estate businesses

1. Company profile and history

The Company is a unique corporate group based in Toyohashi City, Aichi Prefecture, Japan. The Company operates diverse businesses, ranging from energy and engineering to housing and real estate, car importing, and animal health products. As of FY11/24, net sales totaled ¥240.4bn and it had roughly 540,000 customers, with 5,000 employees working at 332 locations across 22 prefectures from Hokkaido to Yamaguchi, but primarily in Aichi and Shizuoka prefectures. The Aichi and Shizuoka region, the Company's main operating base, has significant potential as one of Japan's leading manufacturing centers and a top agricultural producer. Founded as a city gas supplier 116 years ago in 1909, the Company has a long corporate history. In the 1960s, it started to diversify its operations, aiming to become a corporate group that provides comprehensive support to local communities and people. Starting with a liquefied petroleum gas (LPG) business, the Company expanded into freight transportation and automobile maintenance and sales in 1962, equipment and civil engineering in 1963, and housing in 1969. In the 1990s, as Japan's economy matured, the Company began implementing a group management approach. As stated in the Group Corporate Philosophy, established in 1993, "Our goals are to realize an enriched society as a corporate group trusted by regional communities, through our creations of beautiful and comfortable living spaces." This philosophy continues to guide the Company today as it expands its non-energy-related businesses. The name "SALA" is a coined acronym for "Space Art Living Amenity," expressing the corporate group's desire to achieve "Beauty and Comfort for Living Spaces."

In 2002, SALA Corporation was established as a pure holding company for LPG, equipment and civil engineering, and automobile sales businesses, listing on the First Sections of the Tokyo Stock Exchange (TSE) and the Nagoya Stock Exchange (NSE) in the same year. In 2016, CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.) and SALA HOUSE CO., LTD. became wholly owned subsidiaries of the Company through a share exchange, integrating the capital of the Group and creating a structure to pursue "the provision of value as a unified SALA." In 2020 the Company announced its 2030 Vision, which includes the clear goal of achieving dramatic growth in the housing business, under the slogan, "SALA: Common in Your Town, Value to Your Life."

In April 2022, the Company's listings were moved to the TSE Prime Market and the NSE Premier Market.

History

Date	History
Founding period (from 1909)	Toyohashi Gas Co., Ltd. established in 1909 and Hamamatsu Gas Co., Ltd. established in 1910 as city gas companies. The companies merged in 1943 to form CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.)
Diversification period (from 1960s)	Moved into LPG business in 1959, automobile sales business in 1962, equipment and civil engineering business in 1963, and housing business in 1969. CHUBU GAS CO., LTD. (now SALA ENERGY CO., LTD.) listed on Second Section of Nagoya Stock Exchange (NSE) in 1963; GASTEC SERVICE INC. (now SALA ENERGY CO., LTD.) listed on Second Section of NSE in 1985 (listing moved to First Section of TSE in 1988); Chubu Engineering Corporation listed on Second Section of NSE in 1991
Group management promotion period (from 1993)	Established Group Corporate Philosophy in 1993
May 2002	SALA Corporation established and listed on First Sections of TSE and NSE as pure holding company (for LPG, equipment & civil engineering, auto sales businesses)
September 2004	Changed group name to the "SALA Group"
July 2016	Integrated Group's capital; CHUBU GAS CO., LTD. and SALA HOUSE CO., LTD. made wholly owned subsidiaries through share exchange
December 2019	Energy business restructured; CHUBU GAS CO., LTD. and GASTEC SERVICE INC. merged to form SALA ENERGY CO., LTD.
April 2022	Company's listings transferred to TSE Prime Market and NSE Premier Market

Source: Prepared by FISCO from the Company's Integrated Report, website, and corporate data

2. Business description

The Company's Living & Energy Services are divided into six business segments. The largest business segment is 1) the Energy & Solutions business, which supplies city gas, LPG, and other energy-related services to roughly 540,000 local households and enterprises. It is the Group's core business, accounting for 50.1% of consolidated net sales and 42.6% of operating profit. 2) The Engineering & Maintenance business includes urban infrastructure development (roads, construction, port engineering, etc.) and facility construction and maintenance. Generating 13.7% of net sales and 38.0% of operating profit, the business is the second-largest contributor to earnings. 3) The Housing business includes built-to-order and built-for-sale homes, renovation, and construction material sales. It provides 14.9% of net sales and 10.7% of operating profit. 4) The Car Life Support business sells and services imported automobiles (Volkswagen and Audi), accounting for 7.2% of net sales and 0.9% of operating profit. 5) The Animal Health Care business sells veterinary drugs and therapeutic foods wholesale. It provides 10.7% of net sales and 2.0% of operating profit. 6) The Properties business includes real estate leasing, sales, and brokerage, a community development business, and the management of hotels, restaurants, and sports clubs. It accounts for 3.4% of net sales and 5.8% of operating profit.

Approximately 50% of net sales and 60% of segment profit are generated from non-energy-related businesses, putting the Company on track to achieve its 2030 Vision of "SALA for all aspects of life."

The Company's Lifestyle & Energy Services

Source: The Company's website

Overview of each segment

Segment	Business description	Consolidated subsidiaries, etc.	Composition (FY11/24)	
			Net sales	Segment profit
Energy & Solutions business	City gas, LPG, electricity, petroleum products, high-pressure gas, logistics services, home renovation, etc.	SALA ENERGY, SALA E&L Higashi Mikawa, SALA E&L Hamamatsu, SALA E&L Nagoya, SALA E&L Shizuoka, GOOD LIFE SALA KANTO, SALA e ENERGY, SALA e POWER, SALA Logistics, Living SALA, SALA Water, Mikawawan Gas Terminal, Nikko, Chubu Propane Stand, Hamamatsu Propane Stand, KANTOH	50.1%	42.6%
Engineering & Maintenance business	Urban infrastructure development (roads, construction, port engineering, etc.), facility construction and maintenance, system development, etc.	Chubu Engineering Corporation, Jinno Construction, Suzukigumi, Chubu Engineering Service, Techno Systems, Seien Concrete Industries, Tokiwa Doro, Showa Cleaner, Chubu Building Services, SEIWA SECURITY SERVICE	13.7%	38.0%
Housing business	Built-to-order and built-for-sale homes, renovation, construction material sales, etc.	SALA HOUSE, Chubu Home Service, Taiyo-co, Miyashita Koumuten, SALA HOUSE SUPPORT, ECO-HOME PANEL	14.9%	10.7%
Car Life Support business	Sale and servicing of imported automobiles (Volkswagen, Audi), etc.	SALA CARS JAPAN	7.2%	0.9%
Animal Health Care business	Veterinary medicines, therapeutic food, etc.	ASCO, Dowa Chemical	10.7%	2.0%
Properties business	Real estate leasing, sales and brokerage, community development business, management of hotels, restaurants, and sports clubs, etc.	SALA Real Estate, SALA Hotels and Restaurants, SALA Sports	3.4%	5.8%

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

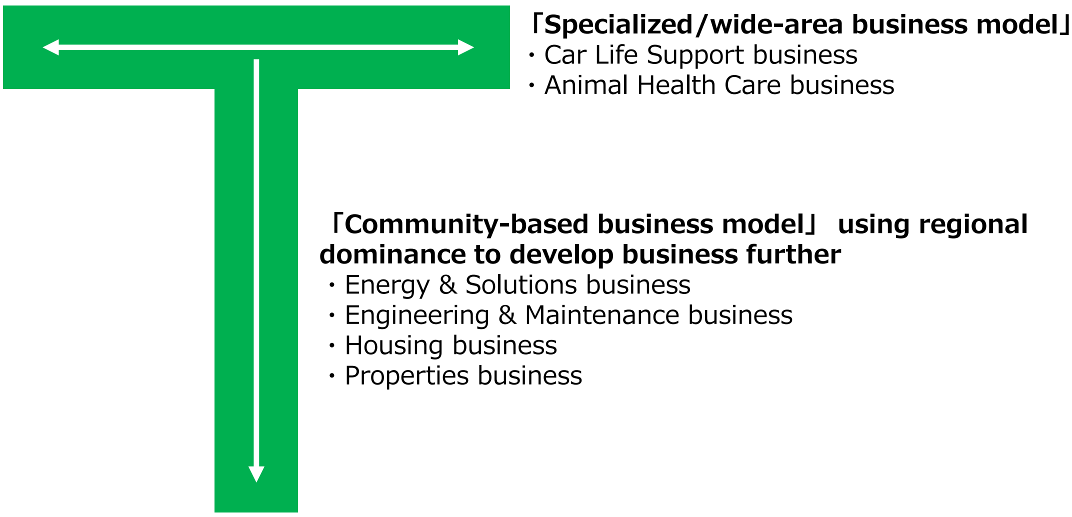
Business overview

Operates community-based business model and specialized business model, with both models capturing high market shares

1. Two business models: Community-based and specialized

The Company's six business segments can be divided into two business models: a community-based business model, which leverages the Company's high brand visibility, and a wide-area business model, which focuses on specialized businesses. The community-based business model includes the Energy & Solutions, Engineering & Maintenance, Housing, and Properties businesses, based in eastern Aichi and western Shizuoka prefectures, where the Company's strength is in energy and other last-mile personalized services. The specialized/wide-area business model aims to capture large shares of the national market by developing highly specialized niche markets over a wider area. The Car Life Support and Animal Health Care businesses both fall under this category.

Two business models



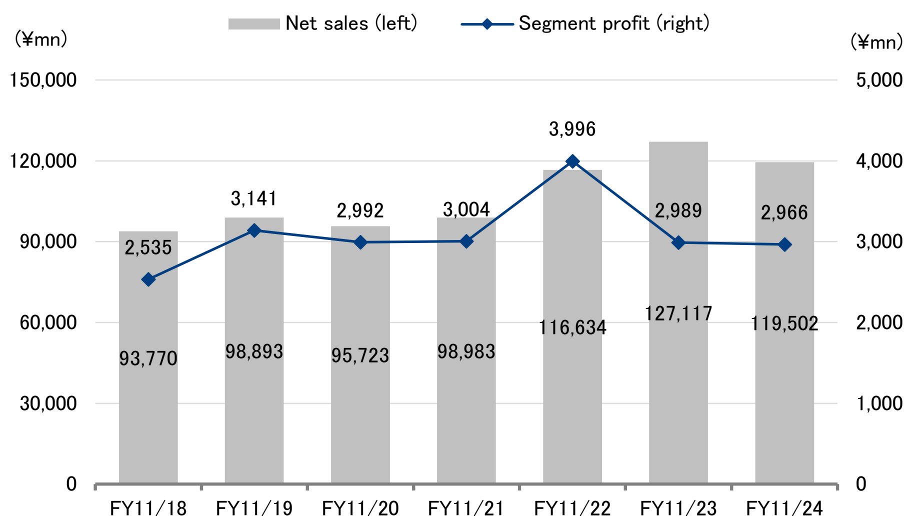
Source: Prepared by FISCO from the Company interview

2. Energy & Solutions business

The Energy & Solutions business operates energy businesses such as city gas, LPG, and electricity, as well as a renovation business, focused on eastern Aichi and western Shizuoka prefectures. The energy business provides stable supplies of conventional energy, while also addressing carbon neutrality needs to create affluent lifestyles for customers and solve issues faced by businesses. Energy is the Company's founding business, boasting 539,000 customers (as of end-November 2024). One out of every two households in the operating region are the Company's customers. The renovation business generated ¥10.5bn in net sales in FY11/24. Energy & Solutions also focuses on BtoB energy supply. It has many large corporate customers due to the high concentration of automobile and other manufacturing industries in the region.

In recent years, earnings in the Energy & Solutions business have been impacted by fluctuations in energy costs (higher sales prices tend to weigh on demand) and the changing climate (warmer winters reduce demand), but net sales and profits have risen steadily on the back of growth in the customer base. In FY11/24, net sales declined 6.0% YoY to ¥119,502mn and operating profit fell 0.8% to ¥2,966mn. Cuts to city gas sales prices based on the fuel price adjustment system (gas prices in Japan are adjusted in line with fluctuations in fuel costs) appear to have pushed down net sales by around ¥7.0bn. Despite efforts to curb expenses, operating profit fell slightly, reflecting lower sales volumes for city gas and LPG for residential use due to global warming and other factors. Higher input prices at biomass power plants also had an impact on profitability.

Results trend in the Energy & Solutions business



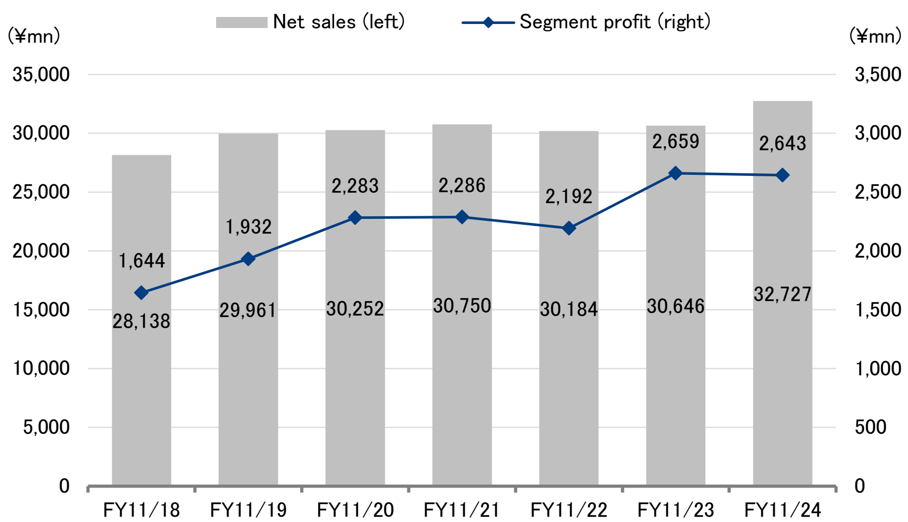
Source: Prepared by FISCO from the Company's financial results

3. Engineering & Maintenance business

Aiming to create safe, secure, affluent, and comfortable spaces, the Engineering & Maintenance business constructs and repairs urban infrastructure that requires advanced technology, such as office buildings, factories, hospitals, schools, condominiums, parks, roads, bridges, and port facilities. It also contributes to carbon neutrality in customers' business activities by proposing equipment and maintenance solutions that help them decarbonize their operations using energy efficiency, energy creation, and carbon offsets. The civil engineering department accounts for roughly 40% of net sales in the business, while the construction, maintenance, and facilities departments each account for about 20%. Historically, the business has strengths in port engineering and also facility construction, including air conditioning, plumbing and sanitation, and energy-related equipment.

In recent years, earnings have been growing at a steady rate. Profits are on par with the Energy & Solutions business, with the operating margin at a relatively high 8.1% (FY11/24), driving the Company's earnings growth. In recent years, the business has stepped up marketing to BtoB customers in the energy business, and synergies are now starting to emerge. In FY11/24, net sales rose 6.8% YoY to ¥32,727mn and operating profit fell 0.6% to ¥2,643mn. Net sales reached a record high, supported by an increase in completed construction projects in the construction department and a solid performance by the maintenance department. Operating profit fell slightly due to a drop in gross profit on completed construction projects in the civil engineering department, but profits were close to the record-high achieved in FY11/23.

Results trend in the Engineering & Maintenance business



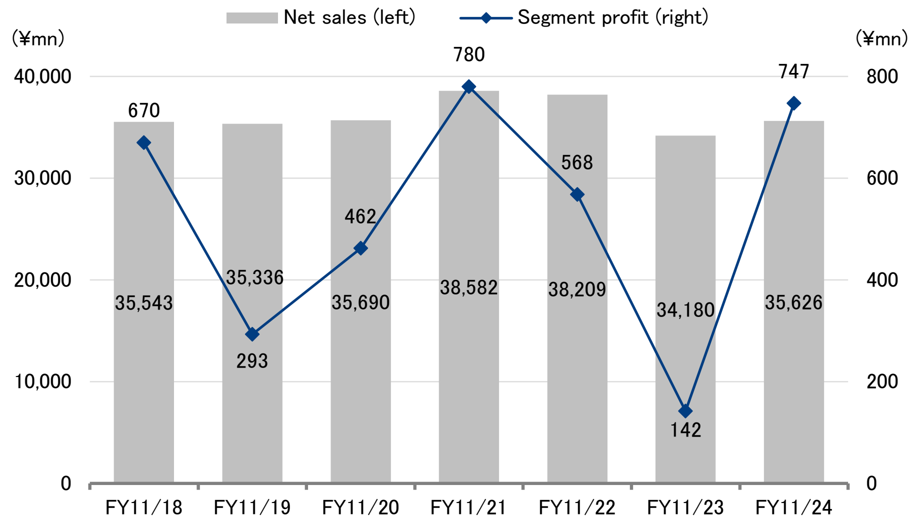
Source: Prepared by FISCO from the Company's financial results

4. Housing business

The Housing business offers comprehensive services related to home building, including the sale of detached houses with a focus on comfort and the sale of high-quality construction materials and housing equipment. In its latest SINKA series, it develops and sells homes with superior energy-efficiency and environmental performance that are compatible with the Net-zero Energy House (ZEH) standard. It aims to achieve a ZEH ratio of 50% by FY11/25. In January 2025, the business began sales of a new product, SINKA KIWAMI, which meets grade 7 insulation performance (the highest grade). In addition to whole-building HVAC system that keeps the house at a comfortable temperature with a single residential air conditioner, it is equipped with a humidity control system that maintains humidity at 40–60%. These features reduce annual utility costs by 40% compared with homes with conventional multiple air conditioning units, making SINKA KIWAMI a competitive product.

In recent years, net sales have remained stable and the business has been profitable at the operating profit level, albeit with some fluctuations. In FY11/24, net sales rose 4.2% YoY to ¥35,626mn and operating profit jumped 423.4% to ¥747mn. In the housing sales department, orders for the new product series launched in the previous fiscal year grew, and there was an increase in the number of built-to-order homes sold. However, in the housing components and materials processing and sales department, orders from customers declined due to a drop in the number of housing starts in eastern Aichi Prefecture and western Shizuoka Prefecture.

Results trend in the Housing business



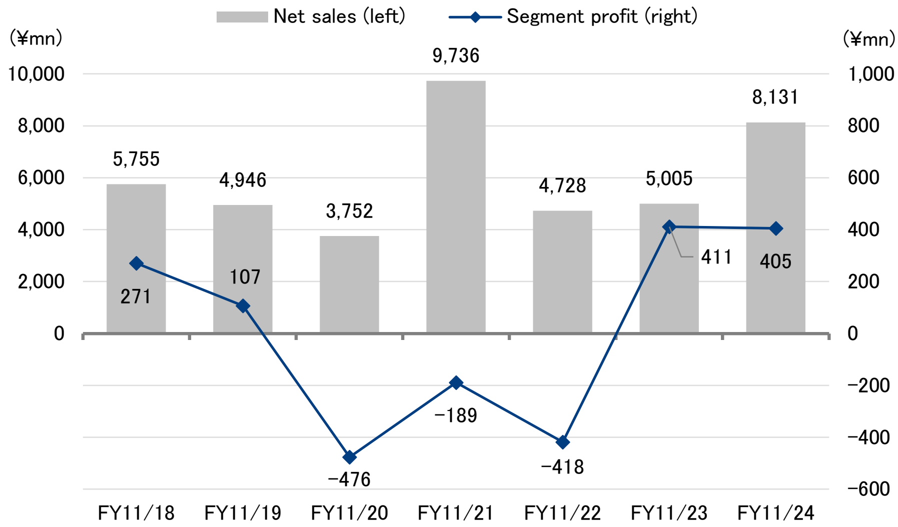
Source: Prepared by FISCO from the Company's financial results

5. Properties business

The Properties business operates businesses related to real estate, hospitality (restaurant and hotel management), and sports (sports club management) in eastern Aichi and western Shizuoka prefectures. The real estate properties department accounts for around 60% of net sales, the hospitality department about 30%, and the sports department the remaining 10%. In the real estate properties department, the business maximizes the Group's customer base and network to propose comprehensive, optimal solutions that meet customer needs.

The business reported losses during the pandemic, but profitability has recovered since FY11/23, with the operating margin reaching 5.0% in FY11/24. In FY11/24, net sales rose 62.5% YoY to ¥8,131mn and operating profit fell 1.5% to ¥405mn. In the real estate properties department, the handover of apartments in a condominium building completed in April 2024 commenced, and performance was firm in the hospitality department, supporting strong growth in net sales. Despite earnings from the sale of apartments in the condominium building, operating profit fell slightly due to sluggish commission income from real estate brokerage and rental activities.

Results trend in the Properties business



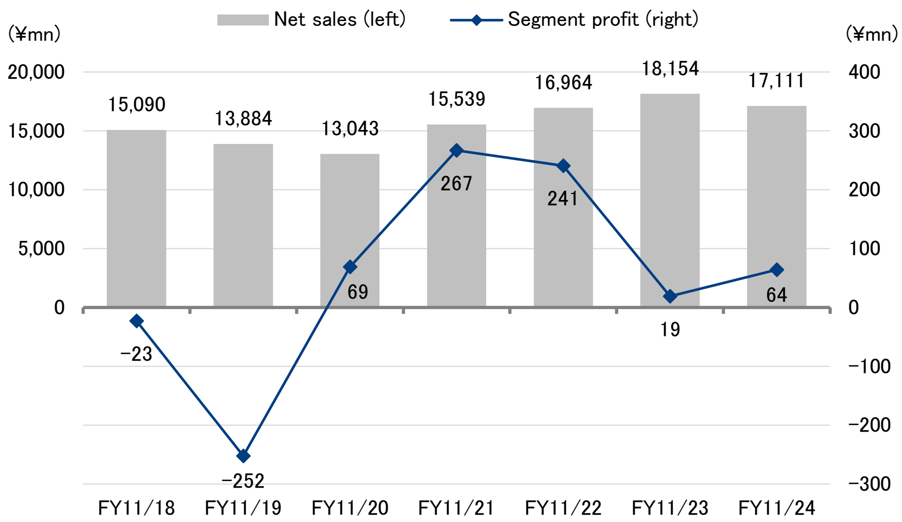
Source: Prepared by FISCO from the Company's financial results

6. Car Life Support business

As an authorized dealer of imported Volkswagen and Audi vehicles, the Car Life Support business operates 13 dealers in Aichi, Shizuoka, and Tokyo (one of Japan's top-selling Volkswagen/Audi companies by sales volume). The business offers optimal proposals for customer needs through the integrated operation of new and used car sales and service divisions. It also provides insurance, financing, and ancillary services to improve the profitability of the business. In FY11/24, used car sales (1,806 units) exceeded new car sales (1,353 units).

Net sales have been growing steadily in recent years, but supply chain disruptions and other factors are having an impact. The operating margin is low at 0.4% (FY11/24), leaving room for improvement in profitability. In FY11/24, net sales declined 5.7% YoY to ¥17,111mn and operating profit rose 221.3% to ¥64mn. The number of new cars sold fell for both Volkswagen and Audi due to a decline in new vehicles received in Japan. The number of used cars sold also fell due to a drop in the number of trade-in vehicles accompanying the weak new car sales. Operating profit increased as a result of lower selling, general and administrative expenses due to cost cutting initiatives.

Results trend in the Car Life Support business



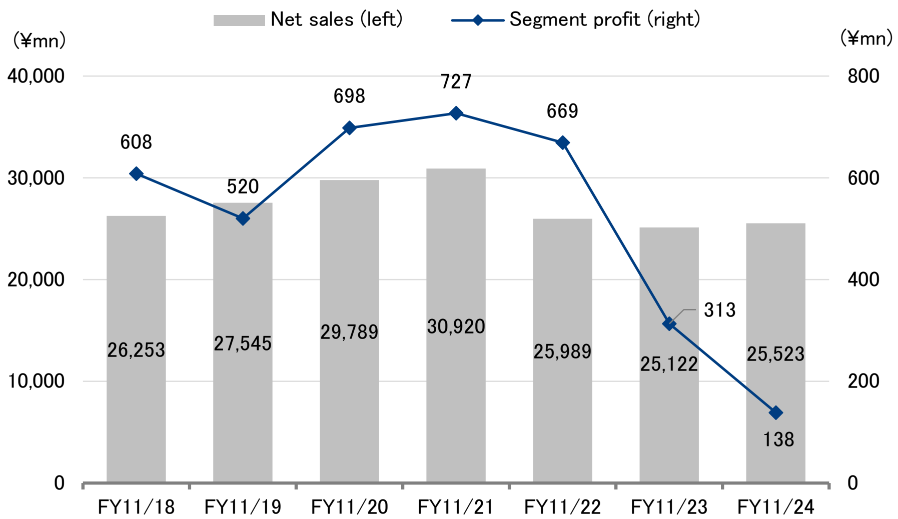
Source: Prepared by FISCO from the Company's financial results

7. Animal Health Care business

The Animal Health Care business operates offices in various Honshu regions and Hokkaido, creating a nationwide service network for the wholesale distribution of veterinary medicines and other products. The livestock farming department accounts for more than 50% of net sales and the pet-related department (serving veterinary clinics) accounts for less than 50%. The pet-related department has a strong position within the industry. The business has the second-largest market share in the industry, but it aims to become the market leader by 2030 by strengthening its logistics and supply chain and reinforcing its sales teams.

Net sales have been stable in recent years. Due to the nature of the wholesale business, there are limits to how far profitability can be improved, and the business is also exposed to pharmaceutical purchase prices. In FY11/24, net sales rose 1.6% YoY to ¥25,523mn and operating profit fell 55.9% to ¥138mn. In the livestock farming department, orders for veterinary medicines and other products weakened due to the impact of persistently high feed prices, but in the pet-related department, business with new customers increased, contributing to the rise in net sales. Operating profit decreased due to higher purchase prices for veterinary medicines and other products and the time lag before these higher prices were passed on to customers. Profitability was also impacted by up-front restructuring costs, such as the consolidation of distribution bases.

Results trend in the Animal Health Care business



Note: Net sales declined in FY11/22 due to the application of the Accounting Standard for Revenue Recognition, etc., which reduced net sales by ¥4,789mn. Net sales continued to increase in real terms.
Source: Prepared by FISCO from the Company's financial results

Results trends

FY11/24 operating profit rose YoY, supported by steady earnings in mainstay energy and engineering fields and a large improvement in profitability in the Housing business

1. Overview of FY11/24

In FY11/24, operating profit and ordinary profit both increased YoY. Consolidated net sales declined 0.6% to ¥240,498mn, operating profit rose 3.7% to ¥6,308mn, ordinary profit increased 4.1% to ¥8,193mn, and net profit attributable to owners of parent declined 13.9% YoY to ¥5,249mn.

The small decline in net sales YoY reflected a drop in sales in the Energy & Solutions business, which accounts for a high share of net sales. The drop in net sales in the business mainly reflected an approximately ¥7.0bn impact from a downward adjustment in city gas sales prices due to stabilizing energy costs. Underlying performance was firm, with the number of customers increasing by roughly 5,000. Outside the Energy & Solutions business, there was strong sales growth in the Properties business (+¥3,125mn YoY), the Engineering & Maintenance business (+¥2,080mn), and the Housing business (+¥1,446mn). Growth in operating profit was driven by a large rise in profit in the Housing business (+¥604mn YoY). Operating profits held up well in core businesses, declining only slightly in Energy & Solutions (-¥23mn YoY to ¥2,966mn) and in Engineering & Maintenance (-¥15mn to ¥2,643mn). Ordinary profit rose ¥322mn YoY due to an increase in gain on valuation of derivatives on forward exchange contracts under non-operating income. Net profit attributable to owners of parent declined ¥849mn, reflecting the absence of ¥2,388mn in gain on revision of the retirement benefit plan that was booked under extraordinary income in the previous fiscal year.

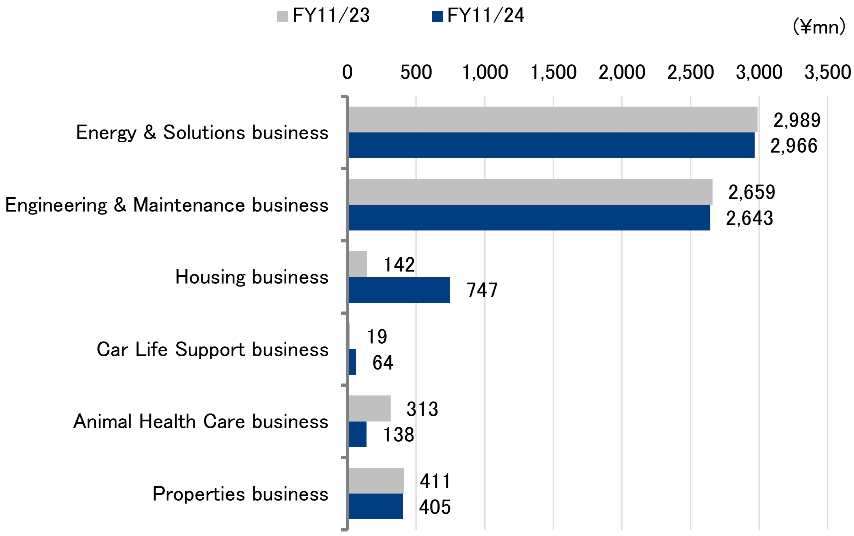
Consolidated results for FY11/24

(¥mn)

	FY11/23		FY11/24		
	Result	Vs. net sales	Result	Vs. net sales	YoY
Net sales	242,059	100.0%	240,498	100.0%	-0.6%
Cost of sales	186,229	76.9%	183,273	76.2%	-1.6%
Gross profit	55,829	23.1%	57,225	23.8%	2.5%
Selling, general and administrative expenses	49,745	20.6%	50,916	21.2%	2.4%
Operating profit	6,083	2.5%	6,308	2.6%	3.7%
Ordinary profit	7,870	3.3%	8,193	3.4%	4.1%
Profit attributable to owners of parent	6,099	2.5%	5,249	2.2%	-13.9%

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

Operating profit by segment



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

Maintaining sound finances to support aggressive investment in growth and M&A; healthy equity ratio of 41.5%

2. Financial position and management indicators

Total assets as of end-FY11/24 were ¥202,281mn, up ¥13,013mn from the end of the previous fiscal year. Current assets rose ¥4,485mn YoY, mainly reflecting increases of ¥3,430mn in cash and deposits and ¥3,146mn in notes and accounts receivable - trade, and contract assets. Non-current assets rose ¥8,528mn, largely due to an increase of ¥3,358mn in retirement benefit assets and an increase of ¥2,304mn in property, plant and equipment.

Total liabilities increased ¥6,041mn from the end of the previous fiscal year to ¥116,662mn. Despite a decline of ¥2,589mn in short-term borrowings, current liabilities rose ¥2,544mn, mainly reflecting an increase of ¥3,293mn in other current liabilities. Non-current liabilities increased ¥3,497mn, largely due to a ¥3,397mn rise in long-term borrowings. The balance of interest-bearing debt (total of short-term borrowings, current portion of long-term borrowings, and long-term borrowings) rose ¥1,769mn to ¥54,610mn. Net assets increased ¥6,973mn to ¥85,618mn. This was mainly due to an increase in retained earnings, reflecting the booking of net profit attributable to owners of parent.

Looking at management indicators, the current ratio was 141.8% (versus 140.3% at end-FY11/23) and the equity ratio was 41.5% (40.8%), indicating the Company's finances are sound and stable. The Company is maintaining a solid financial base to support aggressive investment in growth (roughly ¥15.0bn over the three years through FY11/25) and in M&A. However, ROE was only 6.5% (versus 8.2% in FY11/23, due to the impact of a gain on revision of the retirement benefit plan booked under extraordinary income in FY11/23). To tackle this issue, the Company is currently implementing operational and financial measures to lift ROE.

Consolidated balance sheets and management indicators

(¥mn)

	FY11/23	FY11/24	Change
Current assets	84,750	89,235	4,485
Cash and deposits	22,966	26,396	3,430
Notes and accounts receivable - trade, and contract assets	32,254	35,400	3,146
Non-current assets	104,517	113,045	8,528
Property, plant and equipment	77,906	80,210	2,304
Retirement benefit asset	2,221	5,579	3,358
Total assets	189,267	202,281	13,014
Current liabilities	60,399	62,943	2,544
Short-term borrowings	8,579	5,990	-2,589
Current portion of long-term borrowings	7,273	8,234	961
Other	10,670	13,963	3,293
Non-current liabilities	50,221	53,718	3,497
Long-term borrowings	36,989	40,386	3,397
Total liabilities	110,621	116,662	6,041
Total net assets	78,645	85,618	6,973
Retained earnings	42,326	45,859	3,533
Total liabilities and net assets	189,267	202,281	13,014
<Stability>			
Current ratio (current assets ÷ current liabilities)	140.3%	141.8%	-
Equity ratio (shareholders’ equity ÷ total assets)	40.8%	41.5%	-
<Profitability>			
ROE (net income ÷ equity)	8.2%	6.5%	-
ROA (ordinary profit ÷ net assets)	4.2%	4.2%	-
ROS (operating profit ÷ net sales)	2.5%	2.6%	-

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

Outlook

Forecasts record-high net sales and operating profit in FY11/25; sees growth in mainstay Energy & Solutions business

● **FY11/25 forecast**

For FY11/25, the Company forecasts higher net sales and operating profit YoY, with consolidated net sales up 5.6% to ¥254,000mn, operating profit up 11.0% to ¥7,000mn, ordinary profit down 8.5% to ¥7,500mn, and net profit attributable to owners of parent down 4.8% to ¥5,000mn. For ordinary profit and net profit, it does not assume a gain/loss on valuation of derivatives, which was recorded under non-operating income in FY11/24 (-¥1,077mn). The Company is currently implementing its 5th Medium-Term Management Plan (FY11/23–FY11/25). In FY11/25, the plan's final year, it aims to create new value through collaboration and co-creation with internal and external companies and through aggressive investment in growth, while also targeting growth through business transformation to solve issues faced by customers and regional communities. In particular, with the consolidation of YASUE in December 2024, it aims to leverage synergies with existing businesses in the housing and lifestyle domain, including the renovation business, to realize its goal of achieving dramatic growth in the housing business, as set out in its 2030 Vision.

By business segment, it sees net sales rising in all six segments and operating profit increasing in five segments (exception is the Engineering & Maintenance business). In the Energy & Solutions business, it aims to expand its business by offering energy-efficient and carbon-neutral solutions and by starting operations in the energy storage business. In the Engineering & Maintenance business, it plans to capture orders supported by stable public investment and expand its business by contributing to decarbonization through energy conservation, energy creation, and carbon offsetting, and by proposing ZEBs. In the Housing business, in January 2025 it began sales of the new SINKA KIWAMI product, which meets grade 7 insulation performance (the highest grade), with orders expected to grow. In the Car Life Support business, it expects the decline in the number of vehicles received, an issue in the previous fiscal year, to be resolved. It aims to increase sales of new and used vehicles and expand peripheral businesses such as insurance and vehicle coating. In the Animal Health Care business, it forecasts higher sales and profits as the benefits of business restructuring implemented in the previous fiscal year start to feed through. In the Properties business, the real estate properties department aims to improve profitability by stepping up transactions with corporate customers and by expanding the asset management and operations business.

In addition to steady earnings in these businesses, we see upside potential from the consolidation of YASUE's net sales of roughly ¥8.0bn and operating profit of approximately ¥0.3bn, which are not currently factored into the Company's forecasts.

FY11/25 outlook

(¥mn)

	FY11/24		FY11/25		
	Result	Vs. net sales	Forecast	Vs. net sales	YoY
Net sales	240,498	100.0%	254,000	100.0%	5.6%
Operating profit	6,308	2.6%	7,000	2.8%	11.0%
Ordinary profit	8,193	3.4%	7,500	3.0%	-8.5%
Profit attributable to owners of parent	5,249	2.2%	5,000	2.0%	-4.8%

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

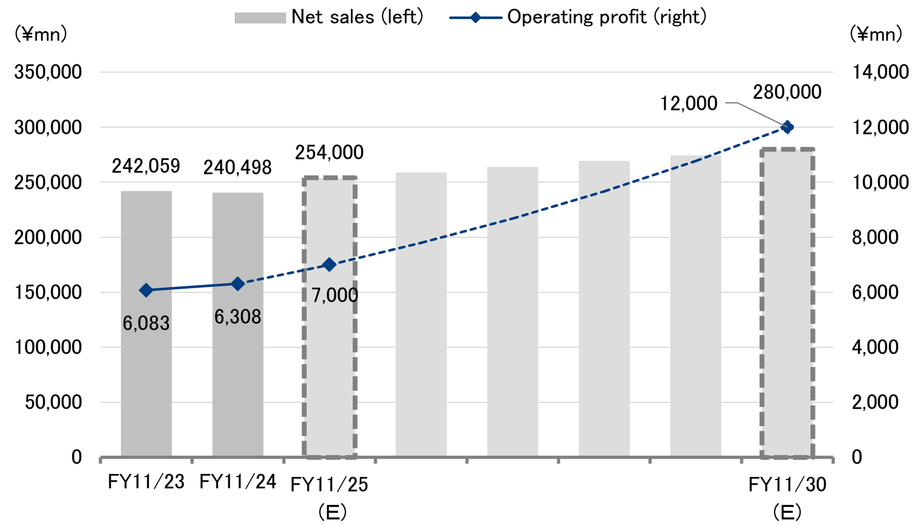
Growth strategy and topics

Aiming for expansion in non-energy fields to establish position as "SALA for all aspects of life"

1. 2030 Vision and 5th Medium-Term Management Plan (FY11/23–FY11/25)

The Company is working toward its 2030 Vision, "SALA: Common in Your Town, Value to Your Life." Under this Vision, it has set five goals: 1) establish the SALA brand, 2) boost quality, 3) achieve dramatic growth in the housing business, 4) develop highly motivated talent taking on the challenge autonomously, and 5) enhance social value. The Company has grown mainly in the energy domain, but its 2030 Vision sets out a clear strategy to provide new value in people's lives by expanding non-energy business areas (such as housing and engineering), while leveraging its combined strengths as a corporate group across different business units. It is targeting net sales of ¥280.0bn and operating profit of ¥12.0bn in FY11/30. Compared with FY11/24 results, that represents increases of 1.16x for net sales and 1.90x for operating profit. Net sales of ¥280.0bn are within reach if the consolidation of YASUE in December 2024 accelerates growth in the housing field. With the consolidation of YASUE, the Company is targeting further growth in profits by pursuing synergies in its existing renovation business (net sales of ¥10.5bn), as well as with the Housing and Properties business segments. In the BtoB field, it is leveraging its customer base in the energy business, such as customers operating plants and hospitals, to grow equipment and maintenance work in the Engineering & Maintenance business segment. We see potential for further growth if the Company promotes collaboration and co-creation across business segments.

Medium- and long-term targets



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

2. Progress with growth investments

Under the 5th Medium-Term Management Plan, the Company aims to aggressively invest in growth (total of ¥15.0bn over three years) to transform its business and create new value. As of the end of the plan's second year, it had completed cumulative investment of ¥11.1bn, and it is making steady progress in the third year, including an M&A investment of around ¥4.0bn for YASUE. The largest investment category is "achieving carbon neutrality and investing in new fields," where it has invested a total of ¥6.4bn. In this field, its main targets are developing the electric power business (grid power storage facilities, etc.) and equipment for energy-efficiency and carbon neutrality. It has invested a total of roughly ¥2.5bn in digital transformation (DX). Its goal here is to overhaul business processes and provide customer experiences that exceed expectations. The Group's new core IT system is scheduled to begin operation in FY11/25. Meanwhile, it has invested a total of approximately ¥1.4bn in human capital to introduce work styles and systems that enable diverse human resources to think independently, take on new challenges, and play an active role in the Company. In terms of investing in business and capital alliances and M&A, etc., in the first two years of the plan it invested roughly ¥0.7bn, and in the third year, it made YASUE a consolidated subsidiary. The Company intends to continue establishing new businesses using various approaches, including alliances, M&A, business succession, and investments in venture capital funds and startups.

3. YASUE made a subsidiary

The Company conducted a takeover bid (TOB) for shares in YASUE Corp. (November 8, 2024 to December 19, 2024), with the acquisition of the company settled on December 26, 2024, making it a consolidated subsidiary. YASUE became a wholly owned subsidiary in February 2025 through a squeeze-out procedure. Founded in 1970, YASUE operates a housing construction and home renovation business. Since 2000, it has grown its business, focusing on home renovation, and become a listed company. In FY12/24, it reported net sales of ¥8,082mn, operating profit of ¥340mn, and net assets of ¥2,588mn. The home renovation business generates more than 80% of YASUE's sales. In this business, it provides comprehensive services for a wide range of price points and customers, from the replacement and maintenance of screen doors in detached houses and condominiums to design-oriented remodeling and renovation using natural materials, as well as building extensions. It also operates a housing construction business and a real estate sales business. YASUE mainly operates in Aichi and Gifu prefectures, and it has established a community-based store network in these areas. As a result, more than 50% of orders are repeat orders from former customers (customers who have signed contracts with YASUE in the past). The relationship between the Company and YASUE is complementary, as both are engaged in housing-related businesses, centered on remodeling, in adjacent regions. Their management philosophies and corporate values are also similar, as they both aim to expand their businesses by valuing connections and trust with the community and customers (former customers). These similarities prompted the Company to enter into discussions with YASUE about the possibility of expanding earnings and business operations together by leveraging their respective customer bases and other assets. To generate synergies, the Company believed it was necessary to integrate YASUE rapidly and flexibly as a wholly owned subsidiary, and given YASUE's listings on the TSE Standard Market and the NSE Main Market, it decided to conduct a TOB. YASUE has net sales of approximately ¥8.0bn and is expected to become a new pillar in the Company's housing and lifestyle business domain.

4. Management conscious of cost of capital and share price

The Company recognizes that improving the P/B ratio is a key management issue. After discussions at meetings of the Board of Directors and the Nomination & Remuneration Committee, it has implemented a raft of initiatives in quick succession.

Initiatives to realize management conscious of cost of capital and share price

Date	Initiative	Details
July 2024	Disclosure of capital allocation policy	Of the ¥100.0bn cash inflow projected for 2024–2030, the Company will allocate half (¥50.0bn) to growth investments and one-quarter (¥25.0bn) each to investment in maintenance/upgrades and to shareholder returns
July 2024	Change in dividend policy	The Company has decided to flexibly repurchase shares and raise the payout ratio to improve shareholder returns and maintain the equity ratio at 40–50% as it works to achieve ROE of 10% or more
October 2024	Change in shareholder benefit plans	To expand the number of individual shareholders, who provide lower-bound support to the share price, the Company has established a new benefit category for shareholders with 2,000 or more shares and added long-term benefit plans for shareholders who hold shares for 3, 5, and 10 years
January 2025	Performance-linked stock compensation for directors	The Company has introduced a stock compensation scheme linked to consolidated ROE, consolidated operating profit, and ESG indicators (reductions in CO_2 emissions) to encourage directors to deliver medium- to long-term improvement in corporate value from the same perspective as investors. Stock compensation will now account for 20% of director remuneration

Source: The Company's materials

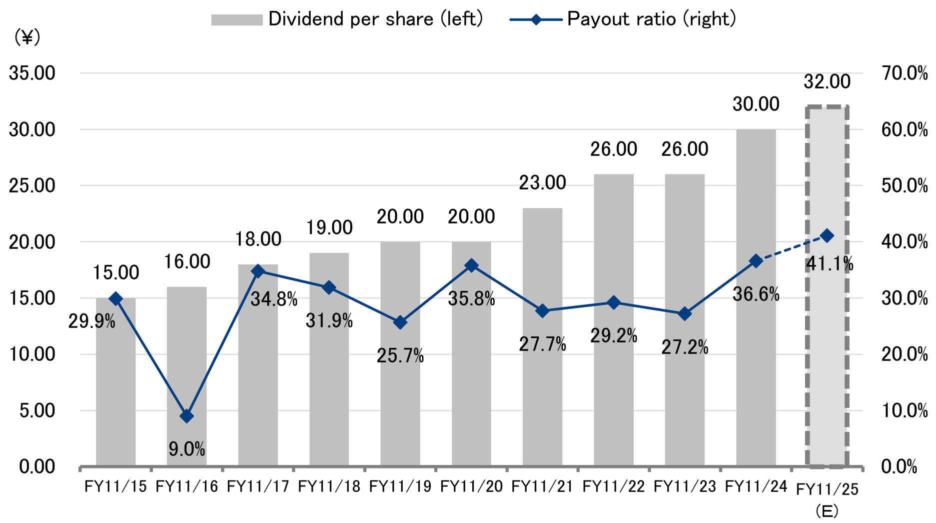
The Company has been profitable for many years, so ROE has increased at only a sluggish pace because retained earnings have accumulated and equity has increased. As of end-FY11/24, ROE was 6.5%, down 1.7 percentage points from the end of the previous fiscal year. The Company aims to improve capital efficiency in order to increase ROE. It plans to invest heavily in growth and implement financial strategies, aiming for ROE of 10% or higher by 2030.

Shareholder return policy

Progressive payout ratio target raised from 30% to 40% or more; FY11/25 divided forecast is ¥32 per share, up ¥2 YoY

The Company's basic policy is to pay stable and continuous dividends to shareholders. The policy states that it is "targeting a consolidated payout ratio of 40% or higher excluding the effects of gain/loss on valuation of derivatives on forward exchange contracts while maintaining dividends that are equal to or higher than those of the previous fiscal year. Furthermore, the Company flexibly implements the purchase of treasury shares while considering the market environment and capital efficiency." Looking at data since FY11/18, the Company has maintained or increased the annual dividend, while the payout ratio has remained above 25% and has been on an upward trend. For FY11/24, the Company paid a dividend of ¥30.00 per share (interim: ¥13.00, year-end: ¥17.00), giving a payout ratio of 36.6% (excluding gain/loss on valuation of derivatives, the payout ratio was 43.0%). Because the payout ratio target has been increased from 30% to 40%, it plans to pay an annual dividend of ¥32.00 for FY11/25 (interim: ¥16.00, year-end: ¥16.00), for a payout ratio of 41.1%.

Trends in dividend per share and payout ratio



Note: The very low payout ratio in FY11/16 reflects significant negative goodwill arising from transactions to make CHUBU GAS and SALA HOUSE wholly owned subsidiaries.
Source: Prepared by FISCO from the Company's financial results

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■ 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