COMPANY RESEARCH AND ANALYSIS REPORT

Arealink Co., Ltd.

8914

Tokyo Stock Exchange Standard Market

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FISCO Ltd. Analyst
Nozomu Kunishige

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

Contents

Summary

Announced a new medium-term management plan based on a policy of growing the self-storage business and downsizing the land rights consolidation business

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

1. Overview of FY12/24 results

In the FY12/24 results, net sales and profits beat initial forecasts, with double-digit growth in profits at each level. Net sales were ¥24,695mn (up 9.9% YoY), operating income was ¥4,906mn (up 18.1%), ordinary income was ¥4,714mn (up 16.2%), and net income was ¥3,200mn (up 13.5%). By segment, mainstay self-storage management maintained high occupancy rates even with an increase in the number of units opened. However, due to the impact of self-storage brokerage falling short of its forecast, overall sales for the self-storage business underperformed its forecast, despite significant increases in both sales and profits. In the land rights consolidation business, both sales and profits increased and were much higher than forecasts, due to the settlement of a large project. In addition, in the other operational services business, sales and profits both increased, surpassing forecasts. As a result, the equity ratio was 47.9% (50.4% at end-FY12/23), ensuring a high level of safety. Additionally, return on assets (ROA) was 8.9%, and return on equity (ROE) was 12.4%, as high profitability was maintained. In FY12/24, the Company conducted a stock split and introduced an interim dividend. The Company significantly increased the total dividend to ¥44.5 (up ¥6.0 YoY), adjusted retrospectively for the stock split. The total dividend consisted of an interim dividend of ¥19.5 and a year-end dividend of ¥25.0. The Company also raised its payout ratio target from 30% to 35%, remaining positive about shareholder returns.

2. FY12/25 forecasts

For the FY12/25 results, the Company is forecasting net sales of ¥26,000mn (up 5.3% YoY), operating income of ¥5,350mn (up 9.0%), ordinary income of ¥5,080mn (up 7.8%), and net income of ¥3,420mn (up 6.8%). In the mainstay self-storage business, sales and profit are expected to continue to rise, and in self-storage management, unit openings will be accelerated nationwide, by which the Company is planning further growth. The priority of management is being shifted to the self-storage business, so the land rights consolidation business is expected to see a significant decrease in sales and profits due to the downsizing of its business. Moreover, the Company is forecasting slight declines in both sales and profit for the other operational services business. Reflecting this strong overall performance, it plans to increase the total dividend to ¥48.0 (up ¥3.5 YoY), consisting of an interim dividend of ¥25.0 and a year-end dividend of ¥23. With a forecast payout ratio of 35.6%, the Company plans to continue working to achieve its payout ratio target of 35%. As long as the management environment does not worsen beyond expectations, FISCO believes there is a high likelihood that the forecasts are achieved.

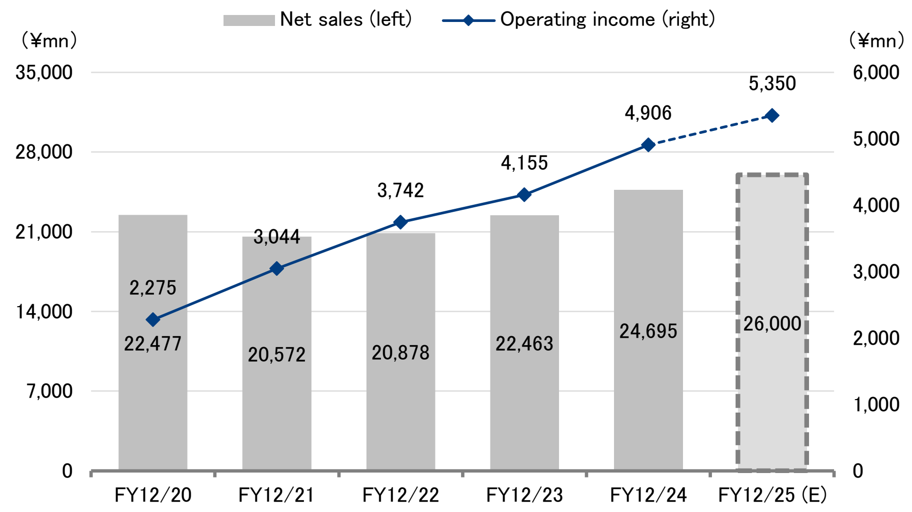
3. New medium-term management plan

The Company announced the new Medium-Term Management Plan 25-27, after discontinuing Medium-Term Management Plan 23-25, in order to more strongly promote management focused on profit growth by accelerating unit openings in the self-storage business. The management targets are for net sales of ¥29,400mn (up 19.0% compared to FY12/24), operating income of ¥6,550mn (up 33.5%), and ordinary income of ¥6,170mn (up 30.9%) in FY12/27, the plan's final year. The Company plans to improve its operating income margin to 22.3% (up 2.4 percentage points (pp)) through growth and high occupancy in the self-storage business. While the performance of the land rights consolidation business and other operational services business is expected to be held mostly flat, the Company plans to achieve sales and profit growth by positioning the self-storage business as its growth driver. In the self-storage business, the Company aims to expand its market share through both openings by the Company, and the full-scale rollout of its partner system. Furthermore, as part of its differentiation strategy, the Company plans to implement data-driven management by building a self-storage database, and to establish two key pillars: early profitability from new properties and the maintenance of high occupancy rates at existing properties. With these in place, it aims to enter a new phase of accelerated new unit openings. Given the significant growth potential expected in the domestic self-storage market, this is an ambitious plan to accelerate new unit openings all at once and expand market share within the industry. We at FISCO will closely monitor the Company's progress going forward. Additionally, the Company is proactively promoting ESG management while pursuing profits as the industry leader. Given the growing tendency in recent years, particularly among institutional investors, to invest in companies that take ESG factors into consideration, we at FISCO have high expectations for the Company's future initiatives.

Key Points

- The leading company in the self-storage industry. Aiming for profit growth in the long term centered on the self-storage business, which is a recurring revenue business
- Mainstay self-storage management performed well in FY12/24, beating initial forecasts for both net sales and profits. Dividends were increased significantly based on this strong performance
- For FY12/25, growth in the self-storage business is expected to drive higher sales and profits, and a dividend increase is planned
- Advanced management focused on profit growth underpinned by self-storage management, based on the new medium term management plan

Results trends



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

Company profile

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

1. Company profile

The Company is the leading company in the self-storage industry, listed on the TSE Standard Market, and has a corporate philosophy of "Provide Convenience, Joy, and Excitement." In addition to its core business offering rental storage space (trunk units) under the Hello Storage brand throughout Japan, the Company is also engaged in land rights consolidation business, office business, and asset business, among others.

Under the strong leadership of Naomichi Hayashi, Company founder and its current representative director and chairman (stepped down as representative director and president in March 2023 and appointed chairman) and Yoshika Suzuki, appointed representative director and president in March 2023, the Company demonstrates the following three strengths that are based on a flexible management strategy that accommodates changes in the environment to continue steady growth unaffected by the business climate.

The first strength is that the Company's self-storage business has the leading share in the industry for the number of units, approximately 17%, and extends to all 47 prefectures in Japan. In the self-storage industry, there is an overwhelmingly large number of small-scale companies with market shares of less than 1%. Also, in the US, where this industry developed ahead of Japan, about 13.50 million or 10.6% of total households use self-storage, but in Japan, this number is about 600,000, which equates to only about 1.1% of the number of total households. In recent years, needs for storage have risen centered on metropolitan areas, and it can be said that the self-storage market is expected to grow greatly. The Company's business is centered on self-storage management that generates stable earnings, and it is targeting a market share of 30% in the medium term.

The second strength is that the Company's financial structure is highly sound. As of the end of FY12/24, its equity ratio was 47.9%, greatly exceeding the 33.3% average for the real estate industry on the TSE Prime, Standard, and Growth markets in FY3/24, and it aims to maintain the ratio in the 50% range in the medium term. It is one of only several listed companies that conduct a self-storage business for individuals. The Company uses its excellent financial structure as a weapon to develop its business under favorable conditions.

The third strength is that the Company is highly profitable. Specifically, at the end of December 2024, it had 80 employees (excluding directors, temporary employees, and dispatched employees), so its head office costs are small under a management structure with a small number of highly skilled employees. Also, in FY12/24, ROA was 8.9% and ROE was 12.4%, which are higher than the averages of the real estate industry on the TSE Prime, Standard, and Growth markets in FY3/24 of ROA 4.0% and ROE 8.8% respectively. The Company is aiming to further grow earnings and improve profitability by advancing the new medium-term management plan.

2. History

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

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

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

The Company, which had been developing the wide-ranging Hello Series, set the self-storage business (container storage and trunk units), which has the advantages of little competition as a niche market and low running costs as a non-residential type of real estate, as its core business, and it has aimed to expand and strengthen its business under the slogan of being "overwhelmingly No. 1 for share and quality." On the other hand, alongside changes in the market environment, it has reviewed its growth strategy, which has been dependent on buying and selling (brokerage), and is switching to a policy of aiming for stable growth centered on self-storage management. The Company announced Medium-Term Management Plan 23-25 in February 2023 and has been working to implement it. In February 2025, it announced the new Medium-Term Management Plan 25-27 to more clearly articulate its focus on accelerating growth and improving profitability, centered on the self-storage business.

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

History

Date	History
April 1995	Established WELL's Giken K.K. for contracts for the WELL's 21 warehousing office. Launched a contracting business for WELL's 21 cross-industrial exchange stations
April 1996	Launched a property leasing business
June 1996	Launched Hello Parking, a coin-operated parking lot business
March 1999	Launched Hello Container, a business for installing and leasing storage containers on vacant land
October 1999	Changed company name to Mister Kashichi Co., Ltd.
August 2000	Launched a coin-operated laundry business
September 2000	Conducted an absorption merger with Sysnet K.K. (property leasing business was transferred from Sysnet). Changed company name to Arealink Co., Ltd.
December 2000	Acquired all the shares of Hayashi Soken Inc., and made it a wholly owned subsidiary (absorption merger in April 2002). Launched Hello Monthly, a weekly/monthly apartment rental business.
February 2001	Launched the Hello Trunk business using vacant buildings for storage rental space
September 2002	Launched a recurring revenue-type management business to provide management services for the land and properties owned by the Company (currently, the Property Management Service business)
January 2003	Launched the Hello Renewal business to renovate old buildings to add value and improve management efficiency (currently, the Property Revitalization & Liquidation Service business)
June 2003	Opened Hello Bike BOX, indoor parking for motorcycles
August 2003	Listed on TSE Mothers
January 2004	Launched the Hello Office business to lease SOHO utilizing vacant buildings
February 2005	Acquired Space Products K.K., in the same industry that manages Rakuchin BOX
November 2005	Exceeded 10,000 units in the Hello Storage business
January 2008	Exceeded 30,000 units in the Hello Storage business
June 2014	Exceeded 50,000 units in the Hello Storage business
July 2015	Exceeded 60,000 units in the Hello Storage business
August 2015	Launched 2×4 (Two by Four) Trunks, suburban indoor-type rental spaces
June 2016	Concluded a licensing agreement to develop properties in collaboration with Hello Kitty
December 2016	Relocated the Head Office to Sotokanda, Chiyoda-ku, Tokyo, its current location. Exceeded 70,000 units in the Hello Storage business
November 2017	Exceeded 80,000 units in the Hello Storage business
November 2018	Exceeded 90,000 units in the Hello Storage business
May 2020	Listing was upgraded to the TSE Second Section
February 2021	Announced Medium-Term Management Plan 21–23
February 2022	Announced Medium-Term Management Plan 22–24
April 2022	Moved to the Standard Market in line with the TSE's recategorization of market segments
February 2023	Announced Medium-Term Management Plan 23–25
September 2023	Exceeded 100,000 units in the Hello Storage business
February 2025	Announced Medium-Term Management Plan 25–27

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

Business overview

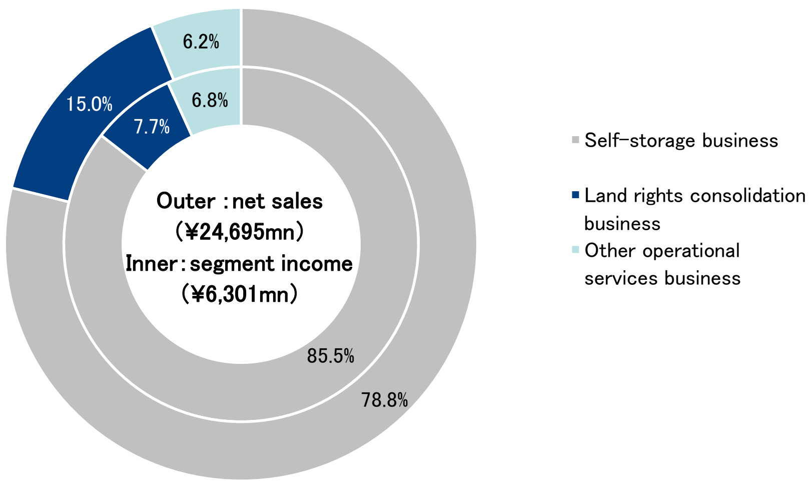
Self-storage management is the core business

1. Business segments

The Company's business is comprised of three business segments: 1) self-storage business, which is comprised of two sub-segments, self-storage management and self-storage brokerage; 2) land rights consolidation business, which includes buying and selling of land with limited proprietary rights and other properties and obtaining land with limited proprietary rights lease income, and 3) other operational services business, such as rental offices and asset management.

Looking at the breakdown of net sales by segment in FY12/24, the self-storage business provided 78.8%, land rights consolidation business 15.0%, and other operational services business 6.2%. Turning to the breakdown of segment income (before deducting administrative expenses), the self-storage business provided 85.5%, the land rights consolidation business 7.7%, and other operational services business 6.8%. This demonstrates that the self-storage business is the Company's core business for both net sales and segment income.

Breakdown of net sales and segment income by business segment
(FY12/24 results)



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

2. Self-storage business

The Company is achieving growth with the self-storage business at its core, and this business also provides an overwhelming share of earnings. This business is divided into two sub-segments, self-storage management and self-storage brokerage. Self-storage management is a business for the management, tenant recruitment, and administration of rental storage spaces, and is a source of stable recurring income that generates ongoing revenue from customers. Conversely, self-storage brokerage is a business for the ordering and sales of storage as an investment product, and it can be said to generate temporary one-time income. The Company plans to maintain self-storage management profitability by curbing profit margins at the time of sale on the one hand, and accepting management from customers when conducting sales as self-storage brokerage. Although temporary income from self-storage brokerage will not be recorded because of this, it is expected to lead to growth in overall self-storage business sales.

Hello Storage, which is the main brand in the self-storage business, boasts the No. 1 share in the industry for the number of properties for trunk units for home and company usage. Large and small indoor spaces are partitioned, and various sizes and product types are prepared and can be used 24 hours a day at reasonable prices, enabling the provision of services that meet the diverse needs of customers. Its product types include outdoor-type trunk units (container type) and indoor-type trunk units (in-building type or building type).

Outdoor-type trunk units (container-type) are the Company’s main product. From Hokkaido to Okinawa, the units have expanded nationwide, offering storage space using durable containers originally made for maritime shipping. You can drive up right alongside the container and it can be used 24 hours a day. Another characteristic is the range of sizes from large sizes with large storage capacities to compact sizes. In addition, some properties have “bike boxes,” standalone box-type parking spaces specifically for motorcycles.

Indoor-type trunk units (in-building type), instead of using containers, are products made by putting up partitions in an existing building’s floor to renovate it to trunk units. These are largely located in the Tokyo metropolitan area. Its features are they can be used 24 hours a day safely and securely thanks to security provided by a major security company and the wide variety of the popular medium-sized units. Whether there are facilities such as parking spaces and air conditioning depend on the property.

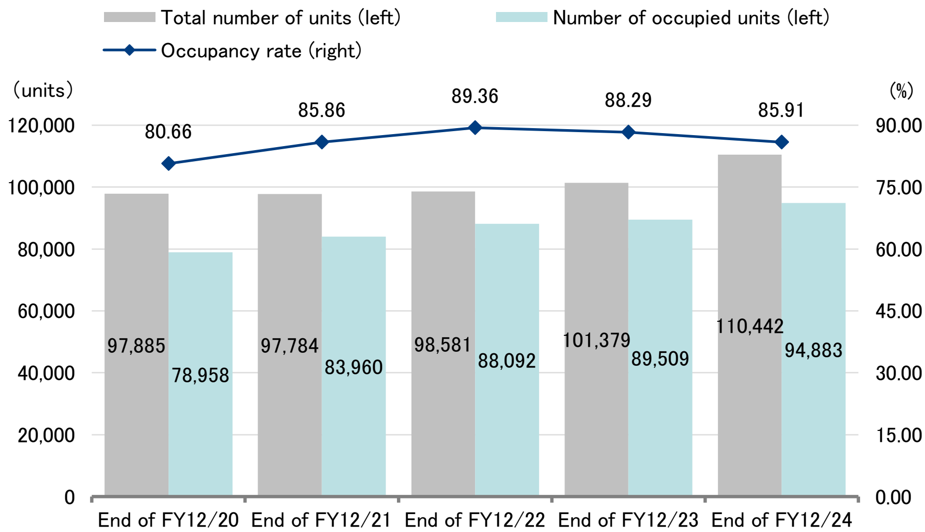
Indoor-type trunk units (building-type) are entire buildings designed for use of trunk units, offering storage space inside rooms. Air conditioning and security are enhanced and there are dedicated parking spaces. Since 2021, the Company has added small-scale wooden structure self-storage mini units, which sit on smaller lots than conventional products. It is being developed in regional cities, areas around stations and suburbs with clusters of condominiums where new families live. However, building-type storage units require purchasing land and building, so the return is at a relatively low level.

Self-storage business products

Source: The Company's results briefing materials

The number of these Hello Storage units continues to rise steadily each year. The number of units in FY12/24 increased by 9,063 compared to end-FY12/23 to 110,442 units. The occupancy rate at existing units was maintained at a high level of 90.90%. Occupancy rates at new units opened within the last two business years was just 55.95%, and overall utilization was 85.91% (down 2.38pp), but a high level continues to be maintained. In addition, the Company is raising the precision of its database, developing smaller-sized properties at multiple locations, and raising the name recognition of its products and services to get the occupancy rate of newly opened units above the breakeven point as soon as possible each year, and this has been showing improvement.

Trends in the number of Hello Storage units and occupancy conditions



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

3. Land rights consolidation business

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

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

Situations where the owners of the land and building differ create twisted and complex rights relationships, and this also affects the price of the land, so typically the leasehold rights portion is deducted. In this business, the Company acquires land with limited proprietary rights from landowners and generates income by selling those rights to building owners, while also arranging the rights relationships. Dead stock, which had risen at one point, has all be liquidated, but this business is an unstable one-time income business, so it is currently contracting under the Company's policy of promoting the self-storage business, which is a recurring revenue business.

4. Other operational services business

The other operational services business comprises the asset business, rental office business, and others. The type of income they generate is recurring revenue. The asset business mainly consists of rental income on revenue-generating properties that are owned. In addition, the rental office business is being expanded under the Hello Office brand of offices for small numbers of people in Tokyo's 23 wards. Demand expanded with the increase in remote work due to the COVID-19 pandemic, and many competitors entered the market. The other operational services business withdrew from the rental meeting room business in December 2020 and from the parking business in March 2021, as the Company continues to select certain businesses for focus.

Results trends

In FY12/24 results, net sales and profits were both above initial forecasts, and mainstay self-storage management was strong

1. Overview of FY12/24 results

For FY12/24, net sales were ¥24,695mn (up 9.9% YoY), operating income was ¥4,906mn (up 18.1%), ordinary income was ¥4,714mn (up 16.2%) and net income was ¥3,200mn (up 13.5%), with profits at each level achieving double-digit growth. Non-operating income included ¥132mn in compensation for forced relocation received from owners when the Company withdrew from storage properties it had occupied as a tenant. On the other hand, non-operating expenses included ¥204mn in interest expenses and ¥183mn in commission expenses. These non-operating income and expense items affected ordinary income. Additionally, net income was affected by a decrease in extraordinary income, including gain on liquidation of investment securities, and an increase in extraordinary losses such as impairment losses. As a result of the above, net sales exceeded the initial forecast by 1.2%, operating income by 5.5%, ordinary income by 4.3%, and net income by 3.9%.

By segment, mainstay self-storage management maintained high occupancy rates even with an increase in the number of units opened. However, due to the impact of self-storage brokerage falling short of its forecast, overall sales for the self-storage business underperformed its forecast, despite significant increases in both sales and profits. In the land rights consolidation business, both sales and profits increased and were much higher than forecasts, due to the settlement of a large project. In addition, in the other operational services business, sales and profits both increased, surpassing forecasts.

Summary of FY12/24 results

(¥mn)

	FY12/23		FY12/24			YoY		vs. forecast	
	Results	vs. net sales	Initial forecasts	Results	vs. sales	Change	Rate of change	Difference	Rate of change
Net sales	22,463	100.0%	24,400	24,695	100.0%	2,232	9.9%	295	1.2%
Gross profit	7,552	33.6%	-	8,769	35.5%	1,216	16.1%	-	-
SG&A expenses	3,397	15.1%	-	3,862	15.6%	465	13.7%	-	-
Operating income	4,155	18.5%	4,650	4,906	19.9%	751	18.1%	256	5.5%
Ordinary income	4,058	18.1%	4,520	4,714	19.1%	655	16.2%	194	4.3%
Net income	2,821	12.6%	3,080	3,200	13.0%	379	13.5%	120	3.9%

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

The results by segment are as follows.

(1) Self-storage business

In the self-storage business, net sales were ¥19,468mn (up 11.7% YoY) and segment income was ¥5,387mn (up 18.1%), a strong performance. This business's share of total results was 78.8% of net sales and 85.5% of segment income, and its profit margin rose to 27.7% (up 1.5pp), so it supported the Company's performance as the core business. The Company's policy since FY12/19 has been for the earnings foundation to be self-storage management, a recurring revenue business that stably accumulates monthly income, and it can be said that the results of this policy are materializing.

The self-storage management business, which is central to the self-storage business, had net sales of ¥17,830mn (up 7.0% YoY) and gross profit of ¥7,043 (up 13.1%). Units in the self-storage business totaled 110,442 at the end of FY12/24 (up 9,063 from end-FY12/23). This was the result of new unit openings reaching 10,545, well above the plan of 10,400 units, partially offset by decreases due to unit closures and other factors. In terms of the breakdown of new unit openings, mainstay containers accounted for 82.7%, followed by indoor trunk units (in-building type) at 11.3%, and building-type self-storage mini units at 6.0%. As the Company raises its brand recognition, it is receiving information on candidate locations for new unit openings from landowners, real estate companies and financial institutions, etc.

In addition, the occupancy rate in the self-storage management business is 85.91% (down 2.38pp from end-FY12/23) as the Company continues to maintain a high rate. The reason the rate went down even though the rate at existing units remained at a high level of 90.90% (down 0.20pp) is because the occupancy rate at new properties opened during the past two business years stands at 55.95% (down 1.06pp). However, as the number of owned properties has increased, occupancy rates after new unit openings have been improving and year after year the breakeven point is overcome quickly. Factors for the higher occupancy rates include improved database precision, opening smaller-sized properties at multiple locations, the impacts of smaller-sized houses and higher prices for houses, and increased name recognition for products and services due to a focus on PR activities.

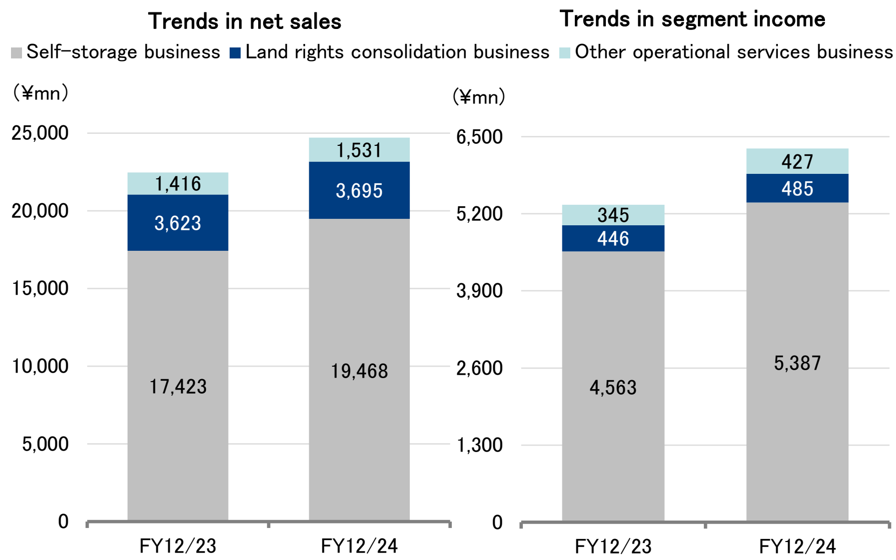
At the same time, self-storage brokerage saw net sales of ¥1,637mn (up 116.8% YoY) and gross profit of ¥307mn (up 403.3%). Although the sale of 10 building-type self-storage mini unit properties led to increased sales and profits, the results still fell short of forecasts. This business has only a small share of the self-storage business, so the impact on the business overall is negligible.

(2) Land rights consolidation business

Net sales were ¥3,695mn (up 2.0% YoY) and segment income was ¥485mn (up 8.9%). The profit margin was 13.1% (up 0.8pp). The segment's results were about 1.5 times above forecasts due to the settlement of a large project. The Company continues to focus on purchasing high-quality properties, and inventory was ¥2,938mn (down ¥871mn from end-FY12/23).

(3) Other operational services business

Net sales were ¥1,531mn (up 8.1% YoY) and segment income was ¥427mn (up 23.8%). The profit margin was 27.9% (up 3.5pp). The asset business saw increased sales and profits as a result of maintaining stable, high occupancy rates. In the office business, two properties that newly opened in February 2023 contributed to sales and profits as their occupancy rose, resulting in higher sales and profits, exceeding the forecast.



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

2. Financial condition and management indicators

At the end of FY12/24, current assets were up ¥670mn compared to the end of the previous fiscal year to ¥22,588mn. This was mainly due to a ¥383mn increase in real estate for sale in process, and a ¥214mn increase in cash and cash equivalents. Non-current assets increased ¥5,572mn to ¥33,361mn. This was primarily due to an increase of ¥4,223mn in property, plant and equipment mainly from the purchase of tools, furniture and fixtures. As a result, total assets rose ¥6,243mn to ¥55,919mn.

Current liabilities were up ¥724mn compared to the end of the previous fiscal year to ¥7,786mn. This was mainly due to increases of ¥380mn in advances received and ¥275mn in accounts payable – other. Non-current liabilities rose by ¥3,770mn to ¥21,363mn. This was primarily due to a ¥4,273mn increase in long-term borrowings, which outweighed decreases of ¥294mn in lease obligations and ¥244mn in long-term unearned revenue. As a result, total liabilities increased ¥4,494mn to ¥29,149mn.

Net assets were up ¥1,748mn from the end of the previous fiscal year to ¥26,769mn. This was mainly due to an increase in retained earnings of ¥1,729mn attributable to an increase of ¥3,200mn in net income, which was partly offset by a decrease of ¥1,471mn in dividend payments.

As a result of the above, interest-bearing debt increased ¥4,086mn compared to the end of FY12/23 to ¥20,841mn. In addition, the equity ratio was 47.9%, falling short of the Company's target of 50%. However, the Company is maintaining a high level of safety that exceeds the 33.3% real estate industry average based on the total of TSE Prime, Standard, and Growth markets in FY3/24. In addition, ROA was 8.9% and ROE 12.4%, above 4.0% ROA and of 8.8% ROE, the real estate industry averages on the TSE Prime, Standard, and Growth markets.

Balance sheet and management indicators

(¥mn)

	End of FY12/23	End of FY12/24	Change
Current assets	21,887	22,558	670
Cash and cash equivalents	14,995	15,210	214
Real estate for sale, real estate for sale in process	6,301	6,582	281
Non-current assets	27,788	33,361	5,572
Property, plant and equipment	24,236	28,459	4,223
Intangible assets	58	166	108
Investments and other assets	3,494	4,734	1,240
Total assets	49,676	55,919	6,243
Current liabilities	7,062	7,786	724
Accounts payable, construction-related payables	164	182	17
Short-term loans payable, etc.	3,142	3,249	106
Non-current liabilities	17,592	21,363	3,770
Long-term loans payable, lease obligations	13,612	17,592	3,979
Interest-bearing debt	16,755	20,841	4,086
Total liabilities	24,655	29,149	4,494
Total net assets	25,021	26,769	1,748
Stability			
Equity ratio	50.4%	47.9%	-2.5pp
Profitability			
Return on assets (ROA)	8.5%	8.9%	0.4pp
Return on equity (ROE)	11.7%	12.4%	0.7pp

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

At the end of FY12/24, the balance of cash and cash equivalents was up ¥214mn compared to the end of the previous fiscal year to ¥15,210mn. Cash flow provided by operating activities was ¥5,746mn. Looking at the components, the main factors increasing the cash balance were profit before income taxes of ¥4,571mn, depreciation of ¥1,416mn, and a decrease in inventories of ¥637mn, which partly offset factors reducing the cash balance such as income taxes paid of ¥1,150mn. Cash flow used in investing activities was ¥8,181mn. In terms of the components, the main factors reducing the cash balance were purchase of property, plant and equipment of ¥6,713mn and purchase of shares of subsidiaries and associates of ¥1,150mn. Cash flow provided by financing activities was ¥2,616mn. Looking at the components, the main factor increasing the cash balance was proceeds from long-term borrowings of ¥8,055mn, while the main factors reducing the cash balance included repayments of long-term borrowings of ¥3,736mn and dividends paid of ¥1,469mn. As a result of the above, free cash flow, which represents cash available for the Company to use freely, was negative ¥2,434mn.

Cash flow statements

(¥mn)

	End of FY12/23	End of FY12/24
Cash flow from operating activities (a)	3,530	5,746
Cash flow from investing activities (b)	-4,667	-8,181
Cash flow from financing activities	1,818	2,616
Free cash flow (a) + (b)	-1,136	-2,434
Balance of cash and cash equivalents at the end of the period	14,995	15,210

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

Outlook

In FY12/25, forecasting increases in sales and profits driven by growth in the mainstay self-storage business, despite a downsizing policy for the land rights consolidation business

● FY12/25 forecasts

Regarding results for FY12/25, the Company is forecasting net sales of ¥26,000mn (up 5.3% YoY), operating income of ¥5,350mn (up 9.0%), ordinary income of ¥5,080mn (up 7.8%), and net income of ¥3,420mn (up 6.8%). Based on the new Medium-Term Management Plan 25-27, sales and profits are expected to continue to increase in the mainstay self-storage business. In self-storage management, the Company will accelerate unit openings nationwide and is planning further growth. Meanwhile, the priority of management is being shifted to the self-storage business, so the land rights consolidation business is expected to see a significant decrease in sales and profits due to the downsizing of its business. In addition, the other operational services business is forecasting small declines in sales and profits.

In the self-storage business, the Company plans to open a total of 15,000 units (up 4,455 units YoY), consisting of 10,000 units to be opened by the Company and 5,000 partner units to be operated and managed under contract from other self-storage business operators. As a result, with a higher share of the highly profitable, unmanned self-storage business, the operating income margin is expected to increase to 20.6% (19.9% in FY12/24). Because the Company tends to issue conservative forecasts, unless the operating environment deteriorates more than expected, we at FISCO believe there is a high likelihood that the Company will achieve its forecasts.

FY12/25 results outlook

(¥mn)

	FY12/24		FY12/25		YoY	
	Results	vs. net sales	Forecasts	vs. net sales	Change	Rate of change
Net sales	24,695	100.0%	26,000	100.0%	1,304	5.3%
Operating income	4,906	19.9%	5,350	20.6%	443	9.0%
Ordinary income	4,714	19.1%	5,080	19.5%	365	7.8%
Net income	3,200	13.0%	3,420	13.2%	219	6.8%

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

The results forecasts by segment are as follows.

(1) Self-storage business

The forecasts are for net sales of ¥22,700mn (up 16.6% YoY), segment income of ¥6,040mn (up 12.1%), and a profit margin of 26.6% (27.7% in the previous fiscal year). In the self-storage business, the Company plans to continue expanding and growing a recurring revenue business centered on storage management. Its policy will be to establish a management structure unaffected by conditions in the real estate and financial markets by solidifying a stable, accumulative earnings foundation. The Company is aiming to grow and expand this business further by accelerating unit openings nationwide, in order to transform lifestyles in Japan through storage and as a growing business, while establishing the business as one that backs up the affluent lifestyles of Japanese people. To do so, the Company will enhance brand power and recognition, raise customer satisfaction, and develop services ancillary to storage by increasing the number of units opened for Hello Storage, the Company's self-storage brand. In self-storage brokerage, sales will be undertaken for outdoor-type containers and asset indoor-type self-storage with land.

(2) Land rights consolidation business

In the land rights consolidation business, the forecasts are for net sales of ¥1,800mn (down 51.3% YoY) and segment income of ¥310mn (down 36.2%) in accordance with a policy of downsizing this business.

(3) Other operational services business

In the other operational services business, the forecasts are for net sales of ¥1,500mn (down 2.1% YoY) and segment income of ¥400mn (down 6.5%).

Growth strategy

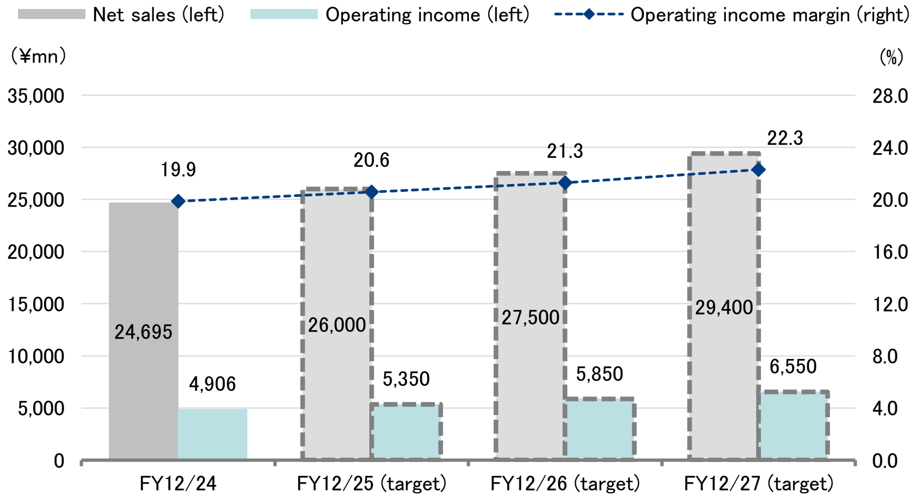
Advancing the new medium-term management plan focused on profit growth underpinned by self-storage management

1. Overview of the new medium-term management plan

The Company announced the new Medium-Term Management Plan 25-27, after discontinuing Medium-Term Management Plan 23-25, in order to more strongly promote management focused on profit growth by accelerating unit openings in the self-storage business. The management targets are for net sales of ¥29,400mn (up 19.0% compared to FY12/24), operating income of ¥6,550mn (up 33.5%), and ordinary income of ¥6,170mn (up 30.9%) in FY12/27, the plan's final year. The Company plans to improve its operating income margin to 22.3% (up 2.4pp) through growth and high occupancy in the self-storage business. While the performance of the land rights consolidation business and other operational services business is expected to be held mostly flat, the Company plans to achieve sales and profit growth by positioning the self-storage business as its growth driver.

Given the significant growth potential expected in the domestic self-storage market, these management targets are based on an ambitious plan to accelerate new unit openings all at once and expand market share within the industry. We at FISCO will closely monitor the Company's progress going forward.

Medium-Term Management Plan 25-27

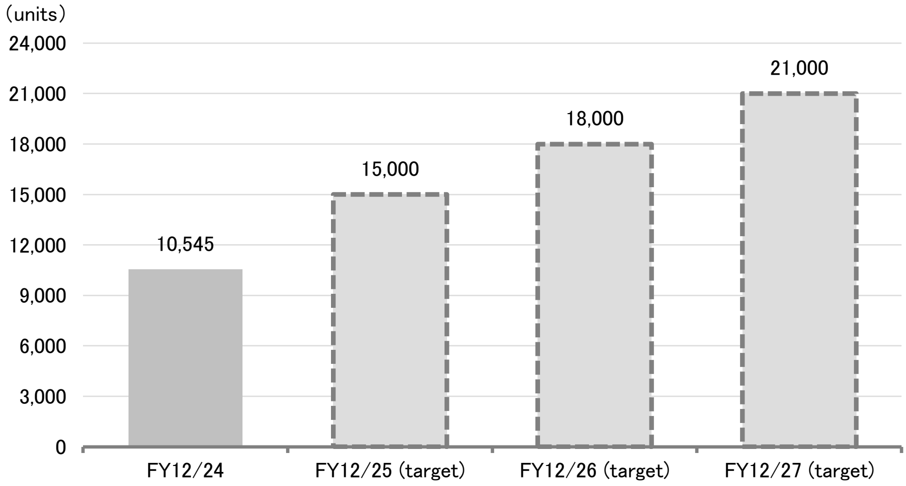


Source: Prepared by FISCO from the Company's results briefing materials

2. Plan for new unit openings

Based on the high growth potential of Japan's self-storage market, the plan for new unit openings is key to achieving the Company's medium-term management plan. Under this plan, the Company aims to accelerate new unit openings to 21,000 units in FY12/27, approximately double the actual number in FY12/24. Of this total, 16,000 units are planned to be opened by the Company, while the remaining 5,000 units are to be opened through the full-scale rollout of the partner system, under which the Company will operate and manage the units under contract from other self-storage business operators. The Company has already initiated the full-scale rollout of the partner system, which provides one-stop support to storage business operators nationwide, for priorities ranging from customer acquisition to cancellations, for both new unit openings and properties currently in operation. However, because partner-based openings depend on third parties, the Company is taking a cautious view and expects the number of such openings to remain largely flat during the period of the plan.

Number of new units planned



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

When comparing the earnings structures, for units opened by the Company, gross profit is calculated as net sales, which include rent, administrative costs, and other fees, minus land rent, depreciation and operating expenses. In contrast, for partner-based openings, gross profit is derived as net sales, which include 10% of rent, administrative costs, and other fees, minus operating expenses. Although net sales are lower in this model, the gross profit margin is higher. Additionally, this format offers other advantages, such as no initial investment costs, no loss period, and improved market share for the Company.

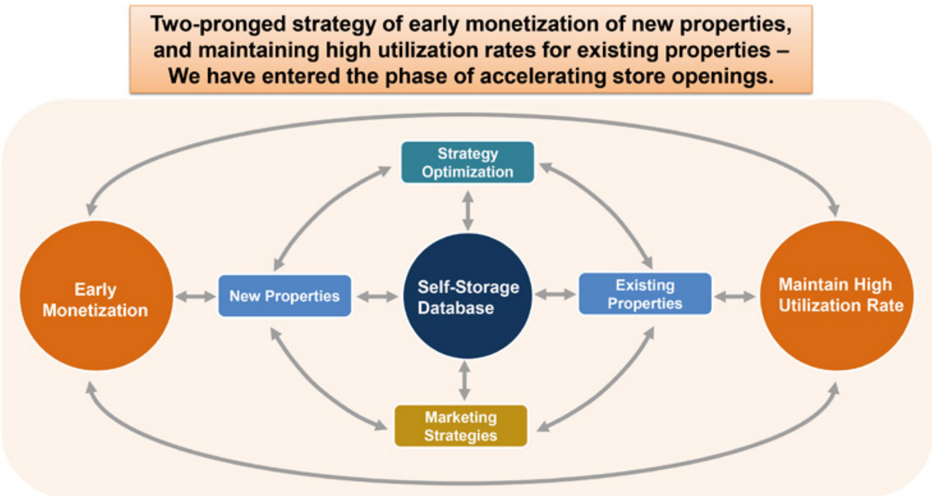
Furthermore, the self-storage business has several characteristics, including high profitability, low costs due to unmanned operations (although some properties are staffed), operations typically run by renting land and building floors (with some properties owned), and the ability to begin operations shortly after securing land agreements. However, marketing research and site selection are critical for new unit openings, and economies of scale are not realized until the business reaches a certain size. For these reasons, the self-storage business presents a high barrier to entry in practice.

Against this backdrop, the Company is the only player offering three types of self-storage products: indoor trunk units (in-building type), building-type self-storage mini units, and container units. With the infrastructure now in place, including a database for opening units (population, number of households, income level, etc.) covering all of Japan, expansion of unit opening areas, and a sales structure that does not rely on manpower, the Company is accelerating new unit openings all at once. By pursuing strategic early unit openings, it aims to capture a 30% share in the industry by 2032. In short, the Company has an ambitious plan to become the "overwhelmingly No.1 for share and quality" in Japan, and to expand into global markets.

3. Differentiation strategy

As a differentiation strategy to enable the acceleration of new unit openings, the Company plans to implement data-driven management by building a self-storage database. This self-storage database will accumulate customer and property data (numbering in the hundreds of thousands of cases, including past cancellations) across all 47 prefectures of Japan. Backed by this precise data foundation, the Company aims to achieve highly accurate new unit openings and realize data driven management that does not rely on human experience and intuition. Additionally, in terms of customer acquisition strategy, the Company will offer optimal products tailored to each region nationwide, considering long-term profitability while enhancing overall efficiency and reducing unit costs through optimized advertising strategies centered on Web-based advertisements. Moreover, in terms of strategic optimization, the Company will analyze data points from various perspectives, including contracts, cancellations, usage durations, rent settings, promotional campaigns, and regional data. Following each new property opening, the Company will accumulate new data to further enhance precision. Through this strategy, the Company aims to achieve early profitability from new properties, while maintaining high occupancy rates at existing ones, with plans to enter a new phase of accelerated new unit openings.

Differentiation strategy



Source: The Company's results briefing materials

In this manner, the Company has set highly ambitious management targets in its medium-term management plan. However, given the significant growth potential expected in the domestic self-storage market, we at FISCO believe that these management targets are fully achievable, provided the Company steadily advances its plan for unit openings and differentiation strategy. It should also be noted that the Company is proactively promoting ESG management while pursuing profits as the industry leader. Specifically, with regard to consideration for the environment, the Company aims to realize a society that avoids excessive ownership by promoting the benefits of organization and storage through the use of self-storage. It is also implementing the Container Building 100-Year Utilization Project and working to reduce wastepaper in offices. In social contributions, the Company runs a human resource development program (to increase per-capita profit by utilizing the Arealink method), supports diverse work styles, and allows self-storage utilization in times of disaster, etc. In governance, efforts include appointing two independent outside directors among six board members, establishing a Compliance Committee, and providing stable shareholder returns with a target payout ratio of 35%. Given the growing tendency in recent years, particularly among institutional investors, to invest in companies that take ESG factors into consideration, we at FISCO have high expectations for the Company's future initiatives.

Shareholder return policy

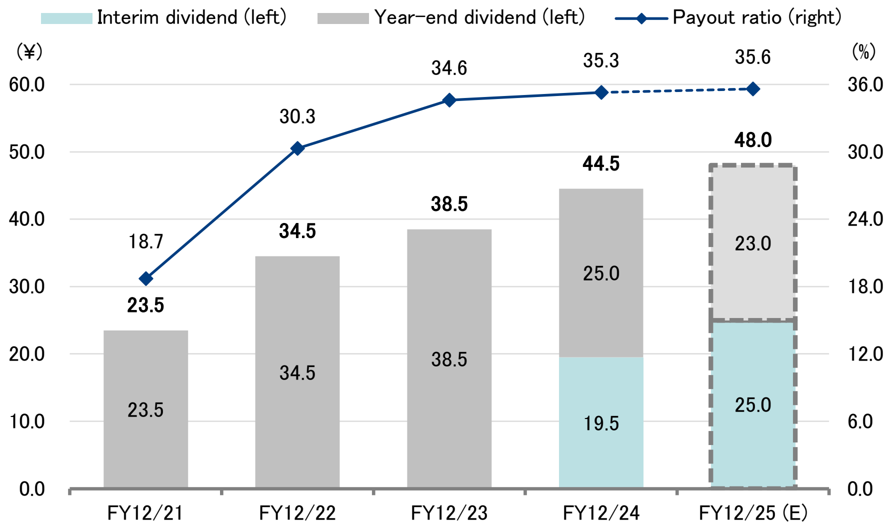
Interim dividend introduced and 35% payout ratio target achieved in FY12/24. Plans to maintain a payout ratio of 35% or more through dividend increase in FY12/25

Returning profits to shareholders is an important management issue for the Company, which it fundamentally performs through paying dividends. Furthermore, starting in FY12/24, the Company raised its payout ratio target from 30% to 35%, and, with the introduction of an interim dividend, adopted a basic policy of paying dividends twice a year, specifically interim and year-end. This policy is decided based on the Company's medium- to long-term business plan and while observing the market environment and the timing of capital investment, comprehensively taking into consideration factors such as securing internal funds, its financial condition, and the level of profits.

In FY12/24, reflecting the strong performance, the Company increased its total dividend to ¥44.5 per share (¥6.0 above FY12/23), consisting of an interim dividend of ¥19.5 (adjusted retrospectively for a 2-for-1 stock split conducted on July 1, 2024) and a year-end dividend of ¥25, which raised the payout ratio to 35.3%. For FY12/25, the Company plans to further increase the total dividend to ¥48.0 per share (¥3.5 above FY12/24), comprising an interim dividend of ¥25.0 and year-end dividend of ¥23. With a forecast payout ratio of 35.6%, the Company plans to continue working to achieve its payout ratio target of 35%.

The Company plans to ambitiously increase profits centered on a recurring revenue business which generates stable revenue from customers based on the new medium-term management plan. Therefore, as the Company is positive about shareholder returns, we at FISCO think that further dividend increases can be expected by achieving its performance targets in the plan.

Trends in dividend per share and payout ratio



Note: A 2-for-1 stock split was conducted on July 1, 2024. Figures have been retrospectively adjusted to reflect the split.
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