COMPANY RESEARCH AND ANALYSIS REPORT

Ainavo Holdings

7539

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Summary

Mid-sized home equipment and exterior installation company; target in the medium-term management plan is operating profit of ¥2.25bn in FY9/22

Ainavo Holdings <7539> (hereafter, also "the Company") is a pure holding company with five consolidated subsidiaries and two non-consolidated subsidiaries. Its main businesses are installations of tile, siding, and other exterior materials, installations of kitchens and various water-related equipment, and sales of building materials and home equipment. We think it is a unique company in offering a combination of installations and building materials and home equipment wholesale businesses. While the Company primarily supplies these services to smaller general contractors and building firms, it also receives installation orders from major general contractors. Strict fund collection management and project progress management have enabled the Company to accumulate abundant net cash (cash/deposits – loans) totaling ¥11,268mn (as of the end of FY9/20) and cultivate a robust balance sheet.

1. FY9/20 results: net sales decreased 6.1% YoY and operating profit declined 17.0%

The Company reported ¥65,338mn in net sales (-6.1% YoY), ¥1,796mn in operating profit (-17.0%), ¥2,056mn in recurring profit (-14.3%), and ¥1,348mn in profit attributable to owners of parent (-7.3%) in FY9/20. By segment, mainly due to the impact of the novel coronavirus pandemic (hereafter, the coronavirus), sales and profits decreased in the standalone homes business. However, sales decreased but profits increased in the large properties business, including due to completions of highly profitable properties. The gross profit ratio was 14.2% (14.1% in the previous period), so improved only 0.1 of a percentage point (ppt.) on the previous period, while SG&A expenses decreased 2.2% YoY. But gross profit declined greatly due to the lower sales, so operating profit decreased.

2. FY9/21 results outlook: aiming for net sales to increase 6.4% and operating profit to rise 16.9%

For FY9/21, the Company is forecasting net sales of ¥69,500mn (+6.4% YoY), operating profit of ¥2,100mn (+16.9%), recurring profit of ¥2,300mn (+11.8%) and profit attributable to owners of parent of ¥1,520mn (+12.7%). The future of the housing market remains uncertain, but it is now recovering following its worst period due to the impact of the coronavirus, so the forecast is for an increase in profits. The growth rate in the previous fiscal period was high, but the operating profit level is around the same as in FY9/19, and while it will not be easy, the forecasts appear achievable.

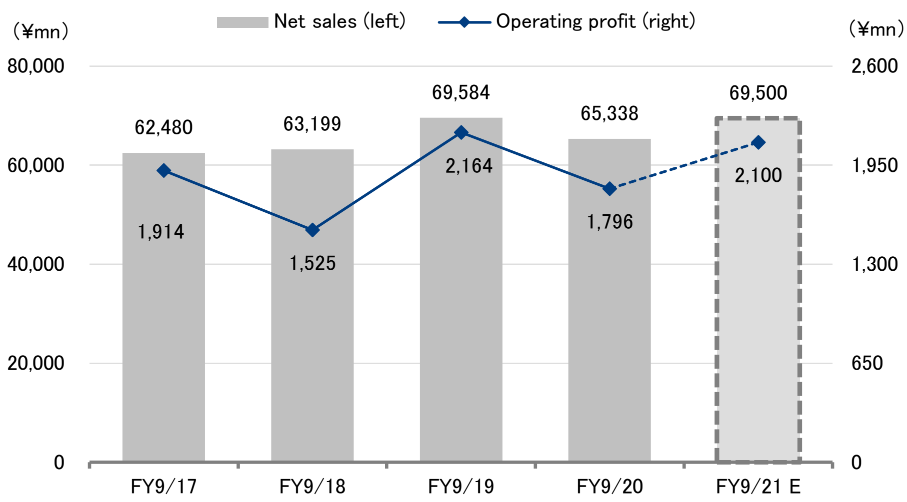
3. Announced the new medium-term management plan: is targeting net sales of ¥90bn and an operating profit ratio of 2.5% in FY9/22

The Company's targets in the previous medium-term management plan were net sales of ¥70bn, operating profit of ¥1.9bn, and an operating profit ratio of 2.7% in FY9/19, and it basically achieved them. In the newly announced medium-term management plan (with FY9/22 as the final fiscal year), it is targeting net sales of ¥90bn (including through M&A) and an operating profit ratio of 2.5% (operating profit of ¥2.25bn). The impression is that the operating profit ratio target is fairly conservative and that operating profit can achieve it, but it seems that it will be more difficult to achieve the net sales target. While observing the environment in the future, the Company may change the target values. For returns to shareholders, it targets a dividend payout ratio of 30% and in FY9/21, it plans to pay an annual dividend of ¥36 (dividend payout ratio of 27.4%), although the possibility remains that it will increase it, depending on results.

Key Points

- Main businesses are exterior and home equipment installations and sales of building materials; possesses a sturdy financial base thanks to reinforced management
- While the remaining FY9/21 business environment remains unclear, is forecasting that operating profit will increase 16.9% YoY
- The targets in the new medium-term management plan are net sales of ¥90bn and an operating profit ratio of 2.5%, but they may be reviewed

Results trends



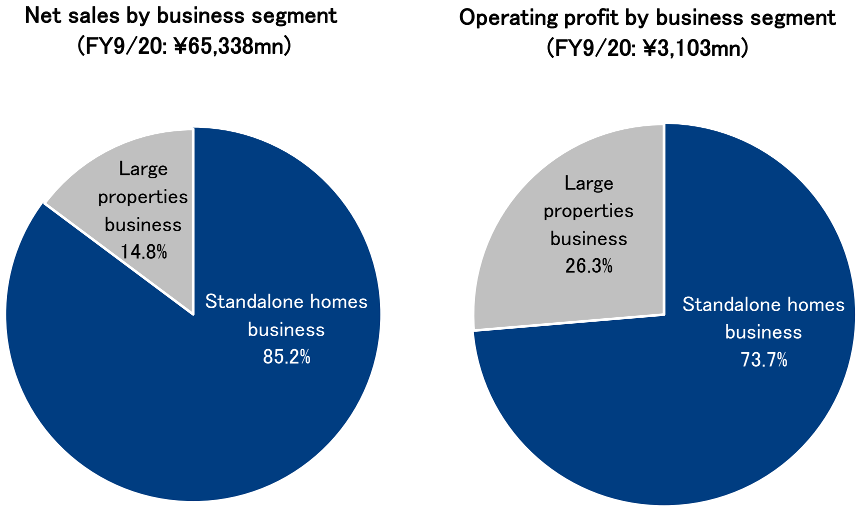
Source: Prepared by FISCO from the Company's financial results

Business overview

Mainly installs tile, siding, and other exterior materials and home equipment. Possesses a sturdy financial base thanks to reinforced management

1. Description of business

Ainavo Holdings, a pure holding company, has five consolidated subsidiaries and two non-consolidated subsidiaries in its group as of the end of FY9/20. The company's business segments are standalone homes and large properties, and segment results in FY9/20 were ¥55,681mn for standalone homes (85.2% of overall sales) and ¥9,657mn for large properties (14.8%) in sales, and ¥2,285mn and ¥817mn, respectively, in operating profit. However, the Company simply splits these segments by the relative size of customers (in terms of orders value) and actual content of business activities is almost the same. The former primarily covers installations for ordinary homes with orders obtained from smaller general contractors and ordinary building firms, while the latter mainly reflects orders from large general contractors and other major customers.



Note: Segment operating profit prior to companywide adjustments
Source: Prepared by FISCO from the Company's financial results

The standalone homes business breaks down further into sub-segments of exterior wall installations, home equipment installations, building materials and related products sales, and home equipment sales, and the large properties business consists of tile installations and home equipment installations. Sub-segment shares of overall sales (FY9/20) as shown below are 21.6% for exterior wall installations, 25.4% for home equipment installations, 20.9% for building materials sales, and 17.3% for home equipment sales under the large standalone homes business and 6.1% for tile installations and 8.7% for home equipment installations under the large properties business.

2. Overview of segments and sub-segments

(1) Standalone homes business

These orders primarily come from local smaller general contractors and builders and home manufacturers and related builders. * The Company does not receive many orders directly from the party conducting the project.

> * Sales of tile materials and home equipment related to installation projects are booked under the respective installation segments.

a) Exterior wall installations

This business handles installations of interior and exterior tiles, floor tiles, and exteriors for ordinary homes, small condominiums, and stores. It supports not only tiles, but also sidings and other materials.

b) Home equipment installations

This business covers renovation installations (including kitchens as well as bath, toilet, and other water-related systems) and solar power generation system installations. While orders are fundamentally separate from exterior wall installations, they are received jointly in some cases. The Company is one of the industry's largest firms for bathroom installations with roughly 20,000 projects per year.

c) Building materials sales

This sub-segment handles wholesale transactions for various building materials used in ordinary homes, stores, and smaller condominiums. Tile building material sales volume is relatively large. Its primary sales destinations are building firms and local homebuilders, and Ainavo does not sell to secondary wholesale firms.

d) Home equipment sales

The Company sells home equipment to building firms and local homebuilders.

(2) Large properties business

Business content is almost the same as the standalone homes business, but the Company books installations at large properties (buildings, condominiums, and others) for major general contractors in this segment. It receives a relatively large amount of orders from Obayashi <1802>, Konoike, and Haseko Corporation <1808>.

a) Tile installations

Interior and exterior tiles, floor tiles, stone material sales and installations

b) Home equipment installations

Kitchens and other home equipment and air-conditioning equipment sales and installations mainly for buildings and condominium buildings.

3. Main procurement and sales counterparts

The Company has roughly 7,000 customers, including major general contractors. Collection of accounts receivables is a key point in business operations, as explained below, because these customers are not always active and value per project varies significantly from a few million yen to over ¥100mn.

LIXIL Group Corporation <5938> is the primary procurement source for construction materials and home equipment, and the Company also purchases extensively from TOTO LTD. <5332>, Rinnai Corporation <5947>, Cleanup Corporation <7955>, and DAIKEN CORPORATION <7905>.

While the Company has about 2,000 subcontractors (large and small) handling projects, roughly half of the sub-contractors work exclusively with the Company and the two sides sustain longstanding trust relationships thanks to support from the insurance framework described below.

4. Competition, features, and strengths

Many companies are involved in exterior wall installations or selling building materials and home equipment, and the Company faces numerous rivals in its various areas of business. While it is not easy to find a clear rival as an overall business, the most likely competitors are KOIZUMI Co., Ltd. and Watanabe Pipe Co., Ltd. However, rivals are declining for exterior wall installations due to the downward trend in the number of contractors in recent years. The Company promotes differentiation with rivals in the current environment leveraging the following features.

One of the Company's unique features is the comprehensive skills training center where it provides training in highly specialized skills for its numerous subcontractors. The Company is capable of supporting a variety of project types because it implements training. The skills center also inspects whether project work is taking place properly at various sites once every half year and reduces discrepancies in completed work due to individual differences through this process.

Another feature is the role of its own insurance program. The Company collects part of subcontractors' turnover and pools the funds in a cooperative association for use to cover income for one week if a subcontractor (worker) is unable to work due to an accident. This program strengthens the trust relationship between the Company and subcontractors and also boosts the retention rate for skilled workers and precision of finished work.

While it is normal for companies to implement sales management, cost management, and project process management, the Company also carefully conducts billing management, deposit management, and uncollected fund management. Specifically, it manages procurement and sales for each project on an individual-line basis, even with small amounts, and applies the management (checks) to not only the income statement, but also the balance sheet. The ability to assess this type of balance-sheet management while monitoring project progress is important and not simple. There have been numerous cases in recent years of other firms in the business of selling building materials entering the installations business, though many rivals later exit the installations portion due to the difficulty (inefficiency) of unpaid funds management. This aspect serves as a "hidden barrier to entry," and the Company's ability to manage it is an important strength. These efforts have enabled the Company to accumulate abundant net cash (cash/deposits – loans) totaling ¥11,268 (as of the end of FY9/20) and cultivate a robust balance sheet.

Results trends

In FY9/20, operating profit decreased 17.0%, mainly due to the impact of the coronavirus. The gross profit ratio was 14.2%, improving 0.1ppt YoY

1. Results through FY9/20

(1) Status of profit and loss

In FY9/20, the Company reported ¥65,338mn in net sales (-6.1% YoY), ¥1,796mn in operating profit (-17.0%), ¥2,056mn in recurring profit (-14.3%), and ¥1,348mn in profit attributable to owners of parent (-7.3%). By segment, mainly due to the impact of the coronavirus, sales and profits decreased in the standalone homes business. However, sales decreased but profits increased in the large properties business, including due to completions of highly profitable properties. The gross profit ratio was 14.2% (14.1% in the previous period), increasing 0.1ppt on the previous period. The Company kept down SG&A expenses, which decreased 2.2% YoY, but this could not cover for the decline in gross profit due to the lower sales, so operating profit decreased.

On analyzing the increases and decreases in operating profit, the profit-decrease factor was a decline of ¥627mn due to the lower sales, while the profit-increase factors were increases of ¥90mn due to the improvement in the gross profit ratio (up 0.1ppt YoY) and of ¥169mn from keeping down SG&A expenses. As a result of these factors, operating profit decreased ¥367mn YoY.

Overview of results through FY9/20

(¥mn)

	FY9/19		FY9/20			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	69,584	100.0%	65,338	100.0%	-4,246	-6.1%
Gross profit	9,819	14.1%	9,280	14.2%	-538	-5.5%
SG&A expenses	7,654	11.0%	7,484	11.5%	-170	-2.2%
Operating profit	2,164	3.1%	1,796	2.7%	-367	-17.0%
Recurring profit	2,400	3.5%	2,056	3.1%	-344	-14.3%
Profit attributable to owners of parent	1,454	2.1%	1,348	2.1%	-105	-7.3%

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

(2) Status by business segment

Below we review trends by segments and sub-segments.

a) Standalone homes business

Standalone homes business posted ¥55,681mn in net sales (-6.2% YoY) and ¥2,285mn in profit (-18.1%). Subsegment sales were exterior wall installations at ¥14,143mn (-0.2% YoY), home equipment installations at ¥16,583mn (-8.5%), building materials sales at ¥13,647mn (-5.4%), and home equipment sales at ¥11,307mn (-10.4%).

The coronavirus had some effects, including causing self-restraint in sales activities and delays in construction work, so sales declined in every segment. In particular, home equipment installations decreased as they require many face-to-face consultations, and alongside this, home equipment sales declined. Sales also decreased YoY as a rebound to the increase in demand in the previous fiscal year ahead of the consumption tax hike in September 2019. In profits, the gross profit ratio improved, including as the new system introduced in FY9/18 is operating steadily. In particular, it seems it improved close to around 3.0ppt in exterior installations. In costs, logistics costs declined alongside the lower sales and business travel costs and other such costs decreased due to the impact of the coronavirus, while the Company also worked to keep down general costs. However, these efforts could not cover for the decline in profits due to the lower sales, so segment operating profit decreased 18.1% YoY.

b) Large properties business

The large properties business recorded ¥9,657mn in net sales (-5.7% YoY) and ¥817mn in profit (+18.7%). In subsegments, net sales for tile sales and installations was ¥3,962mn (-5.6%) and sales for home equipment installations was ¥5,694mn (-5.8%). Segment profit increased despite the decline in sales, including due to the completions of large-scale construction projects with relatively high profitability (including relating to the Olympics). In particular, results were comparatively strong in OnchoGiken Co., Ltd., which mainly conducts air conditioning installations in central and local government buildings.

Results by segment

(¥mn)

	FY9/19		FY9/20			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	69,584	100.0%	65,338	100.0%	-4,246	-6.1%
Standalone homes business	59,341	85.3%	55,681	85.2%	-3,660	-6.2%
Exterior wall installations	14,167	20.4%	14,143	21.6%	-24	-0.2%
Home equipment installations	18,128	26.1%	16,583	25.4%	-1,545	-8.5%
Building materials sales	14,422	20.7%	13,647	20.9%	-775	-5.4%
Home equipment sales	12,623	18.1%	11,307	17.3%	-1,316	-10.4%
Large properties business	10,243	14.7%	9,657	14.8%	-586	-5.7%
Tile sales and installations	4,195	6.0%	3,962	6.1%	-233	-5.6%
Home equipment sales and installations	6,047	8.7%	5,694	8.7%	-353	-5.8%
Operating profit	2,164	3.1%	1,796	2.7%	-367	-17.0%
Standalone homes business	2,792	4.7%	2,285	4.1%	-506	-18.1%
Large properties business	688	6.7%	817	8.5%	128	18.7%
(Adjustments)	-1,316	-	-1,306	-	-	-

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

(3) Results by business company

Profits declined in every business company. However, we should pay attention to the results of OnchoGiken, as although its sales and profits declined, its operating profit ratio improved greatly. This was due to the strong performance of air conditioning installations for central and local government buildings, which have a comparatively high profit margin. This can be said to be a result of OnchoGiken's businesses being dispersed, while being centered on a housing-related business.

Results by business company

(¥mn)

	Avelco			INTELGROW			OnchoGiken			Imamura		
	FY9/19	FY9/20	YoY change	FY9/19	FY9/20	YoY change	FY9/19	FY9/20	YoY change	FY9/19	FY9/20	YoY change
Net sales	52,233	49,984	-4.3%	11,408	10,134	-11.2%	2,392	1,800	-24.7%	3,772	3,630	-3.8%
Operating profit	1,598	1,453	-9.1%	223	115	-48.4%	351	274	-22.0%	102	94	-7.8%
Operating profit ratio	3.1%	2.9%	-	2.0%	1.1%	-	14.7%	15.3%	-	2.7%	2.6%	-
Recurring profit	1,703	1,548	-9.1%	318	202	-36.3%	352	276	-21.5%	140	158	13.0%
Recurring profit ratio	3.3%	3.1%	-	2.8%	2.0%	-	14.7%	15.4%	-	3.7%	4.4%	-
Net profit	1,040	972	-6.5%	240	152	-36.7%	228	179	-21.4%	86	147	69.4%

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

(4) Progress with priority issues

Below we review progress in areas that the Company has earmarked as "priority issues." Siding sales declined 7.7% YoY because of the delays in housing construction, including due to the impact of the coronavirus. The number of siding pre-cut buildings increased 8.2%. The Company is aiming to increase the adoption rate of siding pre-cut. However, in the siding business that combines both businesses, the profit margin is improving, which is good news. Sales of lumber building materials increased 8.8%, as effects appeared from the progress made in developing building stores. Sales of sashes, which the Company is focusing on, decreased 0.7%, but they increased 6.7% when excluding sash branch stores. However, they did not reach their target (up 50%). In the sash business, the Company is shifting to in-house for assembly work and the preparation of drawings, and the profit margin improved.

Sales of Maristo (tiles), which are handled by Avelco Co., Ltd., decreased 17.7% YoY, but the popularity of Artis (unit bathrooms) is gradually increasing, and although their monetary value is still small, their sales increased 40.9%. Up until recently, sales activities for Artis were conducted within Avelco, but Artis' main customer groups include the wealthy, and as they are different to Avelco's main customer groups, the Artis business has been made a subsidiary from FY9/21. The number of ZEH/zero energy/certified homes decreased 4.4%, with the pace declining a little on entering the 2H, including due to the impact of the coronavirus. For new customer development, which is one of the indicators that the Company prioritizes the most, the number of units increased 10.9% YoY, but the monetary value declined 19.8% as there were no large-scale projects.

Progress with priority issues I

(¥mn)

	Siding	Siding pre-cut	Lumber building materials	Sashes	
				Including sash branch stores	Not including sash branch stores
FY9/19	3,235	708	1,433	2,260	1,116
FY9/20	2,987	766	1,559	2,245	1,191
YoY change	92.3%	108.2%	108.8%	99.3%	106.7%

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

Progress with priority issues II

(¥mn)

	Brand business		ZEH/zero energy/ certified homes (units)	New customer development	
	Maristo (tiles)	Artis (unit bathrooms)		Results	Number of units
FY9/19	1,711	193	45	1,213	544
FY9/20	1,410	272	43	973	603
YoY change	82.3%	140.9%	95.6%	80.2%	110.9%

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

Stable financial base. Surplus net cash of ¥11,200mn

2. Financial condition

Looking at financial conditions in FY9/20, current assets totaled ¥25,177mn (-¥1,722mn from the end of FY9/19). Key item trends were cash and deposits up ¥529mn, notes receivable and finished project unpaid funds down ¥2,561mn, and unfinished project spending up ¥372mn. Fixed assets totaled ¥9,166mn (-¥261mn), including tangible fixed assets at ¥5,630mn (-¥112mn), intangible fixed assets at ¥576mn (-¥122mn including -¥45mn of goodwill), and investments and other assets at ¥2,959mn (-¥25mn). As a result, total assets decreased ¥1,983mn to ¥34,343mn.

Current liabilities totaled ¥11,955mn (-¥2,840mn from the end of FY9/19) with the main changes as decreases of ¥1,396mn for notes payables and unpaid amounts and ¥603mn for unpaid factoring. Fixed liabilities declined ¥53mn to ¥1,335mn. As a result, total liabilities were ¥13,291mn (-¥2,894mn). Net assets amounted to ¥21,052mn (+¥910mn), mainly on a ¥920mn gain in retained earnings from booking profit attributable to owners of parent.

The Company possesses a sturdy financial base with extensive surplus net cash (cash and deposits – loans) at ¥11,268mn as of the end of FY9/20 with ¥11,459mn in cash and deposits versus ¥191mn in total loans payable (long-term and short-term loans payable).

Consolidated balance sheet

(¥mn)

	FY9/19	FY9/20	Change in value
Cash and deposits	10,929	11,459	529
Notes receivables and finished project unpaid funds	13,151	10,590	-2,561
Unfinished project spending	1,590	1,963	372
Current assets (total)	26,899	25,177	-1,722
Tangible fixed assets	5,742	5,630	-112
Intangible fixed assets	699	576	-122
Goodwill	272	226	-45
Investments and other assets	2,985	2,959	-25
Fixed assets (total)	9,427	9,166	-261
Assets (total)	36,327	34,343	-1,983
Notes payables and unpaid amounts	7,547	6,151	-1,396
Unpaid factoring	3,687	3,084	-603
Current liabilities (total)	14,795	11,955	-2,840
Long-term loans payable	191	176	-15
Fixed liabilities (total)	1,389	1,335	-53
Liabilities (total)	16,185	13,291	-2,894
Net assets	20,141	21,052	910

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

3. Cash flow situation

Looking at the cash flow of FY9/20, net cash provided by operating activities was ¥1,310mn. Main income sources were ¥2,080mn in profit before income taxes and ¥2,828mn decrease in accounts receivable while the main outflow was a ¥1,991mn decrease in accounts payable. Net cash used in investing activities was ¥127mn. Main outflows were an ¥18mn purchase of tangible fixed assets, ¥49mn purchase of intangible fixed assets and ¥62mn purchase of investment securities (net). Net cash used in financing activities was ¥653mn, mainly due to ¥215mn repayments of long-term and short-term loans payable and ¥426mn dividend payments. As a result, the net increase in cash and cash equivalents was ¥529mn and cash and cash equivalents at the end of period was ¥11,459mn.

Consolidated cash flow statement

(¥mn)

	FY9/19	FY9/20
Cash flow from operating activities	2,691	1,310
Profit before income taxes	2,390	2,080
Decrease (increase) in accounts receivables	-810	2,828
Decrease (increase) in inventories	1	-402
Increase (decrease) in accounts payables	1,208	-1,991
Cash flows from investing activities	-116	-127
Purchase of tangible fixed assets (net)	-23	-18
Purchase of intangible fixed assets	-105	-49
Purchase of investment securities (net)	-294	-62
Purchase of shares of subsidiaries resulting in change in scope of consolidation	326	-
Cash flows from financing activities	-1,339	-653
Increase in long-term and short-term loans payable (net)	-972	-215
Dividend payments	-357	-426
Net increase (decrease) in cash and cash equivalents	1,235	529
Cash and cash equivalents at the end of period	10,929	11,459

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

Business outlook

Is forecasting a decline in profits due to uncertainty about the future, but this appears conservative. The current forecasts are the lower limits

For FY9/21, the Company is forecasting net sales of ¥69,500mn (+6.4% YoY), operating profit of ¥2,100mn (+16.9%), recurring profit of ¥2,300mn (+11.8%) and profit attributable to owners of parent of ¥1,520mn (+12.7%). The future of the housing market remains uncertain, but it is currently recovering following the worst period due to the impact of the coronavirus, and profits are forecast to increase. The growth rate in the previous fiscal period was high, but the operating profit level is around the same as in FY9/19, and while it will not be easy, the forecasts appear achievable.

Overview of the FY9/21 forecasts

(¥mn)

	FY9/20		FY9/21 E		
	Value	% of sales	Value	% of sales	YoY change
Net sales	65,338	100.0%	69,500	100.0%	6.4%
Operating profit	1,796	2.7%	2,100	3.0%	16.9%
Recurring profit	2,056	3.1%	2,300	3.3%	11.8%
Profit attributable to owners of parent	1,348	2.1%	1,520	2.2%	12.7%

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

Also, for operating profit by subsidiary, the forecasts are ¥1,770mn in the mainstay Avelco (up ¥317mn YoY), ¥180mn in INTELGROW Corporation (up ¥65mn), ¥220mn in OnchoGiken (down ¥54mn), and ¥95mn in Imamura Co., Ltd. (up ¥1mn). So the forecasts are for profits to increase in every company except OnchoGiken, but this is because OnchoGiken's results were comparatively strong in FY9/20, which makes its FY9/21 forecasts appear severe.

Full-year results forecasts by subsidiary

(¥mn)

	Avelco		INTELGROW		OnchoGiken		Imamura	
	FY9/20	FY9/21 E	FY9/20	FY9/21 E	FY9/20	FY9/21 E	FY9/20	FY9/21 E
Net sales	49,984	52,200	10,134	10,900	1,800	2,300	3,630	4,000
Operating profit	1,453	1,770	115	180	274	220	94	95
Operating profit ratio	2.9%	3.4%	1.1%	1.7%	15.3%	9.6%	2.6%	2.4%
Recurring profit	1,548	1,860	202	250	276	220	158	125
Recurring profit ratio	3.1%	3.6%	2.0%	2.3%	15.4%	9.6%	4.4%	3.1%
Net profit	972	1,300	152	170	179	150	147	85

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

The target values for the "priority issues" are ¥4,400mn for siding (up ¥1,413mn YoY), 1,000 buildings for siding pre-cut (up 234 buildings), ¥1,500mn for non-housing (stores, commercial facilities, etc.; no YoY comparison) ¥4,170mn for sashes including branch stores (up 1,925mn), ¥2,910mn for sashes excluding branch stores (up ¥1,719mn), ¥1,500mn for Maristo (up ¥90mn), ¥320mn for Artis (up ¥48mn), and for new customer development, ¥2,200mn for the monetary value (up ¥1,227mn) and 750 for the number of units (up 147 units).

Non-housing includes stores and commercial facilities, and it is has been added to the priority issues as a field that the Company will focus on in the future. Sashes are also a field it is focusing in, so their target value is high. For Maristo, the aim is to increase sales through shifting to high-value-added products. The target value for Artis is the sales target of the split-off subsidiary (the goal is earn roughly as much as expenditures). The Company is also continuing to focus on new customer development.

The priority issues target values I

(¥mn)

	Siding	Siding pre-cut	Non-housing	Sashes	
				Including sash branch stores	Not including sash branch stores
FY9/20	2,987	766	-	2,245	1,191
FY9/21 (targets)	4,400	1,000	1,500	4,170	2,910

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

The priority issues target values II

(¥mn)

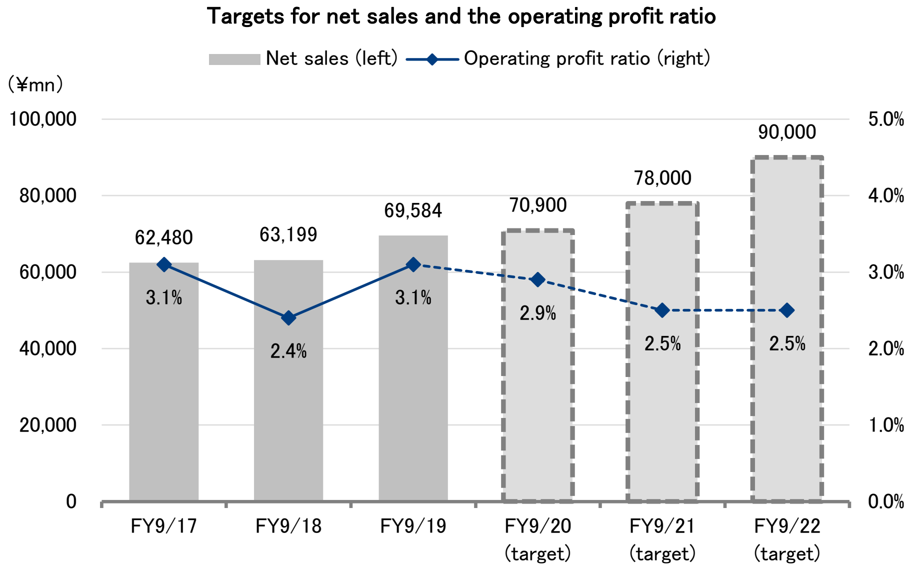
	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Results	Number of units
FY9/20	1,410	272	973	603
FY9/21 (targets)	1,500	320	2,200	750

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

Medium- to long-term growth strategy

The target values in the new medium-term management plan are net sales of ¥90bn and an operating profit ratio of 2.5% in FY9/22, although they may be revised

The targets in the previous 2nd medium-term management plan (with FY9/19 as its final year) were net sales of ¥70bn and operating profit of ¥1.9bn, and these targets were basically achieved. Continuing on from it, the Company has announced the 3rd medium-term management plan, which has FY9/22 as its final fiscal year. Its targets for net sales and the operating profit ratio are ¥70.9bn and 2.9% in FY9/20, ¥78bn and 2.5% in FY9/21, and ¥90bn and 2.5% (operating profit of ¥2,250mn) in FY9/22, the plan's final fiscal year.



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

When considering the current conditions, including the impact of the coronavirus, achieving the net sales target is unlikely to be easy. But based on the current period, it should be possible to achieve the operating profit target. The Company has stated that it "may review the targets in the medium-term management plan, while considering the latest business environment."

The basic measures are as follows.

(1) Further strengthen the priority products (exterior materials: sashes, siding, etc.)

(2) Conduct M&A in accordance with the business strategies and area strategies of each Group company

(3) While expanding the business scope and improving efficiency, actively conduct the necessary investment, and maintain the operating profit amount while returning profits to employees

The Company's policy is to assiduously implement these measures.

Shareholder return policy

Sustaining a stable dividend with a payout ratio target of 30%, with increased dividend possible depending on the operating results

The Company fundamentally aims for a 30% dividend payout ratio as its shareholder return policy. The annual dividend was ¥30 in FY9/18, ¥36 in FY9/19 (interim ¥16, fiscal year-end ¥20) and ¥36 in FY9/20 (interim ¥17, fiscal year-end ¥19). Currently the Company is planning to pay an annual dividend of ¥36 (interim ¥18, fiscal year-end ¥18) for FY9/21, which would work out to a forecast payout ratio of 27.4%. If the profit forecast is achieved, the dividend payout ratio would fall below 30%. Therefore, if the results are strong, the Company may increase the FY9/21 annual dividend.

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