

Sanyo Homes (1420)

Consolidated Fiscal Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2018		54,117	1,894	1,911	1,243	100.9	15.0	1,374.3
FY03/2019		53,888	1,434	1,544	954	77.5	25.0	1,425.2
FY03/2020CoE		69,850	1,900	1,910	1,220	99.0	25.0	-
FY03/2019	YoY	(0.4%)	(24.3%)	(19.2%)	(23.2%)	-	-	-
FY03/2020CoE	YoY	29.6%	32.5%	23.7%	27.9%	-	-	-
Consolidated Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2019		20,426	(382)	(444)	(344)	-	-	-
Q3 to Q4 FY03/2019		33,462	1,817	1,988	1,298	-	-	-
Q1 to Q2 FY03/2020CoE		29,710	210	160	100	-	-	-
Q3 to Q4 FY03/2020CoE		40,140	1,690	1,750	1,120	-	-	-
Q1 to Q2 FY03/2020CoE	YoY	45.4%	-	-	-	-	-	-
Q3 to Q4 FY03/2020CoE	YoY	20.0%	(7.0%)	(12.0%)	(13.8%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (26 July 2019)

Detached Houses and Renovation

Sanyo Homes to mainly develop / sell houses and condos is expected to see a recovery of earnings. Having gone through impacts from sale and non-reappearance of large-scale photovoltaic power generation facility, the Company is now exposed mainly to the original and continuous operations to develop / sell houses and condos with its business performance, while FY03/2020 Company forecasts are going for prospective sales of ¥69,850m (up 29.6% YoY) and operating profit of ¥1,900m (up 32.5%). Based on the most recent state of inventory, etc., the Company mentions its plan to see completion and sale of condos equating to ¥98,000m over the next few years, while going for steadily increased sales on the Condos Business side in FY03/2020, driving sales as a whole for the Company most substantially. Meanwhile, prospective earnings are to be driven by increased sales on the Housing Business side. The Company suggests prospective sales of ¥11,339m (up 24.5%) for Detached Houses and sales of ¥7,771m (up 30.5%) for Renovation, implying that increased sales on the Housing Business side due mainly to both of them will drive earnings with the Company most substantially.


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2.0 Company Profile

Developing / Selling Houses and Condos

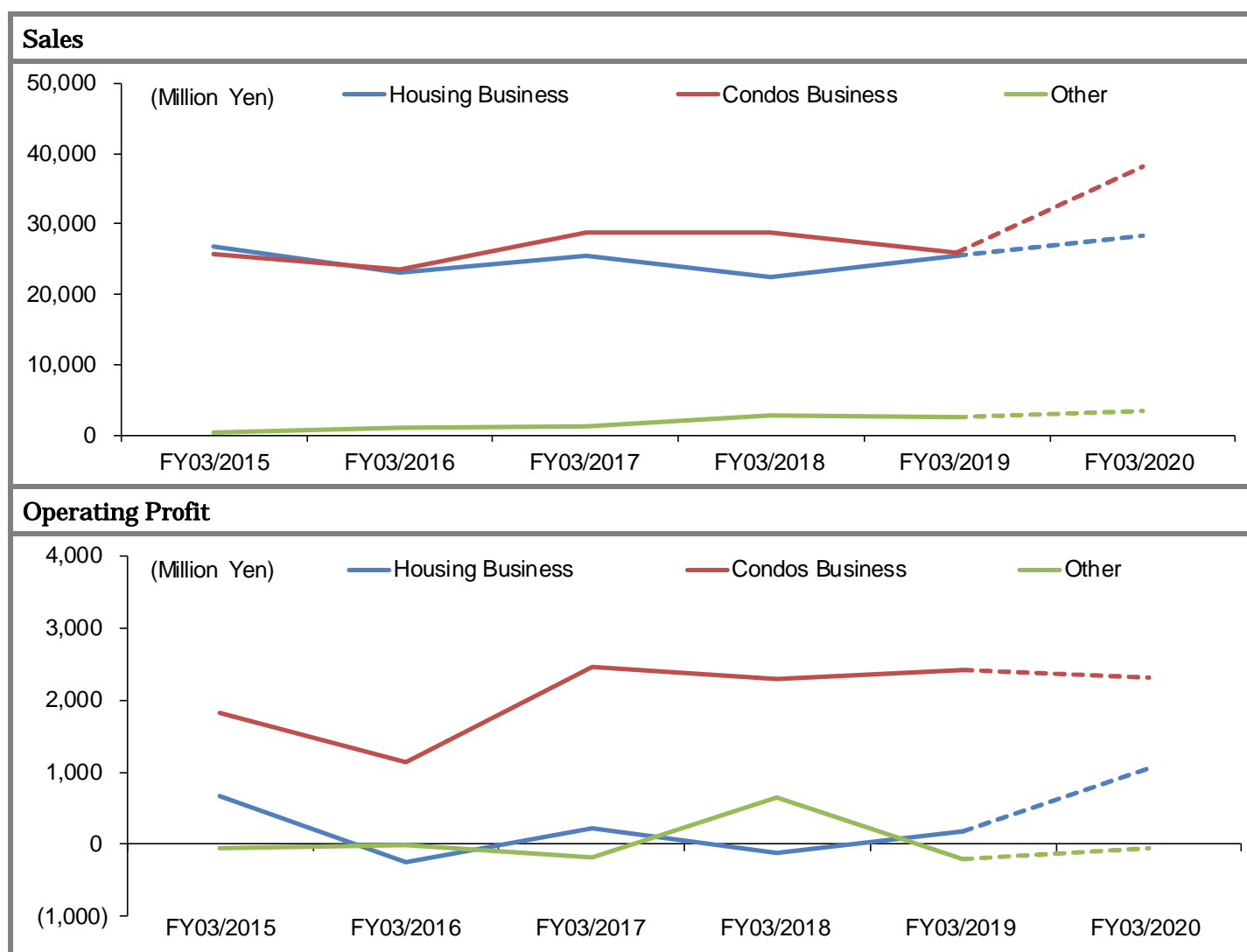
Company Name	<p>Sanyo Homes Corporation</p> <p>Website</p> <p>IR Information</p> <p>Share Price (Japanese)</p>	
Inauguration	1 February 1969	
Listing	<p>9 April 2014: Tokyo Stock Exchange 1st section (ticker: 1420)</p> <p>9 April 2013: Tokyo Stock Exchange 2nd section</p>	
Capital	¥5,945m (as of the end of March 2019)	
No. of Shares	12,620,000 shares, including 300,883 treasury shares (as of the end of March 2019)	
Main Features	<ul style="list-style-type: none"> ● Roots in Kubota House Co. Ltd. or provider of custom-built houses (steel frame prefabrication system) ● Running operations mainly in Kansai region as well as in Metropolitan area, Chubu region, Kyushu region, etc. ● Condos Business to develop and sell condos, the key earnings pillar 	
Operations	<ul style="list-style-type: none"> • Detached Houses • Condos • Renewal Distribution • Renovation • Rental / Welfare Housing • Life Support • Frontier 	
Top Management	<p>Representative Director / Chairman: Yasusuke Tanaka</p> <p>Representative Director / Vice Chairman: Hisashi Matsuoka</p> <p>Representative Director / President: Fumio Matsumoto</p>	
Shareholders	LIXIL Corporation 24.56%, ORIX Corporation 16.64% (as of the end of March 2019)	
Headquarters	Nishi-ku, Osaka-prefecture, JAPAN	
No. of Employees	Consolidated: 760, Parent: 456 (as of the end of March 2019)	

Source: Company Data

3.0 Recent Trading and Prospects

FY03/2019 Results

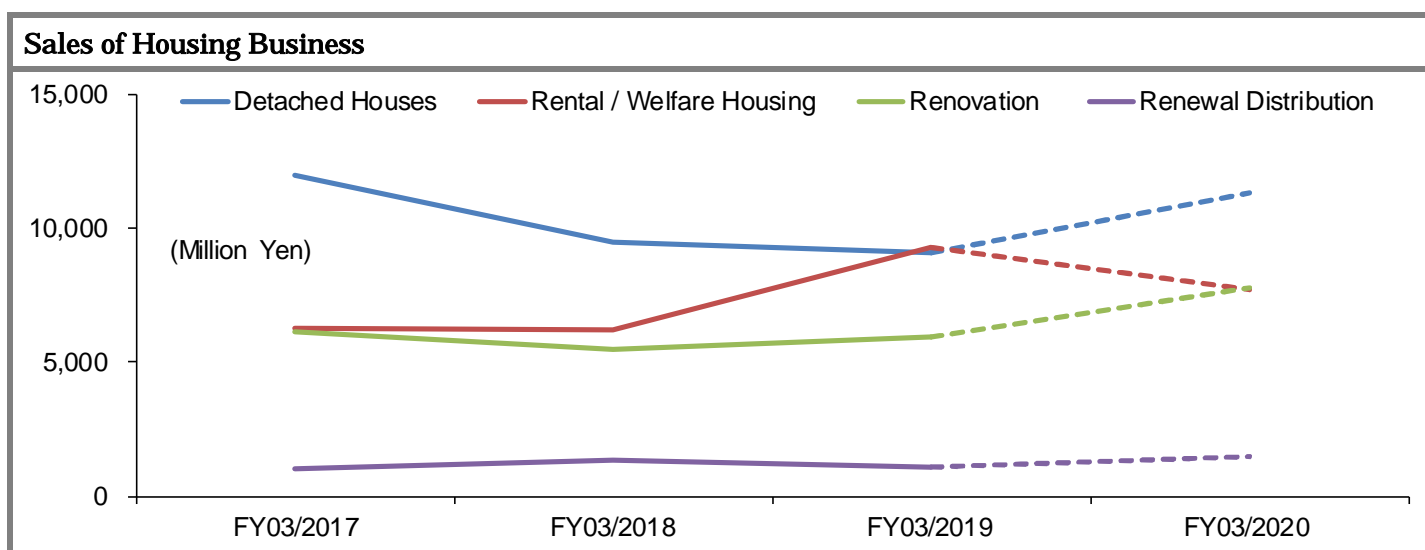
In FY03/2019, sales came in at ¥53,888m (down 0.4% YoY), operating profit ¥1,434m (down 24.3%), recurring profit ¥1,544m (down 19.2%) and profit attributable to owners of parent ¥954m (down 23.2%), while operating profit margin 2.7% (down 0.8% points). The Company has failed to meet with Company forecasts as of Q2 (released on 7 November 2018), having suffered from shortfall by ¥6,111m (10.2%) in sales, by ¥675m (32.0%) in operating profit, by ¥465m (23.2%) in recurring profit and by ¥395m (29.3%) in profit attributable to owners of parent. Sales fell short of expectations both on the Housing Business side and on the Condos Business side. Meanwhile, the Company saw earnings worse than expected on the Housing side but better than expected on the Condos Business side.



Source: Company Data, WRJ Calculation

In FY03/2019, there were a series of natural disasters in Kansai region, including Osaka-city where the Company is based, represented by 2018 Osaka earthquake (18 June 2018), 2018 Japan floods (28 June to 8 July 2018), Typhoon Jebi (landed onto Japan on 4 September 2018), etc. According to the Company, it was unavoidable to suffer from shortfall of sales on the Housing Business side due to delayed execution of works brought forth by natural disaster recovery, unexpected allocation of resources on the recovery, etc. Given shortfall of sales, earnings also fell short of, which was also due to increased cost on property to sell based on construction methods other than prefabrication structure. Meanwhile, last minute surge in demand toward the end of FY03/2019 associated with the rise of consumption tax rate to be implemented in October 2019 hardly occurred, which was unexpected, while reactionary fall would not occur either because of this, although it should have occurred to date in a sense.

On the Condos Business side, sales were worse than expected due mainly to “extended period of sale on completed inventory and expensive property”. Nevertheless, shortfall of sales was more than compensated for by “reduction on price cut”, “improvement of cost rate”, “cutback on SG&A expenses”, etc., having resulted in earnings better than expected, when cited from the Company’s disclosure document. Meanwhile, the Company also suggests as follows: Given a situation that demand for condos continues remaining buoyant, the Company has decided to reduce price cut, having resulted in extended period of sale on completed inventory and expensive property. More importantly, however, the Company has been seeing cost rate improved on sales of property as is taken for granted, while seeing cutback on SG&A expenses at the same time as some parts of SG&A expenses are directly linked with sales.



Source: Company Data, WRJ Calculation

In FY03/2019, Housing Business saw sales of ¥25,461m (up 13.0%), operating profit of ¥170m (versus negative ¥118m in the previous year) and operating profit margin of 0.7% (up 1.2% points). By category, Detached Houses saw sales of ¥9,104m (down 3.9%), Rental / Welfare Housing sales of ¥9,279m (up 49.3%), Renovation sales of ¥5,956m (up 8.2%) and Renewal Distribution sales of ¥1,120m (down 16.2%). This business segment moved into profit due mainly to surging sales with Rental / Welfare Housing as far as we could see. Meanwhile, in FY03/2020, sales of Detached Houses and those of Renovation are expected to see increased sales, driving earnings on the Housing Business side and as a whole for the Company at the same time.

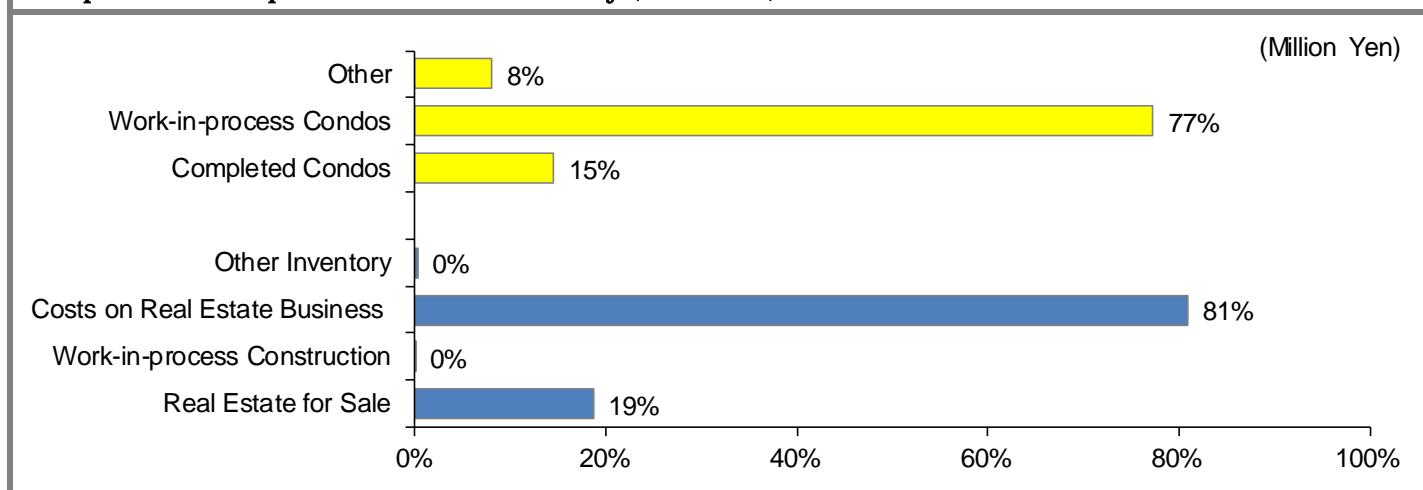
With respect to the mainstay Detached Houses on the Housing Business side, sales were negatively affected by stagnated sales activity and delayed execution of works brought forth by natural disaster recovery, etc. as above-mentioned. At the same time, order intake came in at ¥9,443m (down 3.0%) and order backlog ¥5,884m (up 6.1%). Meanwhile, FY03/2020 Company forecasts are going for prospective sales of ¥11,339m (up 24.5%). As of the beginning of the fiscal year, order backlog shows strengths and the Company is looking to increased order intake after the beginning of the fiscal year.

With respect to Rental / Welfare Housing to have materialized turnaround of earnings on the Housing Business side with surging sales as far as we could see, the Company mentions that sales were buoyant for facilities-related large-scale properties represented by nursing homes, nursery schools and composite clinics. Nevertheless, FY03/2020 Company forecasts are going for decreased sales for this category as exposure to all those large-scale properties are to come down.

With respect to Renovation, the Company sees strengths in trading and it should have been even better with sales promotion activity even more aggressive if it were not for aforementioned negative impacts stemming from natural disasters, according to the Company. In FY03/2019, the Company had to concentrate resources on activity to cope with damages generated by all those natural disasters. With no further concentration here, it will be possible to allocate resources on sales promotion activity much more in FY03/2020 and Company forecasts are going for accelerated growth rate of sales here and thus driving earnings as a whole for the Company to more than a certain extent at the same time. Meanwhile, with respect to Renewal Distribution, the Company stocks and sells secondhand properties.

Meanwhile, Condos Business saw sales of ¥25,850m (down 10.2%), operating profit of ¥2,412m (up 5.2%) and operating profit margin of 9.3% (up 1.4% points). Although sales marginally came down, earnings increased due to stability of gross profit margin given aforementioned strategy of “reduction on price cut”, while “cutback on SG&A expenses” took place in line with shortfall of sales. Meanwhile, based on the most recent state of inventory, etc., the Company mentions that it owns land of condo’s property equating to ¥98,000m, of which ¥40,400m is it possible to book sales in fact by the end of FY03/2020, when paying respect to detailed agenda of completion on each property, etc. Thus, FY03/2020 Company forecasts are going for prospective sales of ¥38,136m (up 47.5%) here but corrected earnings due to lowered gross profit margin, which is expected to come from sale of property on a building basis carrying low gross profit margin.

Components / Composition Ratio on Inventory (¥38,032m) as of the end of FY03/2019



Source: Company Data, WRJ Calculation

As of the end of FY03/2019, total assets stood at ¥54,527m versus Inventory ¥38,032m (70% of total assets), when based on the Company's definition that Inventory equates to collective value of Real Estate for Sale, Work-in-process Construction, Costs on Real Estate Business and Other Inventory on balance sheets, while comprising that of Work-in-process Condos (77% of total), Completed Condos (15%) and Other (8%) by type of contents, according to the Company. The category of Other represents inventory of built-for-sale houses and of property on stocking and selling. With respect to Completed Condos, the balance has been coming down over the past several years. As of the end of FY03/2019, the balance on property lingering as inventory for more than one year after completion is only that of 19 units (15 units on property based in Takarazuka and 4 units in Nishioi) and thus the Company finds almost no problem of extended period of holding inventory, while going for a resolution in the near future. On the other hand, the balance of Work-in-process Condos is renewing its record high and thus sales on the Condos Business side going forward.

In fact, the balance of Work-in-process Condos, accounting for almost 80% of Inventory as a whole, is increasing fast and thus Inventory as a whole. In line with this, the Company saw outflow of cash equating to ¥4,465m in FY03/2019, which was the key factor for net outflow of free cash flow equating to ¥4,571m with the Company. In order to cope with this, the Company increased borrowing from financial institutions, having resulted in net increases by ¥5,420m for the balance of interest bearing debt.

Costs on Real Estate Business (81% of Inventory), which is one of the account tiles on balance sheets, equates to those already been paid in regards to procurement of land associated with properties for sale mainly condos and compensations for execution of works, while the latter is to go on increasing in line with progress with execution of works. Thus, aforementioned sales equating to ¥98,000m should comprise Inventory (¥38,032m), costs to additionally generate on existing properties by completion and expected gross profit on existing properties. For example, the balance of Completed Condos, not supposed to see any further additional costs, stands at ¥5,562m on an absolute value basis, while the Company is going for prospective sales of ¥6,800m from here, implying gross profit of ¥1,238m and gross profit margin of 18.2%, when simply thinking. Meanwhile, the Company discloses that gross profit margin on the Condos Business side came in at 20.9% in FY03/2019 and thus the properties booked as Completed Condos look carrying roughly average level of gross profit margin with the Company. Nevertheless, the Company also suggests that it depends on each property to a large extent, implying the range of gross profit margin between lower end of 10% and higher end of 30% by property.

Lastly, the business segment of Other saw sales of ¥2,576m (down 8.1%), operating profit of negative ¥195m (versus ¥642m in the previous year) and operating profit margin of negative 7.6% (down 30.5% points). By category, Life Support saw sales of ¥2,143m (up 35.4%) and Frontier sales of ¥409m (down 65.8%).

With respect to Life Support, sales are buoyant for original operations of managing condos self-developed and sold in line with consistent increases in the number of units to manage up to 7,645 as of the end of FY03/2019. On top of this, new operations to run childcare facilities are taking off very well. As of April 2019, the Company runs collective 22 facilities comprising existing 13 facilities and 9 new facilities (including one facility changed to that of a corporate incentive basis) opened in April 2019 or 11 facilities in Osaka-city, 7 facilities in Aichi-prefecture and four facilities in other by region. Management-wise, the Company runs 19 facilities under San Friends brand (own brand), two facilities on a corporate incentive basis as well as running entrusted operations of one facility on a corporate incentive basis. All of them are of so-called small-scale facilities with capacity up to 20 children each, while the Company is going for operations with collective 40 facilities in the near future. On top of this, the Company is also keen on nursing-care business, represented by “companion robot” or nursing-care robot.

With respect to Frontier, the Company runs operations to sell “GS frame system” on an OEM basis, representing lightweight steel frame prefabrication system adopted in own detached houses. Meanwhile, sales here in FY03/2018 also included those of large-scale photovoltaic power generation facility. Given this did not reappear in FY03/2019, sales of Frontier more than halved and drove this business segment move into loss and thus having made earnings as a whole for the Company come down. It appears sale of said facility carried high gross profit margin. It should be reiterated now that the Company saw improved earnings on the Housing Business side as well as on the Condos side.

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018	Q1 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019		
Sales	6,579	21,437	29,747	54,117	8,547	20,426	31,519	53,888		(228)
CoGS	5,209	16,504	23,262	42,699	6,889	16,517	25,525	43,248		+549
Gross Profit	1,369	4,932	6,484	11,417	1,658	3,908	5,994	10,639		(777)
SG&A Expenses	2,289	4,570	6,705	9,522	2,152	4,291	6,566	9,205		(317)
Operating Profit	(919)	361	(220)	1,894	(494)	(382)	(572)	1,434		(460)
Non Operating Balance	(4)	(33)	(52)	16	(23)	(61)	(61)	110		+93
Recurring Profit	(924)	327	(272)	1,911	(518)	(444)	(634)	1,544		(366)
Extraordinary Balance	-	-	-	(37)	-	-	-	(23)		+13
Profit before Income Taxes	(924)	327	(272)	1,874	(518)	(444)	(634)	1,521		(353)
Total Income Taxes	(274)	112	(61)	631	(149)	(99)	(140)	567		(64)
Profit Attributable to Owners of Parent	(649)	215	(211)	1,243	(368)	(344)	(494)	954		(288)
Sales YoY	(0.7%)	(22.6%)	(23.2%)	(2.5%)	+29.9%	(4.7%)	+6.0%	(0.4%)		-
Operating Profit YoY	-	(55.9%)	-	+24.8%	-	-	-	(24.3%)		-
Recurring Profit YoY	-	(62.0%)	-	+22.9%	-	-	-	(19.2%)		-
Profit Attributable to Owners of Parent YoY	-	(64.0%)	-	+27.8%	-	-	-	(23.2%)		-
Gross Profit Margin	20.8%	23.0%	21.8%	21.1%	19.4%	19.1%	19.0%	19.7%		(1.4%)
Sales to SG&A Expenses Ratio	34.8%	21.3%	22.5%	17.6%	25.2%	21.0%	20.8%	17.1%		(0.5%)
Operating Profit Margin	(14.0%)	1.7%	(0.7%)	3.5%	(5.8%)	(1.9%)	(1.8%)	2.7%		(0.8%)
Recurring Profit Margin	(14.0%)	1.5%	(0.9%)	3.5%	(6.1%)	(2.2%)	(2.0%)	2.9%		(0.7%)
Profit Attributable to Owners of Parent Margin	(9.9%)	1.0%	(0.7%)	2.3%	(4.3%)	(1.7%)	(1.6%)	1.8%		(0.5%)
Total Income Taxes / Profit before Income Taxes	-	34.2%	-	33.7%	-	-	-	37.3%		+3.6%

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2018	Q2 03/2018	Q3 03/2018	Q4 03/2018	Q1 03/2019	Q2 03/2019	Q3 03/2019	Q4 03/2019		
Sales	6,579	14,857	8,309	24,370	8,547	11,878	11,093	22,369		(2,000)
CoGS	5,209	11,295	6,757	19,437	6,889	9,627	9,007	17,723		(1,713)
Gross Profit	1,369	3,562	1,552	4,932	1,658	2,250	2,085	4,645		(287)
SG&A Expenses	2,289	2,281	2,134	2,817	2,152	2,139	2,274	2,639		(178)
Operating Profit	(919)	1,280	(581)	2,115	(494)	111	(189)	2,006		(108)
Non Operating Balance	(4)	(28)	(19)	69	(23)	(37)	-	172		+103
Recurring Profit	(924)	1,252	(600)	2,184	(518)	73	(189)	2,178		(5)
Extraordinary Balance	-	-	-	(37)	-	-	-	(23)		+13
Profit before Income Taxes	(924)	1,252	(600)	2,147	(518)	73	(189)	2,155		+8
Total Income Taxes	(274)	386	(173)	692	(149)	49	(40)	707		+14
Profit Attributable to Owners of Parent	(649)	865	(426)	1,454	(368)	23	(149)	1,448		(6)
Sales YoY	(0.7%)	(29.5%)	(24.6%)	+45.2%	+29.9%	(20.1%)	+33.5%	(8.2%)		-
Operating Profit YoY	-	(31.0%)	-	+134.1%	-	(91.3%)	-	(5.1%)		-
Recurring Profit YoY	-	(34.3%)	-	+140.9%	-	(94.1%)	-	(0.3%)		-
Profit Attributable to Owners of Parent YoY	-	(33.6%)	-	+160.9%	-	(97.2%)	-	(0.4%)		-
Gross Profit Margin	20.8%	24.0%	18.7%	20.2%	19.4%	18.9%	18.8%	20.8%		+0.5%
Sales to SG&A Expenses Ratio	34.8%	15.4%	25.7%	11.6%	25.2%	18.0%	20.5%	11.8%		+0.2%
Operating Profit Margin	(14.0%)	8.6%	(7.0%)	8.7%	(5.8%)	0.9%	(1.7%)	9.0%		+0.3%
Recurring Profit Margin	(14.0%)	8.4%	(7.2%)	9.0%	(6.1%)	0.6%	(1.7%)	9.7%		+0.8%
Profit Attributable to Owners of Parent Margin	(9.9%)	5.8%	(5.1%)	6.0%	(4.3%)	0.2%	(1.3%)	6.5%		+0.5%
Total Income Taxes / Profit before Income Taxes	-	30.9%	-	32.3%	-	67.5%	-	32.8%		+0.5%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019		
Housing Business	4,106	9,573	15,318	22,534	4,862	11,233	16,989	25,461		+2,926
Condos Business	2,081	9,994	12,090	28,777	3,112	7,995	12,676	25,850		(2,927)
Other	391	1,869	2,337	2,805	572	1,198	1,853	2,576		(228)
Sales	6,579	21,437	29,747	54,117	8,547	20,426	31,519	53,888		(228)
Housing Business	(342)	(336)	(354)	(118)	(327)	(195)	(273)	170		+288
Condos Business	(318)	397	80	2,293	128	358	528	2,412		+118
Other	-	748	696	642	(70)	(103)	(134)	(195)		(837)
Total	(661)	809	422	2,817	(269)	59	120	2,386		(430)
Elimination	(258)	(448)	(642)	(922)	(224)	(442)	(692)	(952)		(30)
Operating Profit	(919)	361	(220)	1,894	(494)	(382)	(572)	1,434		(460)
Housing Business	(8.3%)	(3.5%)	(2.3%)	(0.5%)	(6.7%)	(1.7%)	(1.6%)	0.7%		+1.2%
Condos Business	(15.3%)	4.0%	0.7%	8.0%	4.1%	4.5%	4.2%	9.3%		+1.4%
Other	0.0%	40.0%	29.8%	22.9%	(12.4%)	(8.7%)	(7.3%)	(7.6%)		(30.5%)
Elimination	(3.9%)	(2.1%)	(2.2%)	(1.7%)	(2.6%)	(2.2%)	(2.2%)	(1.8%)		(0.1%)
Operating Profit Margin	(14.0%)	1.7%	(0.7%)	3.5%	(5.8%)	(1.9%)	(1.8%)	2.7%		(0.8%)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	03/2018	03/2018	03/2018	03/2018	03/2019	03/2019	03/2019	03/2019		
Housing Business	4,106	5,466	5,745	7,216	4,862	6,370	5,756	8,471		+1,255
Condos Business	2,081	7,913	2,096	16,686	3,112	4,882	4,681	13,173		(3,512)
Other	391	1,477	468	467	572	625	654	723		+256
Sales	6,579	14,857	8,309	24,370	8,547	11,878	11,093	22,369		(2,000)
Housing Business	(342)	5	(18)	236	(327)	131	(77)	443		+207
Condos Business	(318)	716	(317)	2,213	128	230	169	1,883		(329)
Other	-	747	(51)	(54)	(70)	(32)	(31)	(60)		(6)
Total	(661)	1,470	(387)	2,395	(269)	329	60	2,266		(128)
Elimination	(258)	(189)	(194)	(280)	(224)	(217)	(249)	(260)		+20
Operating Profit	(919)	1,280	(581)	2,115	(494)	111	(189)	2,006		(108)
Housing Business	(8.3%)	0.1%	(0.3%)	3.3%	(6.7%)	2.1%	(1.4%)	5.2%		+2.0%
Condos Business	(15.3%)	9.1%	(15.2%)	13.3%	4.1%	4.7%	3.6%	14.3%		+1.0%
Other	0.0%	50.6%	(11.0%)	(11.6%)	(12.4%)	(5.2%)	(4.7%)	(8.3%)		+3.3%
Elimination	(3.9%)	(1.3%)	(2.3%)	(1.2%)	(2.6%)	(1.8%)	(2.3%)	(1.2%)		(0.0%)
Operating Profit Margin	(14.0%)	8.6%	(7.0%)	8.7%	(5.8%)	0.9%	(1.7%)	9.0%		+0.3%

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2018	Q2 03/2018	Q3 03/2018	Q4 03/2018	Q1 03/2019	Q2 03/2019	Q3 03/2019	Q4 03/2019		
Cash and Deposit	7,262	8,476	7,777	7,836	8,430	7,703	7,939	8,895	+1,059	
Inventory	38,999	36,135	38,730	34,536	37,987	37,560	39,208	38,032	+3,495	
Other	2,973	2,229	3,421	2,395	2,397	3,835	3,282	3,245	+850	
Current Assets	49,236	46,841	49,929	44,768	48,815	49,099	50,430	50,173	+5,405	
Tangible Assets	664	654	703	758	764	818	830	2,032	+1,274	
Intangible Assets	28	30	28	26	36	36	35	36	+9	
Investments and Other Assets	2,367	2,360	2,355	2,490	2,621	2,571	2,643	2,285	(205)	
Fixed Assets	3,060	3,046	3,087	3,275	3,421	3,426	3,509	4,354	+1,079	
Total Assets	52,296	49,887	53,017	48,043	52,237	52,526	53,939	54,527	+6,484	
Accounts Payables	2,997	4,053	4,060	7,375	3,489	3,767	4,217	7,200	(174)	
Short Term Debt	19,920	15,040	18,415	10,640	16,040	15,490	17,580	16,210	+5,570	
Advances Re. on Uncompleted Contracts	890	1,764	1,506	1,046	1,198	1,750	1,768	1,154	+108	
Advances Received	820	933	1,465	2,201	2,214	2,192	2,481	2,198	(3)	
Other	1,588	2,059	1,397	2,492	1,563	1,814	1,573	2,703	+210	
Current Liabilities	26,216	23,850	26,845	23,756	24,506	25,013	27,622	29,466	+5,710	
Long Term Debt	9,430	8,530	9,080	5,760	9,790	9,520	8,430	5,610	(150)	
Other	1,693	1,684	1,692	1,583	1,580	1,607	1,649	1,880	+296	
Fixed Liabilities	11,123	10,214	10,772	7,343	11,370	11,127	10,079	7,490	+146	
Total Liabilities	37,340	34,065	37,617	31,100	35,877	36,141	37,701	36,957	+5,857	
Shareholders' Equity	14,912	15,782	15,355	16,809	16,251	16,275	16,126	17,574	+764	
Other	43	39	44	133	108	109	112	(4)	(137)	
Net Assets	14,956	15,821	15,399	16,943	16,360	16,384	16,238	17,570	+626	
Total Liabilities and Net Assets	52,296	49,887	53,017	48,043	52,237	52,526	53,939	54,527	+6,484	
Equity Capital	14,956	15,821	15,399	16,930	16,347	16,371	16,225	17,557	+627	
Interest Bearing Debt	29,350	23,570	27,495	16,400	25,830	25,010	26,010	21,820	+5,420	
Net Debt	22,087	15,093	19,717	8,563	17,399	17,306	18,070	12,924	+4,360	
Equity Ratio	28.6%	31.7%	29.0%	35.2%	31.3%	31.2%	30.1%	32.2%	-	
Net Debt Equity Ratio	147.7%	95.4%	128.0%	50.6%	106.4%	105.7%	111.4%	73.6%	-	
ROE (12 months)	7.0%	3.8%	2.3%	7.6%	9.7%	4.2%	6.1%	5.5%	-	
ROA (12 months)	3.0%	2.0%	1.2%	3.9%	4.4%	2.2%	2.9%	3.0%	-	
Days for Inventory Turnover	683	292	523	162	503	356	397	196	-	
Quick Ratio	33%	40%	36%	39%	40%	42%	36%	36%	-	
Current Ratio	188%	196%	186%	188%	199%	196%	183%	170%	-	

Source: Company Data, WRJ Calculation

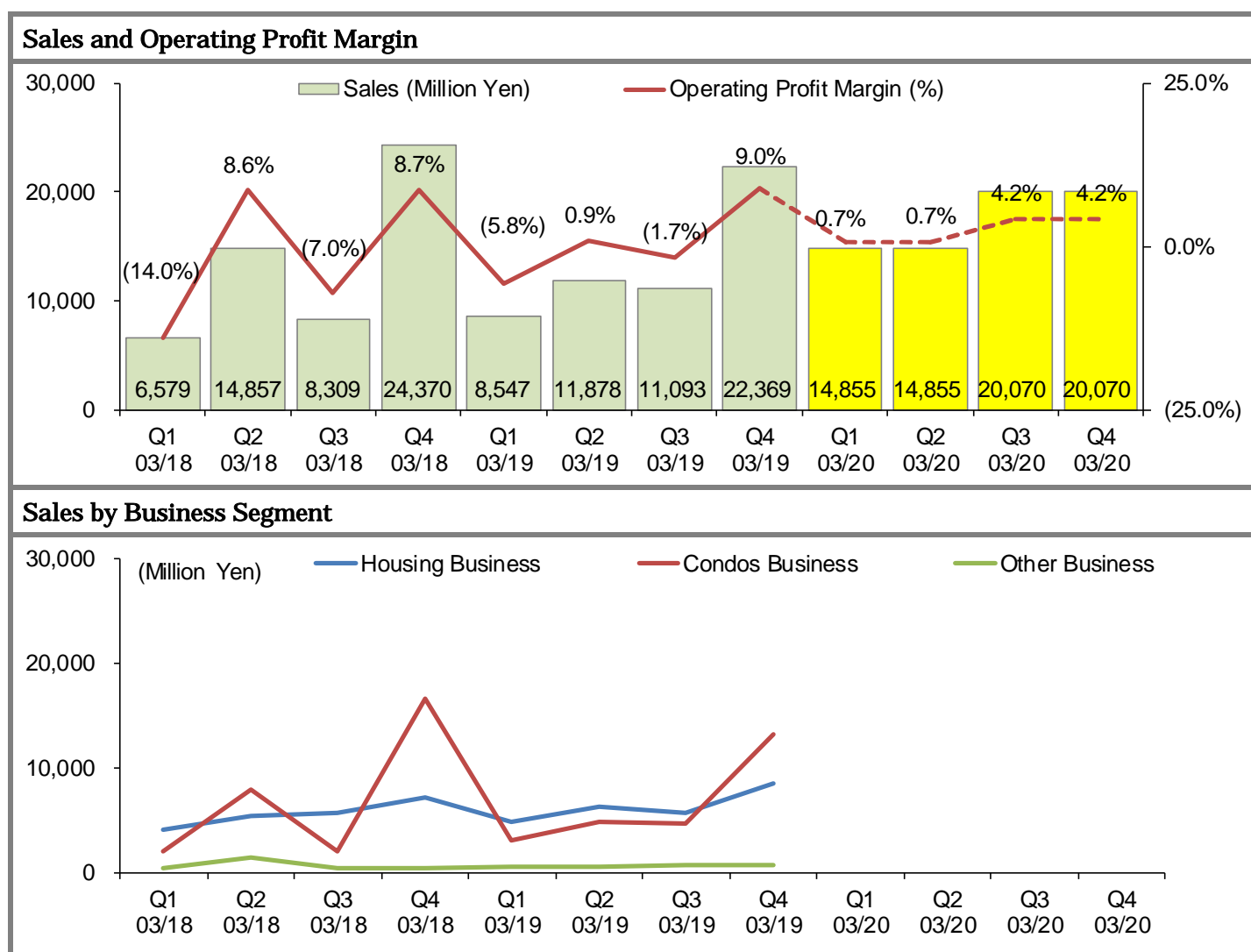
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2018	Q1 to Q2 03/2018	Q1 to Q3 03/2018	Q1 to Q4 03/2018	Q1 03/2019	Q1 to Q2 03/2019	Q1 to Q3 03/2019	Q1 to Q4 03/2019		
Operating Cash Flow	-	961	-	7,671	-	(8,470)	-	(3,789)	(11,460)	
Investing Cash Flow	-	(43)	-	(236)	-	(583)	-	(782)	(546)	
Operating CF & Investing CF	-	918	-	7,435	-	(9,053)	-	(4,571)	(12,007)	
Financing Cash Flow	-	(209)	-	(7,366)	-	8,420	-	5,230	+12,597	

Source: Company Data, WRJ Calculation

FY03/2020 Company Forecasts

FY03/2020 Company forecasts are going for prospective sales of ¥69,850m (up 29.6% YoY), operating profit of ¥1,900m (up 32.5%), recurring profit of ¥1,910m (up 23.7%) and profit attributable to owners of parent of ¥1,220m (up 27.9%), while operating profit margin of 2.72% (up 0.06%). In regards to prospective annual dividend, Company forecasts are going for ¥25.0 per share, implying payout ratio of 25.2%.

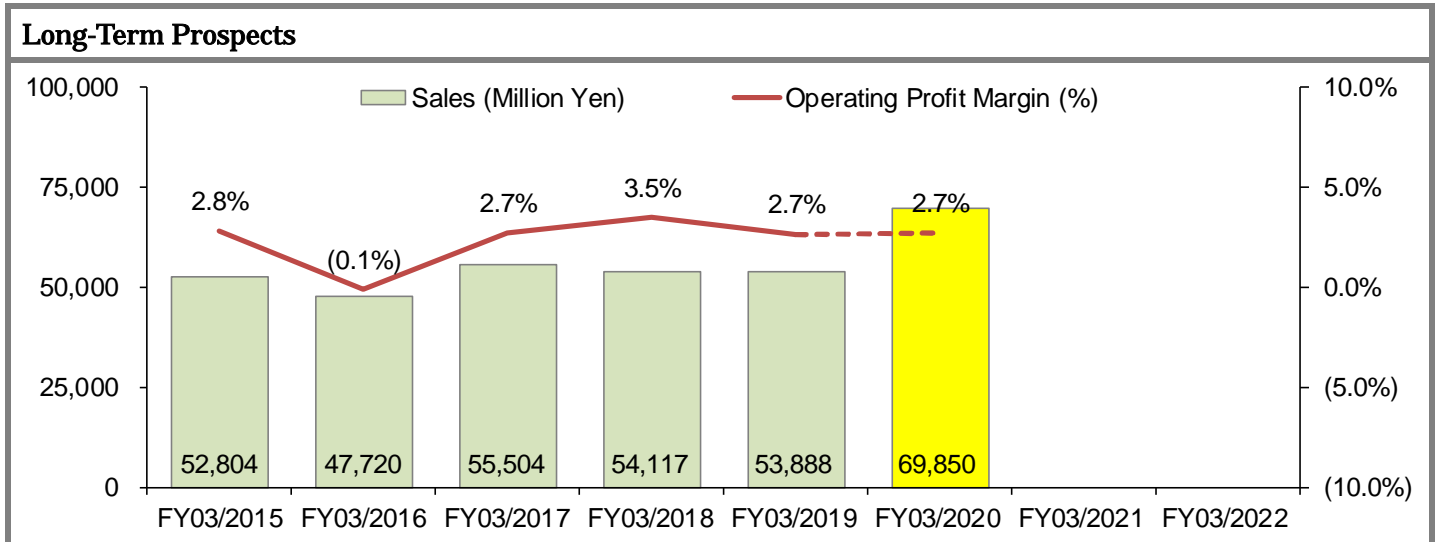


Source: Company Data, WRJ Calculation (quarters of FY03/2020: H1 Company forecasts pro rata and ditto for H2)

By business segment, Company forecasts assume sales of ¥28,298m (up 11.1%), operating profit of ¥1,044m (up 514.4%) and operating profit margin of 3.7% (up 3.0% points) on the Housing Business side, while sales of ¥38,136m (up 47.5%), operating profit of ¥2,317m (down 3.9%) and operating profit margin of 6.1% (down 3.3% points) on the Condos Business side. Due to seasonal factors, sales on the Condos Business side are inclined to concentrate in Q4, which is followed by reactionary fall of sales in Q1. As a result, full-year sales and earnings as a whole for the Company are inclined to concentrate in H2, which will be the case also in FY03/2020. Meanwhile, the business segment of Other is to see sales of ¥3,416m (up 32.6%), operating profit of negative ¥56m (versus negative ¥195m in the previous year) and operating profit margin of negative 2.0% (down 0.2% points).

Long-Term Prospects

On 29 June 2018, the Company held its FY03/2018 results meeting and Fumio Matsumoto, having been appointed as Representative Director / President on 27 June 2018, disclosed that the Company was going for management based on an idea of Creating Shared Value (CSV) to materialize Society 5.0 as the basic guideline, starting up in FY03/2019.



Source: Company Data, WRJ Calculation

Having celebrated 50th anniversary (1 February 2019), the Company revealed its conviction that it was crucially important to beef up branding of own corporate slogan, i.e., “housing to provide human and the earth with pleasure” in order to materialize persistent growth in the future, when having held its FY03/2019 results meeting (on 31 May 2019). Meanwhile, the Company reiterated its intention to go for management based on an idea of CSV at the same time. Literally, it represents management to create shared value. That is to say, the concept is to focus on society’s problems as business opportunities and solve them with own strengths and own assets and creating both social value and economic value.

For example, the Company has started up providing services to propose innovated residential environment featuring “Ecology & Safety” to heavily utilize AI and IoT. On 7 February 2019, the Company launched a system to remotely watch over specific member of family by means of grasping the state of the said member as well as that of residence through wireless sensors, cooperating with ENCORED JAPAN Inc. belonging to SoftBank Group. Meanwhile, for the sake of coping with super-ageing society making progress, the Company is to see the first completion in Kanto region for a condo dedicated to the elderly in Ushiku-city, Ibaraki-prefecture, in late September 2020. On top of this, the Company is keen on total energy solutions taking advantage of eco-friendly devices, etc. represented by photovoltaic power generation, storage battery and high efficiency lighting (LED).

4.0 Business Model

Pursuit of Enterprise Value and Tender Offer

The Company, developing / selling houses and condos in the Metropolitan area, Chubu region, Kyushu region, etc. on top of the mainstay Kinki region, has abolished official positions of CEO and COO, while having set up management structure led by three representative directors. As found in the [release \(Japanese\) on 9 May 2018](#), this aims at “further enhancement of management scheme to create enterprise value more than before”.

It is indispensable to beef up governance to create enterprise value more than before. Meanwhile, the Company is surrounded by fast-changing market environment and the Company is convinced with an idea that it is the best way of management that three different representative directors are in charge of a) offense, b) defense and c) balance between the two, respectively, with responsibility.

Meanwhile, [JAPAN ASIA GROUP LIMITED](#), with AIZAWA SECURITIES as the leading shareholders (holding 12.56% of the shares outstanding as of the end of March 2019), had once implemented tender offer on the Company’s shares, as found in [the release \(Japanese\) on 26 April 2018](#), where it was argued that this tender offer did not intend to “acquire supremacy and/or take part in management (not intending delisting)”, while having had intended to “smoothly accomplish cooperation” with the Company. This tender offer was targeting at holding 33.34% of the shares outstanding of the Company with an argument that “it was necessary to imply the magnitude of commitment”.

At the end of the day, as found in [the release \(Japanese\) on 13 June 2018](#), JAPAN ASIA GROUP LIMITED had acquired no more than 12.76% of the Company’s shares outstanding as of 12 June 2018, i.e., the last day of the period for this tender offer, having had resulted in shortfall against the target of 33.34%. Meanwhile, according to the Company’s [FY03/2019 YUHO Report \(Japanese\)](#), LIXIL Corporation held 24.56%, ORIX Corporation 16.64%, JAPAN ASIA GROUP LIMITED 12.76%, The Kansai Electric Power Company, Inc. 12.12% and SECOM Co., Ltd. 7.92% out of all the shares outstanding but for treasury shares as of the end of FY03/2019 (as of 31 March 2019).

In other words, JAPAN ASIA GROUP LIMITED has remained unchanged for its holdings since then and currently being one of the major shareholders but for the largest. Meanwhile, it was disclosed that no progress had been made on this issue in Q2 FY03/2019 results meeting held on 21 November 2018, while it has been still the case to date, according to the Company.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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