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Sanyo Homes (1420)

Consolidated Fiscal Year (Million Yen)		Sales	Operaitng 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	100.93	15.00	1,374.32
FY03/2019		53,888	1,434	1,544	954	77.46	25.00	1,425.21
FY03/2020CoE		62,000	450	420	220	17.85	25.00	-
FY03/2019	YoY	(0.4%)	(24.3%)	(19.2%)	(23.2%)	-	-	-
FY03/2020CoE	YoY	15.1%	(68.6%)	(72.8%)	(76.9%)	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**Operaitng 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 FY03/2020		23,782	143	109	34	-	-	-
Q3 to Q4 FY03/2020CoE		38,217	306	310	185	-	-	-
Q1 to Q2 FY03/2020	YoY	16.4%	-	-	-	-	-	-
Q3 to Q4 FY03/2020CoE	YoY	14.2%	(83.1%)	(84.4%)	(85.8%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (27 December 2019)

Creating Shared Value

Sanyo Homes, mainly developing houses and condos for sale, is attempting management based on an idea of creating shared value (CSV). By seeing social issues as own business opportunities and working with customers to resolve those issues, the Company believes it will be able to achieve sustainable growth. Although management models such as ESG (Environmental, Social and corporate Governance) and SDGs (Sustainable Development Goals) have been often adopted in Japan and overseas, the Company is convinced with the effectiveness of practicing CSV-based management, which will realize sustainable growth for the Company. The Company specifically cites the decline and aging of the Japanese population as social issues, while it will actively tackle those issues. Furthermore, in light of the recent frequent occurrence of natural disasters in Japan, it is claimed that the time has just come for the construction of robust houses that respond to ecology (natural environmental conservation) based on the "eco and safety" concept advocated by the Company. Meanwhile, although it is implied that the assumptions are fairly conservative, the most recent FY03/2020 Company forecasts are going for earnings correction two years in a row. Still, the Company convinced with CSV in a long-term view is just trying to make progress with management based on this. Meanwhile, the Company, being keen of sharing earnings with shareholders, is to maintain dividend at high level, i.e.,¥25.0 per share, implying payout ratio of 140.1%, in FY03/2020.

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2.0 Company Profile

Developing Houses and Condos for Sale

Company Name	Sanyo Homes Corporation Website IR Information Share Price (Japanese)
Established	1 February 1969
Listing	9 April 2014: Tokyo Stock Exchange 1st section (ticker: 1420) 9 April 2013: Tokyo Stock Exchange 2nd section
Capital	¥5,945m (as of the end of September 2019)
No. of Shares	12,620,000 shares, including 289,153 treasury shares (as of the end of Sep. 2019)
Main Features	● Roots in Kubota House Co. Ltd. or provider of custom homes (steel frame prefabrication system) ● Operations mainly in the Kansai region and the Kanto (metropolitan area, etc.) region ● Condos Business to develop condos for sale, the key earning pillar
Business Units	・Detached Housing ・Condos ・Renewal Distribution ・Renovation ・Rental Welfare Housing ・Life Support ・Frontier
Top Management	Chairman & Representative Director: Yasusuke Tanaka Vice Chairman & Representative Director: Hisashi Matsuoka President & Representative Director: Fumio Matsumoto
Shareholders	LIXIL Corp. 24.5%, ORIX Corp. 16.6% (as of the end September 2019)
Headquarters	Nishi-ku, Osaka-prefecture, JAPAN
No. of Employees	Consolidated: 782, Parent: 467 (as of the end of September 2019)

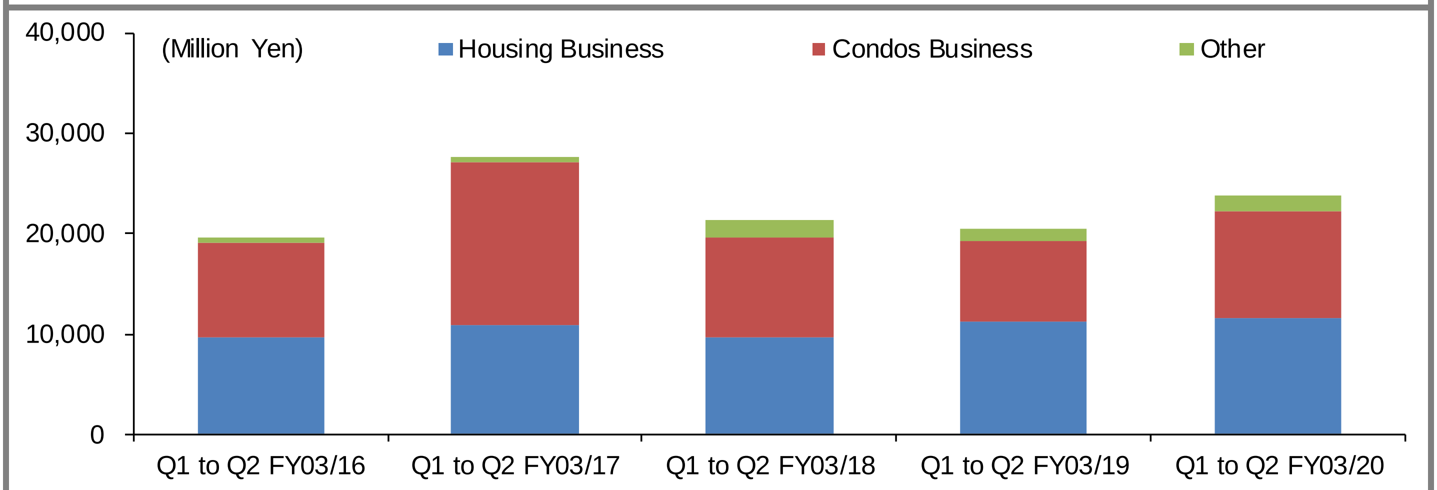
Source: Company Data

3.0 Recent Trading and Prospects

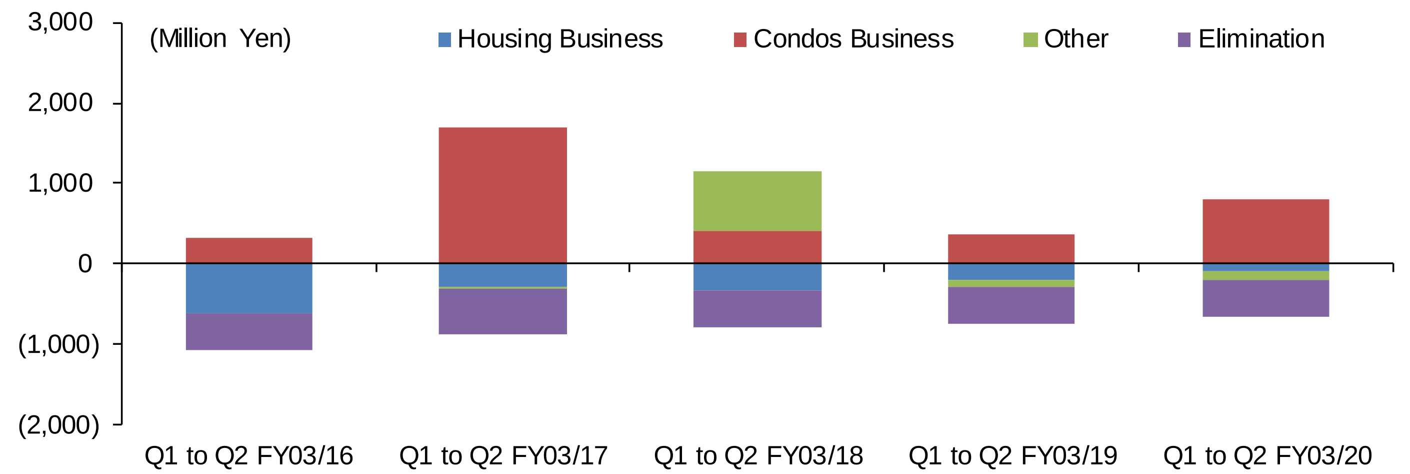
Q1 to Q2 FY03/2020 Results

In Q1 to Q2 FY03/2020, sales came in at ¥23,782m (up 16.4% YoY), operating profit ¥143m (versus minus ¥382m during the same period of the previous year), recurring profit ¥109m (minus ¥444m) and profit attributable to owners of parent ¥34m (minus ¥344m), while operating profit margin 0.6% (up 2.5% points). Thus, the Company saw sales and earnings improved over the same period of the previous year, but suffered from shortfall, when compared with assumptions of initial Company forecasts as has been disclosed on 1 November 2019, i.e., by ¥5,927m (20.0%) in sales, by ¥66m (31.6%) in operating profit, by ¥50m (31.3%) in recurring profit and by ¥65m (65.0%) in profit attributable to owners of parent.

Sales by Business Segment



Operating Profit by Business Segment



Source: Company Data, WRJ Calculation

Gross profit came in at ¥4,735m (up 21.2%) and SG&A expenses ¥4.591m (up 7.0%), implying gross profit margin of 19.9% (up 0.8% points) and sales to SG&A expenses ratio of 19.3% (down 1.7% points). Gross profit increased a lot over the same period of the previous year, but below expectations due to shortfall in sales. Meanwhile, SG&A expenses were also below expectations due to the fact that some of them are directly related to sales and that the Company successfully implemented streamlining in line with shortfall in sales. Still, it was not enough to fully compensate for shortfall in gross profit.

Meanwhile, Company forecasts are exceeded in gross profit margin, according to the Company. This is attributable to an improvement in cost of sales ratio on the Condos Business side as a result of curbing discounts on selling prices. However, this has prolonged sales of completed inventory on the Condos Business side and it is considered that this is the main factor behind the shortfall with sales of the Company as a whole. Consequently, the Company has revealed its plan to sell completed inventory as soon as possible in H2. Meanwhile, the Company saw business performance in line with expectations on the Housing Business side.

On the Housing Business side, sales came in at ¥11,511m (up 2.5%), operating profit minus ¥98m (minus ¥195m) and operating profit margin minus 0.9% (up 0.9% points). Order intake came in at ¥11,985m (down 1.9%) and order backlog ¥13,907m (up 6.3%). Order backlog has steadily increased, but the Company here has been roughly breaking even for some time in terms of earnings. Sales of detached housing came in at ¥4,723m (up 11.9%), sales of rental welfare housing ¥3,155m (down 14.4%), sales of renovation ¥3,337m (up 23.5%) and sales of renewal distribution ¥294m (down 52.6%).

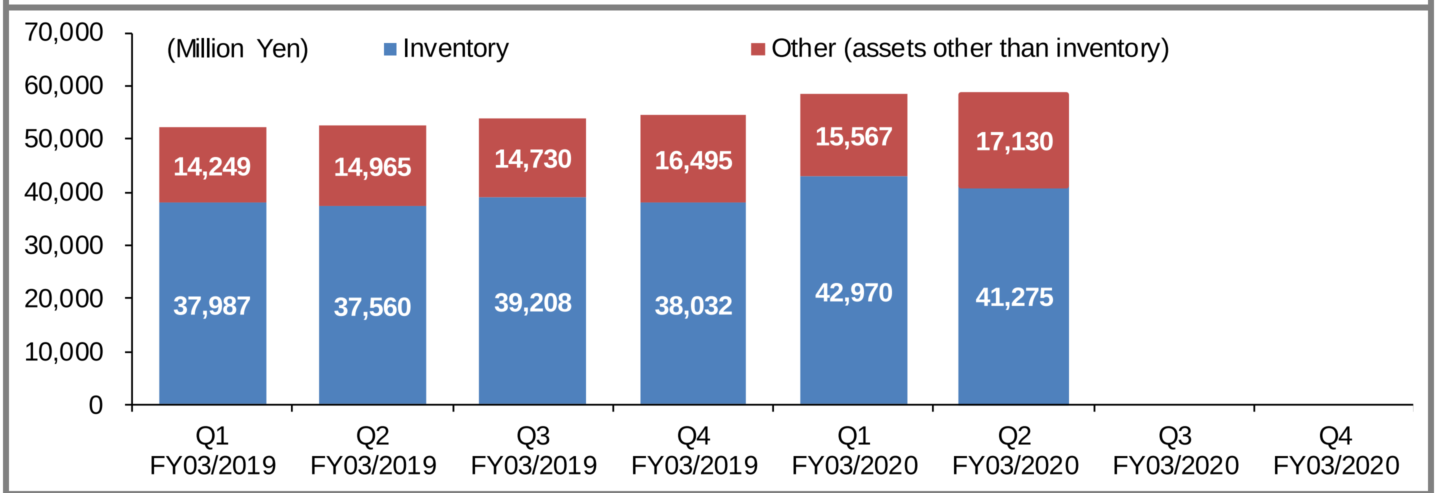
With respect to detached housing, the Company basically works as building contractor of custom homes. Sales are buoyant, but order intake and order backlog are coming down. The Company suggests that the background to this is difficult market condition. Meanwhile, the Company also suggests that it rarely sees impacts stemming from consumption tax hike. Due to issues on construction period, etc., order intake for custom homes has been subject to the consumption tax hike since around April 2019. In light of this, it may not be surprising that order intake in Q1 to Q2 come down due to a surge in demand prior to this. In the first place, however, the Company had not recognized any surge of the last-minute demand that should have had occurred before that time.

With respect to rental and welfare housing, the Company basically works as building contractor of apartment houses (rental) as well as for nursing care facilities and nursery schools (welfare). Sales are coming down, but order intake and order backlog are on the rise, overwhelming driving the above-mentioned increases of order backlog as a whole for the Housing Business side. The Company suggests that it has succeeded in strengthening its ability to handle large-scale facilities such as nursing care facilities and nursery schools.

With respect to renovation, the Company provides repair services to cope with changes in way of dwelling as well as those of coping with damages caused by aging and/or natural disasters. Sales have surged, but order intake is coming down, resulting in substantial decreases of order backlog. Here, the Company saw the last-minute demand in Q1 to Q2, stemming from consumption tax hike, leading to sales slowing down in H2. With respect to renewal distribution, the Company purchases and resells used homes. Sales, order intake and order backlog are all coming down by half over the same period in the previous year. On the Housing Business side, this was launched as a new business about three years ago, while this business has failed to take off so far.

On the Condos Business side, meanwhile, sales came in at ¥10,735m (up 34.3%), operating profit ¥805m (up 124.6%) and operating profit margin 7.5% (up 3.0% points), while order intake ¥8,530m (down 5.0%) and order backlog ¥16,790m (down 17.2%). Over the same period of the previous year, sales and earnings have risen sharply, but order intake and order backlog have come down. In particular, the decline in order backlog is a cause for concerns about sales in H2, according to the Company.

Total Assets



Source: Company Data, WRJ Calculation

Condos Business is the key operation with the Company. On top of accounting for most of operating profit as a whole for the Company, assets associated with this business segment accounts for the bulk of total assets. Inventory (¥41,275m) accounts for 71% of the Company's total assets (¥58,406m) and the former comprises completed condos of ¥6,358m (up ¥796m from the end of FY03/2019), work-in-process condos of ¥31,702m (up ¥2,329m) and other of ¥3,213m (up ¥117m). Collectively, inventory increased by ¥3,243m from the end of FY03/2019.

Completed condos are the balances (book values) of so-called completed inventory, i.e., the balances (book values) of properties that are currently available for sale. As mentioned above, sales on the Condos Business side came in at ¥10,735m in Q1 to Q2, which has reduced competed condos to the same extent. Meanwhile, completed condos increased as the said reductions were more than offset by the balances of unsold properties as of the end of Q2 to have been newly created due to their completion in Q1 to Q2.

Work-in-process condos are the balances (book values) of properties under various stages toward completion. For example, the balances (book values) of properties whose construction has progressed until just before the transition to completed condos are included and the balances (book values) of land to have been just acquired for properties for which construction has not yet commenced are also included at the same time. In Q1 to Q2, eight new land acquisitions were implemented, which resulted in increases in the balances of land (book value) by some ¥3,700m. In other words, the Company sees properties for sale in the future increased as much as this in Q1 to Q2.

Based on the above-mentioned balances (book values) of completed condos and work-in-process condos, etc., the Company is going for a possibility to book sales of ¥33,900m on the Condos Business side in H2. However, this is based on an assumption that all the balances (book values) will be completely eliminated as of the end of FY03/2020 and thus the most recent FY03/2020 Company forecasts are going for prospective sales of ¥24,553m in H2. Meanwhile, considering the balances (book values) mentioned above, the Company spots a possibility to additionally see sales of ¥68,600m for FY03/2021 and thereafter.

Prospective sales of ¥33,900m in H2 comprise those of ¥7,900m stemming from completed condos as of the end of Q2 and those of ¥26,000m stemming from properties to be newly completed in H2. The former saw balances of ¥6,358m as of the end of Q2, which is considered to be roughly equivalent to cost of sales. Simply thinking, gross profit of ¥1,542m and gross profit margin of 19.5% are assumed.

Meanwhile, the Company defines as Other for business other than Housing Business and Condos Business, where sales came in at ¥1,535m (up 28.2%), operating profit minus ¥102m (minus ¥103m) and operating profit margin minus 6.7% (up 2.0% points). Sales here mainly comprise those of ¥1,409m (up 46.0%) for life support and those of ¥114m (down 48.2%) for frontier.

Life support basically represents condos management which is the Company's original business here and the operations to run nursery schools whose new openings are persisting. In regards to the former, the Company is seeing steady increases in the number of properties under management partly due to the handover of properties managed by other company. In regards to the latter, the Company is preparing to open a licensed nursery school in Nagoya-city (with a capacity of 60 people) in April 2020, which is integrated with FamilyMart store. Meanwhile, frontier basically represents sales of the light steel frame prefabrication system "GS Frame System" on an OEM basis. Given demand from apartment house specialists, who are the key sales destinations, is declining sharply and near-term prospects are unfavorable, the Company has started up cultivating warehouses as new domain of sales together with its proposal-based sales promotions.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	Net Chg.
Sales	**8,547**	**20,426**	**31,519**	**53,888**	**7,738**	**23,782**	**-**	**-**	**+3,356**
Cost of Sales	6,889	16,517	25,525	43,248	6,447	19,047	-	-	+2,529
Gross Profit	1,658	3,908	5,994	10,639	1,291	4,735	-	-	+826
SG&A Expenses	2,152	4,291	6,566	9,205	2,181	4,591	-	-	+300
Operating Profit	**(494)**	**(382)**	**(572)**	**1,434**	**(890)**	**143**	**-**	**-**	**+526**
Non Operating Balance	(23)	(61)	(61)	110	(4)	(33)	-	-	+27
Recurring Profit	**(518)**	**(444)**	**(634)**	**1,544**	**(895)**	**109**	**-**	**-**	**+554**
Extraordinary Balance	0	0	0	(23)	(11)	(11)	-	-	(11)
Profit before Income Taxes	(518)	(444)	(634)	1,521	(906)	98	-	-	+542
Total Income Taxes	(149)	(99)	(140)	567	(262)	63	-	-	+163
Profit Attributable to Owners of Parent	**(368)**	**(344)**	**(494)**	**954**	**(644)**	**34**	**-**	**-**	**+379**
Sales YoY	+29.9%	(4.7%)	+6.0%	(0.4%)	(9.5%)	+16.4%	-	-	-
Operating Profit YoY	-	-	-	(24.3%)	-	-	-	-	-
Recurring Profit YoY	-	-	-	(19.2%)	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	-	(23.2%)	-	-	-	-	-
Gross Profit Margin	19.4%	19.1%	19.0%	19.7%	16.7%	19.9%	-	-	+0.8%
Sales to SG&A Expenses Ratio	25.2%	21.0%	20.8%	17.1%	28.2%	19.3%	-	-	(1.7%)
Operating Profit Margin	(5.8%)	(1.9%)	(1.8%)	2.7%	(11.5%)	0.6%	-	-	+2.5%
Recurring Profit Margin	(6.1%)	(2.2%)	(2.0%)	2.9%	(11.6%)	0.5%	-	-	+2.6%
Profit Attributable to Owners of Parent Margin	(4.3%)	(1.7%)	(1.6%)	1.8%	(8.3%)	0.1%	-	-	+1.8%
Total Income Taxes／Profit before Income Taxes	-	-	-	37.3%	-	64.5%	-	-	-

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	03/2019	03/2019	03/2019	03/2019	03/2020	03/2020	03/2020	03/2020	Net Chg.
Sales	**8,547**	**11,878**	**11,093**	**22,369**	**7,738**	**16,044**	**-**	**-**	**+4,166**
Cost of Sales	6,889	9,627	9,007	17,723	6,447	12,599	-	-	+2,971
Gross Profit	1,658	2,250	2,085	4,645	1,291	3,444	-	-	+1,194
SG&A Expenses	2,152	2,139	2,274	2,639	2,181	2,410	-	-	+271
Operating Profit	**(494)**	**111**	**(189)**	**2,006**	**(890)**	**1,034**	**-**	**-**	**+922**
Non Operating Balance	(23)	(37)	(0)	172	(4)	(29)	-	-	+8
Recurring Profit	**(518)**	**73**	**(189)**	**2,178**	**(895)**	**1,005**	**-**	**-**	**+931**
Extraordinary Balance	0	0	0	(23)	(11)	0	-	-	+0
Profit before Income Taxes	(518)	73	(189)	2,155	(906)	1,005	-	-	+931
Total Income Taxes	(149)	49	(40)	707	(262)	326	-	-	+276
Profit Attributable to Owners of Parent	**(368)**	**23**	**(149)**	**1,448**	**(644)**	**679**	**-**	**-**	**+655**
Sales YoY	+29.9%	(20.1%)	+33.5%	(8.2%)	(9.5%)	+35.1%	-	-	-
Operating Profit YoY	-	(91.3%)	-	(5.1%)	-	+828.7%	-	-	-
Recurring Profit YoY	-	(94.1%)	-	(0.3%)	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	(97.2%)	-	(0.4%)	-	-	-	-	-
Gross Profit Margin	19.4%	18.9%	18.8%	20.8%	16.7%	21.5%	-	-	+2.5%
Sales to SG&A Expenses Ratio	25.2%	18.0%	20.5%	11.8%	28.2%	15.0%	-	-	(3.0%)
Operating Profit Margin	(5.8%)	0.9%	(1.7%)	9.0%	(11.5%)	6.4%	-	-	+5.5%
Recurring Profit Margin	(6.1%)	0.6%	(1.7%)	9.7%	(11.6%)	6.3%	-	-	+5.6%
Profit Attributable to Owners of Parent Margin	(4.3%)	0.2%	(1.3%)	6.5%	(8.3%)	4.2%	-	-	+4.0%
Total Income Taxes／Profit before Income Taxes	-	67.5%	-	32.8%	-	32.4%	-	-	(35.1%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 03/2019	Cons.Act Q1 to Q2 03/2019	Cons.Act Q1 to Q3 03/2019	Cons.Act Q1 to Q4 03/2019	Cons.Act Q1 03/2020	Cons.Act Q1 to Q2 03/2020	Cons.Act Q1 to Q3 03/2020	Cons.Act Q1 to Q4 03/2020	YoY Net Chg.
Housing Business	4,862	11,233	16,989	25,461	4,957	11,511	-	-	+278
Condos Business	3,112	7,995	12,676	25,850	2,048	10,735	-	-	+2,740
Other	572	1,198	1,853	2,576	732	1,535	-	-	+337
Sales	**8,547**	**20,426**	**31,519**	**53,888**	**7,738**	**23,782**	**-**	**-**	**+3,356**
Housing Business	(327)	(195)	(273)	170	(328)	(98)	-	-	+97
Condos Business	128	358	528	2,412	(252)	805	-	-	+447
Other	(70)	(103)	(134)	(195)	(51)	(102)	-	-	+1
Total	**(269)**	**59**	**120**	**2,386**	**(633)**	**605**	**-**	**-**	**+545**
Elimination	(224)	(442)	(692)	(952)	(257)	(461)	-	-	(18)
Operating Profit	**(494)**	**(382)**	**(572)**	**1,434**	**(890)**	**143**	**-**	**-**	**+526**
Housing Business	(6.7%)	(1.7%)	(1.6%)	0.7%	(6.6%)	(0.9%)	-	-	+0.9%
Condos Business	4.1%	4.5%	4.2%	9.3%	(12.3%)	7.5%	-	-	+3.0%
Other	(12.4%)	(8.7%)	(7.3%)	(7.6%)	(7.1%)	(6.7%)	-	-	+2.0%
Elimination	(2.6%)	(2.2%)	(2.2%)	(1.8%)	(3.3%)	(1.9%)	-	-	+0.2%
Operating Profit Margin	**(5.8%)**	**(1.9%)**	**(1.8%)**	**2.7%**	**(11.5%)**	**0.6%**	**-**	**-**	**+2.5%**

Segmented Information (Million Yen)	Cons.Act Q1 03/2019	Cons.Act Q2 03/2019	Cons.Act Q3 03/2019	Cons.Act Q4 03/2019	Cons.Act Q1 03/2020	Cons.Act Q2 03/2020	Cons.Act Q3 03/2020	Cons.Act Q4 03/2020	YoY Net Chg.
Housing Business	4,862	6,370	5,756	8,471	4,957	6,554	-	-	+183
Condos Business	3,112	4,882	4,681	13,173	2,048	8,687	-	-	+3,804
Other	572	625	654	723	732	803	-	-	+177
Sales	**8,547**	**11,878**	**11,093**	**22,369**	**7,738**	**16,044**	**-**	**-**	**+4,166**
Housing Business	(327)	131	(77)	443	(328)	230	-	-	+98
Condos Business	128	230	169	1,883	(252)	1,058	-	-	+828
Other	(70)	(32)	(31)	(60)	(51)	(50)	-	-	(17)
Total	**(269)**	**329**	**60**	**2,266**	**(633)**	**1,238**	**-**	**-**	**+909**
Elimination	(224)	(217)	(249)	(260)	(257)	(204)	-	-	+13
Operating Profit	**(494)**	**111**	**(189)**	**2,006**	**(890)**	**1,034**	**-**	**-**	**+922**
Housing Business	(6.7%)	2.1%	(1.4%)	5.2%	(6.6%)	3.5%	-	-	+1.4%
Condos Business	4.1%	4.7%	3.6%	14.3%	(12.3%)	12.2%	-	-	+7.5%
Other	(12.4%)	(5.2%)	(4.7%)	(8.3%)	(7.1%)	(6.3%)	-	-	(1.0%)
Elimination	(2.6%)	(1.8%)	(2.3%)	(1.2%)	(3.3%)	(1.3%)	-	-	+0.6%
Operating Profit Margin	**(5.8%)**	**0.9%**	**(1.7%)**	**9.0%**	**(11.5%)**	**6.4%**	**-**	**-**	**+5.5%**

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act Q1 03/2019	Cons.Act Q2 03/2019	Cons.Act Q3 03/2019	Cons.Act Q4 03/2019	Cons.Act Q1 03/2020	Cons.Act Q2 03/2020	Cons.Act Q3 03/2020	Cons.Act Q4 03/2020	YoY Net Chg.
Cash and Deposit	8,430	7,703	7,939	8,895	7,557	8,921	-	-	+1,218
Accounts Receivables	1,472	2,684	2,081	1,807	1,718	1,985	-	-	(699)
Inventory	37,987	37,560	39,208	38,032	42,970	41,275	-	-	+3,715
Other	924	1,151	1,200	1,437	1,689	1,900	-	-	+749
Current Assets	**48,815**	**49,099**	**50,430**	**50,173**	**53,935**	**54,083**	**-**	**-**	**+4,984**
Tangible Assets	764	818	830	2,032	2,077	2,064	-	-	+1,246
Intangible Assets	36	36	35	36	33	31	-	-	(5)
Investments and Other Assets	2,621	2,571	2,643	2,285	2,491	2,226	-	-	(345)
Fixed Assets	**3,421**	**3,426**	**3,509**	**4,354**	**4,603**	**4,323**	**-**	**-**	**+896**
Total Assets	**52,237**	**52,526**	**53,939**	**54,527**	**58,538**	**58,406**	**-**	**-**	**+5,880**
Accounts Payables	3,489	3,767	4,217	7,200	4,346	6,180	-	-	+2,413
Short Term Debt	16,040	15,490	17,580	16,210	21,380	19,920	-	-	+4,430
Advances Re. on Uncompleted Contracts	1,198	1,750	1,768	1,154	1,253	2,148	-	-	+398
Advances Received	2,214	2,192	2,481	2,198	2,628	1,106	-	-	(1,086)
Other	1,563	1,814	1,573	2,703	1,562	1,723	-	-	(91)
Current Liabilities	**24,506**	**25,013**	**27,622**	**29,466**	**31,171**	**31,078**	**-**	**-**	**+6,064**
Long Term Debt	9,790	9,520	8,430	5,610	8,870	8,150	-	-	(1,370)
Other	1,580	1,607	1,649	1,880	1,883	1,889	-	-	+281
Fixed Liabilities	**11,370**	**11,127**	**10,079**	**7,490**	**10,753**	**10,039**	**-**	**-**	**(1,088)**
Total Liabilities	**35,877**	**36,141**	**37,701**	**36,957**	**41,924**	**41,117**	**-**	**-**	**+4,976**
Shareholders' Equity	**16,251**	**16,275**	**16,126**	**17,574**	**16,614**	**17,300**	**-**	**-**	**+1,024**
Other	108	109	112	(4)	(0)	(11)	-	-	(120)
Net Assets	**16,360**	**16,384**	**16,238**	**17,570**	**16,613**	**17,288**	**-**	**-**	**+903**
Total Liabilities and Net Assets	**52,237**	**52,526**	**53,939**	**54,527**	**58,538**	**58,406**	**-**	**-**	**+5,880**
Equity Capital	16,347	16,371	16,225	17,557	16,600	17,275	-	-	+904
Interest Bearing Debt	25,830	25,010	26,010	21,820	30,250	28,070	-	-	+3,060
Net Debt	17,399	17,306	18,070	12,924	22,692	19,148	-	-	+1,841
Equity Ratio	31.3%	31.2%	30.1%	32.2%	28.4%	29.6%	-	-	-
Net Debt Equity Ratio	106.4%	105.7%	111.4%	73.6%	136.7%	110.8%	-	-	-
ROE (12 months)	9.7%	4.2%	6.1%	5.5%	4.1%	7.9%	-	-	-
ROA (12 months)	4.4%	2.2%	2.9%	3.0%	2.1%	3.8%	-	-	-
Days for Inventory Turnover	503	356	397	321	608	299	-	-	-
Quick Ratio	40%	42%	36%	36%	30%	35%	-	-	-
Current Ratio	199%	196%	183%	170%	173%	174%	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

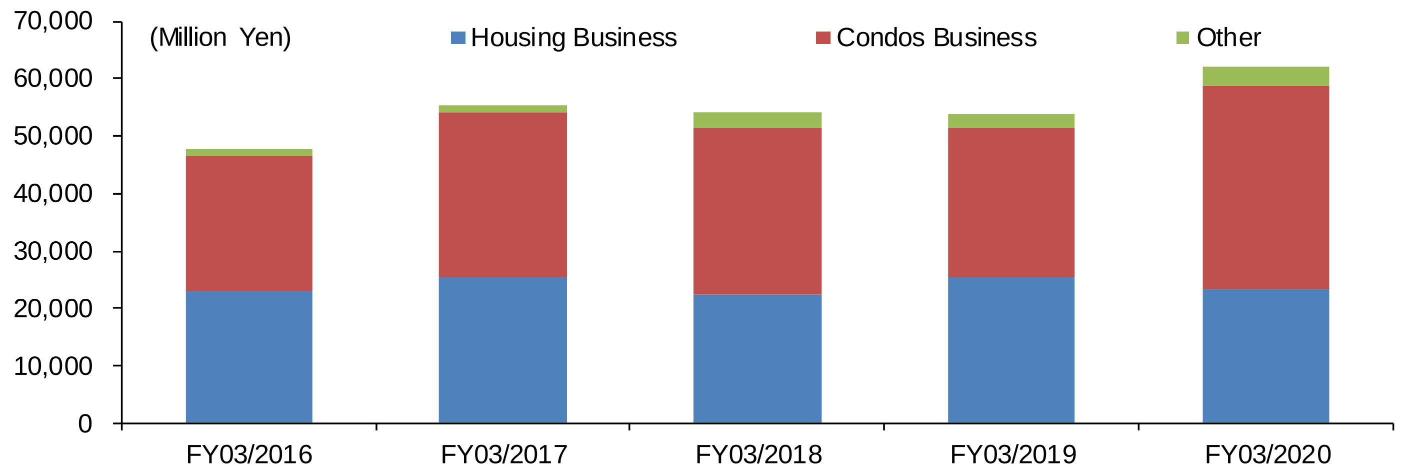
Cash Flow Statement (Million Yen)	Cons.Act Q1 03/2019	Cons.Act Q1 to Q2 03/2019	Cons.Act Q1 to Q3 03/2019	Cons.Act Q1 to Q4 03/2019	Cons.Act Q1 03/2020	Cons.Act Q1 to Q2 03/2020	Cons.Act Q1 to Q3 03/2020	Cons.Act Q1 to Q4 03/2020	YoY Net Chg.
Operating Cash Flow	-	(8,470)	-	(3,789)	-	(5,823)	-	-	+2,647
Investing Cash Flow	-	(583)	-	(782)	-	115	-	-	+698
Operating CF and Investing CF	**-**	**(9,053)**	**-**	**(4,571)**	**-**	**(5,708)**	**-**	**-**	**+3,345**
Financing Cash Flow	-	8,420	-	5,230	-	5,934	-	-	(2,486)

Source: Company Data, WRJ Calculation

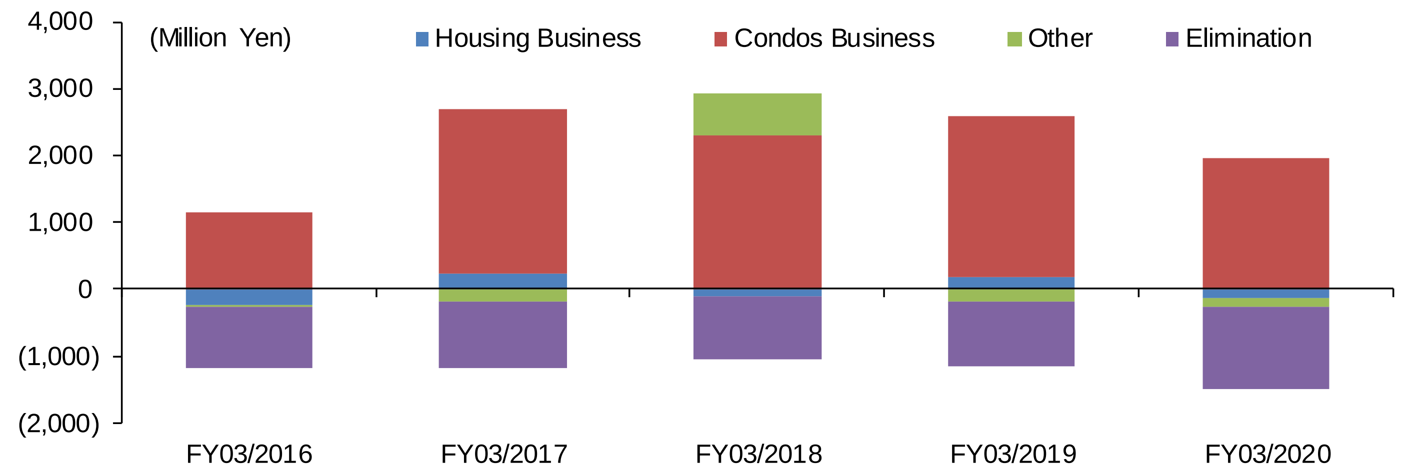
FY03/2020 Company Forecasts

FY03/2020 Company forecasts (revised on 8 November 2019) are going for prospective sales of ¥62,000m (up 15.1% YoY), operating profit of ¥450m (down 68.6%), recurring profit of ¥420m (down 72.8%) and profit attributable to owners of parent of ¥220m (down 76.9%), while operating profit margin of 0.7% (down 1.9% points). According to the Company, this is based on fairly conservative assumptions paying respect to Q1 to Q2 results and to the most recent order intake. Compared with initial Company forecasts, sales will be smaller and thus earnings correspondingly.

Sales by Business Segment



Operating Profit by Business Segment



Source: Company Data, WRJ Calculation

FY03/2020 Company forecasts (revised on 8 November 2019) assume gross profit of ¥10,600m (down 0.4%) and SG&A expenses of ¥10,150m (up 10.3%), implying gross profit margin of 17.1% (down 2.6% points) and sales to SG&A expenses ratio of 16.4% (down 0.7% points). By business segment, Housing Business is expected to see sales of ¥23,380m (down 8.2%), operating profit of minus ¥132m (versus ¥170m in the previous year) and operating profit margin of minus 0.6% (down 1.2% points) and Condos Business sales of ¥35,289m (up 36.5%), operating profit of ¥1,950m (down 19.1%) and operating profit margin of 5.5% (down 3.8% points). With respect to Other, prospective sales are ¥3,329m (up 29.2%), operating profit minus ¥119m (minus ¥195m) and operating profit margin minus 2.0% (down 0.2% points).

That is to say, the decline in operating profit margin as a whole for the Company is largely attributable to the decline in gross profit margin, while it is implied that this has a lot to do with the situations on the Condos Business side by business segment. In the first place, earnings on the Condos Business side have been driving earnings as a whole for the Company a lot. Compared with this, the Company has been seeing just a stability of earnings at around break even levels on the Housing Business side over the past years in a sense.

On the Condos Business side, order intake came in at ¥8,530m (down 5.0%) and order backlog ¥16,790m (down 17.2%) in Q1 to Q2 as mentioned earlier. With respect to order backlog, the Company suggests that there are fewer properties that can book sales in the short term than usual. Thus, the Company is going for prospective sales of ¥9,300m in H2 and prospective sales of ¥7,400m thereafter.

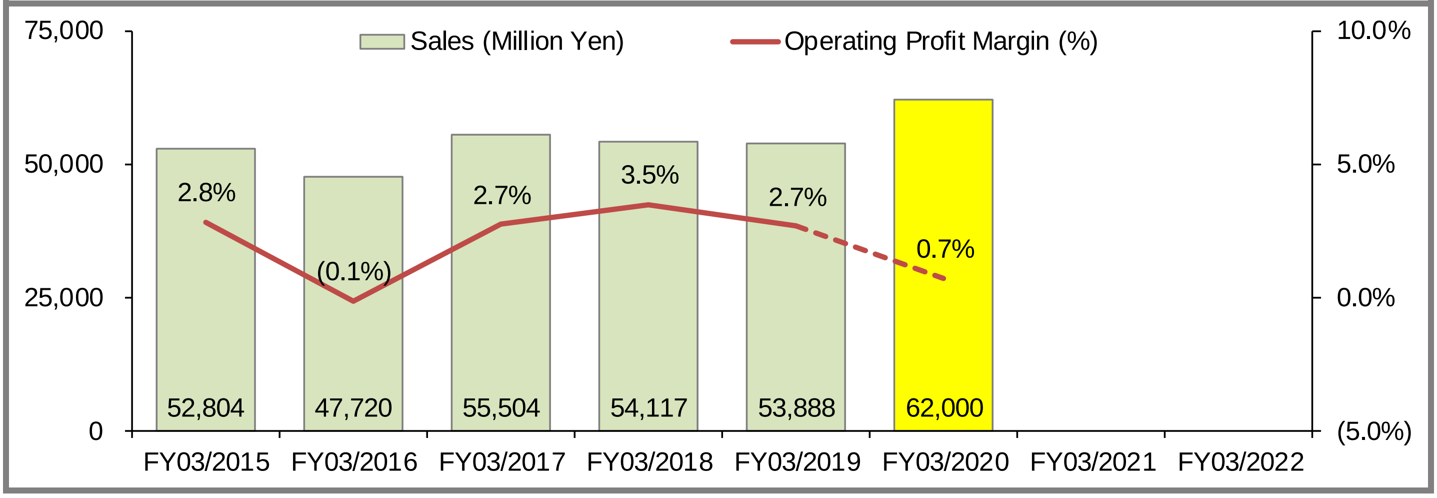
The situations mentioned above suggests that order intake for properties that are scheduled to be completed and/or delivered in the short term are not favorable. If this is left unchanged, the Company will suffer from completed inventory significantly increased. In H2, collective 8 properties or 239 units are scheduled to be completed and/or delivered. It appears that the Company has failed to confirm order intake to a large extent so far.

Meanwhile, as mentioned earlier, based on the balances (book values) of the most recent completed condos and work-in-process condos, etc., the Company is going for a possibility to book sales of ¥33,900m H2, while spotting a possibility to additionally see sales of ¥68,600m for FY03/2021 and thereafter. In light of this, the Company has made a management decision to reduce completed inventory by means of offering discounts on the properties to be sold in H2. In order to achieve this objective, the Company is now keen on spending on ads and sales promotion expenses. In H2, there is a decline in gross profit margin due to planned booking of sales for properties on a bundling basis, but the fall of gross profit margin on the Condos Business side is basically attributable to the management decision to have been made, which is also true of the situations as a whole for the Company.

Long-Term Prospects

On 29 June 2018, the Company held its FY03/2018 results meeting and Fumio Matsumoto who was appointed as President & Representative Director on 27 June 2018 disclosed that the Company was going for management based on an idea of Creating Shared Value (CSV) to realize “Society 5.0” as the basic guideline, starting up in FY03/2019. CSV-based management aims at the creating of shared value. This is a management model that creates both social value and economic value by solving social issues by utilizing the strengths and assets of business operators.

Long-Term Prospects



Source: Company Data, WRJ Calculation

On 26 November 2019, the Company held its Q2 FY03/2020 results meeting and Fumio Matsumoto reiterated that the Company focused on CSV-based management. From an objective standpoint, the comments are summarized as follows:

Although management models such as ESG (Environmental, Social and corporate Governance) and SDGs (Sustainable Development Goals) have been often adopted in Japan and overseas, the Company is convinced with the effectiveness of practicing CSV-based management, which will realize sustainable growth for the Company. The Company specifically cites the decline and aging of the Japanese population as social issues, while it will actively tackle those issues. Furthermore, in light of the recent frequent occurrence of natural disasters in Japan, it is claimed that the time has just come for the construction of robust houses that respond to ecology (natural environmental conservation) based on the "eco and safety" concept advocated by the Company.

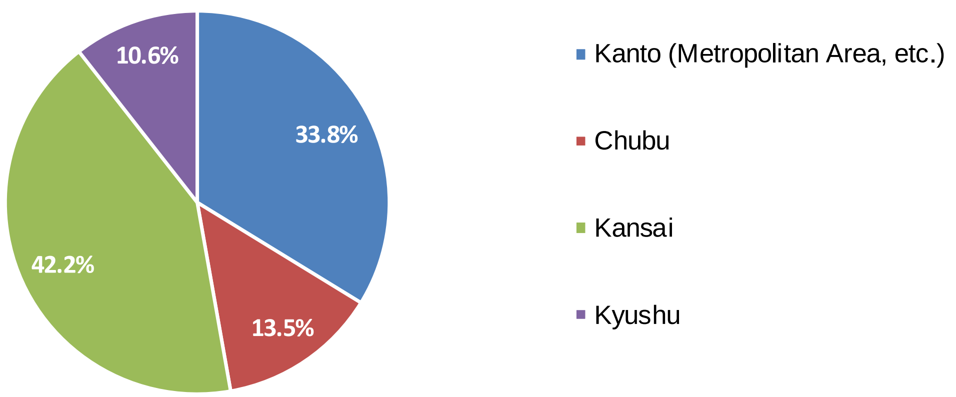
Specifically, for example, the Company is promoting nationwide expansion of senior condos. The Company, which already has a track record in Osaka, is now constructing senior condos in the Kanto region. The Company has launched “SANMIT Hitachinohigashi STATION FRONT” (Ushiku-city, Ibaraki-prefecture: 226 units as well as stores, etc.) in June 2019, which is the only one adopted (as the first one) in FY2019 Leading Business of Sustainable Buildings by Ministry of Land, Infrastructure and Transport. The Company is running a project to reduce the monitoring burden on operation staffs and families living away from here by means of introducing IoT equipment, which looks being highly appreciated.

4.0 Business Model

Pursuit of Corporate Value

The Company develops houses and condos for sale mainly in the Kansai region and the Kanto (metropolitan area, etc.) region as well as doing so in the Chubu region and the Kyushu region at the same time. Meanwhile, the Company has abolished official positions of CEO and COO, having set up management structure led by three representative directors as found in the release of "Notification on Transfer of Representative Director" on 9 May 2018.

Sales by Region (Q1 to Q2 FY03/2020)



Source: Company Data, WRJ Calculation

This aims at "creation of corporate value more than before for the Company by means of further enhancement of management scheme". In order to create corporate value more than before, it is indispensable to beef up governance, while the Company is surrounded by fast-changing market environment. Thus, the Company has 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) balancing between the two, respectively, with responsibility.

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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