

		WADAKOHSAN CORPORATION (8931)
Chairperson Norimasa Wada	President Takero Takashima	

Company Information

Market	JASDAQ
Industry	Real Estate
Chairperson	Norimasa Wada
President	Takero Takashima
HQ Address	4-2-13, Sakaemachidori, Chuo-ku, Kobe-shi, Hyogo
Year-end	February
HOME PAGE	http://www.wadakohsan.co.jp/

Stock Information

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE Act.	Trading Unit
¥786	11,099,798 shares		¥8,724 million	8.5%	100 shares
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥34.00	4.3%	¥166.67	4.7x	¥2,032.35	0.4x

*The share price is the closing price on October 25, 2019. The number of issued shares is obtained by deducting the number of treasury stocks from the number of shares issued at the end of the latest quarter. ROE, BPS are actual results at the end of the previous term.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Feb. 2016 Act.	28,950	2,938	2,055	1,238	123.86	26.00
Feb. 2017 Act.	31,374	3,063	2,193	1,370	137.10	27.00
Feb. 2018 Act.	35,149	3,304	2,424	1,589	158.23	30.00
Feb. 2019 Act.	39,287	3,445	2,687	1,843	166.07	32.00
Feb. 2020 Est.	40,000	3,500	2,700	1,850	166.67	34.00

*The forecasted values were provided by the company. Unit: Million yen, yen (EPS,DPS).

This Bridge Report presents WADAKOHSAN's earnings results for the first half of Fiscal Year ending February 2020 and earnings estimates.

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Key Points

- For the first half of the fiscal year ending Feb. 2020, sales and operating income dropped by 1.9% and 13.0%, respectively, YoY. The sale of condominiums, which is the mainstay, declined, in reaction to the delivery of properties in a large-scale project in the same period of the previous year, although the other real estate sales (sale of real estate for investment) and the property leasing revenue increased. The property leasing revenue increased, but profit rate declined due to the expenses for acquiring new properties, the increase of repair expenses, etc. Then, gross profit decreased in all segments, excluding the other real estate sales. SG&A increased mainly due to the rise in personnel cost, taxes for acquiring real estate for lease, etc.
- There is no revision to the earnings forecast. Sales and operating income are estimated to grow 1.8% and 1.6%, respectively, YoY. It is forecasted that the sale of condominiums and detached houses will increase, but the sales of other real estate will decrease, as the scale of properties to be sold will be smaller than that in the previous term, and the property leasing revenue will decline due to the increase of properties sold. Gross profit rate is projected to decrease as the prices of real estate will rise and construction cost will remain high due to the shortage of workers, although SG&A will be unchanged from the previous term. As for dividends, there will be no longer the commemorative dividend of 2 yen/share and the common dividend will be increased by 4 yen/share, so that a total of 34 yen/share will be paid. The dividend will increase for the 10th consecutive term (with estimated payout ratio of 20.4%).
- In the Tokyo Metropolitan Area, the number of supplied unit of condominiums is decreasing remarkably, and contract ratio is below 70%, it is said to be the level distinguishing between good and poor conditions, while in the Kinki region, where the prices of condominiums are raising gently, contract ratio exceeds 70%, and the number of supplied unit of condominiums has not decreased like in the Tokyo Metropolitan Area. Amid this situation, the purchases of Wadakohsan is smooth as the company has already purchased 705 units by the end of the first half, exceeding the annual plan (650 units). In Kobe and the Hanshin area, which is the main business area of the company, Wadakohsan seems to be purchasing real estate in a favorably manner through negotiations by utilizing the strong network with local real estate firms. Considering the situation of the market of condominiums in the Kinki region, where prices are reasonable and performance is smooth, and steady purchases by the company, it can be expected that the company will keep growing stably from the next term onward.

1. Company Overview

This time-honored real estate firm was founded in 1899. With its main bases among Kobe-shi, Akashi-shi and Hanshin area in Hyogo Prefecture, the company has developed its community based real estate business by selling lots for condominiums and detached houses, and dealing in real estate leases and effective land use. The company specializes in buying up sites and planning, and outsources design, architecture and sales to other firms. The main focus is selling lots for medium scale condominiums, under the “WAKOHRE” brand name, with around 30-50 units each. Within Kobe-shi, the company has been the number one “a provider of buildings” for 21 years running and is placed the second as “a provider of condominiums.” The company was also ranked as the third “a provider of buildings”

and the seventh “a provider of condominiums” in the Kinki region (ranking in 2018). As of the end of August 2019, the cumulative supply results were 486 buildings with 18,390 residences (based on those which had started construction).

The company began a real estate leasing business in Kobe-shi in January 1899. It was incorporated as Wadakohsan Ltd. in December 1966, and reorganized into Wadakohsan Co., Ltd. in September 1979.

【Business philosophy - symbiosis (living together) your way of living contributes to others’ happiness-】

The corporate philosophy is “symbiosis,” where your way of living contributes to the happiness of others, values the connections between people and supports one another. Based on this idea, the company holds up “PREMIUM UNIQUE” as its product concept, and aims to create unique places to live in that fit each customer’s own way of life, while responding to the feelings of each person who resides there.

1-1. Business segments

The business segments are divided into sales of condominiums developed for the “WAKOHRE” brand, sales of detached houses developed for the “WAKOHRE-Noie” brand (the sales for both businesses are entrusted to external enterprises), other real estate revenue from dealing in the sale and development of real estate for investment and residential land, property leasing revenue from the lease of condominiums (the brand name “WAKOHRE-Vita” and others), stores, parking lots etc., and “others,” including things like insurance agency fees not included in the report segment. The sales composition for the term ended Feb. 2019 puts the condominium sales at 79.5% (FY2/18: 77.3%), sales of detached houses at 5.6% (FY2/18: 5.0%), other real estate sales revenue at 7.9% (FY2/18: 10.1%), property leasing revenue at 6.7% (FY2/18: 6.8%), and others at 0.2% (FY2/18: 0.7%). The segment profit composition puts condominium sales at 71.3% (FY2/18: 60.8%), sales of detached houses at 1.7% (FY2/18: 1.4%), other real estate sales at 1.9% (FY2/18: 14.1%), property leasing revenue at 23.4% (FY2/18: 21.3%), and others at 1.7% (FY2/18: 2.4%).

Condominium sales business

The main areas are the Kobe and Akashi areas (around Kobe-shi and Akashi-shi in Hyogo Prefecture), the Hanshin area (Ashiya-shi, Nishinomiya-shi, Amagasaki-shi, Itami-shi and Takarazuka-shi in Hyogo Prefecture), and the focus is on developing medium scale condominiums with 30-50 units whose market has low competition, under the “WAKOHRE” brand with leading condominium businesses. In addition to a sales strategy that focuses on highly popular areas and supplies different types of condominiums in the same area, thereby realizing diversified needs of consumers and achieving high sales efficiency. Strengths include establishing an efficient business model with unique local community strategy, such as condominium gallery strategy that suppresses selling costs by the sale multiple condominiums at the same time in one permanent condominium gallery. In the recent year, the company is pursuing new possibilities by carrying out large-scale projects and expanding the business area to Hokusetsu area in Osaka Prefecture and Himeji-shi in Hyogo Prefecture, which are adjacent to Kobe-shi and the Hanshin area.

FY Feb. 20 Project Example



WAKOHRE Kobe-Motomachi F.D.

- 【Chuo-ku, Kobe-City】
(delivered in April 2019)
- 17 units in total
 - 12-minute walk from “Motomachi” Station on JR Tokaido Main Line



WAKOHRE Ashiya-Opus

- 【Ashiya-City, Hyogo Prefecture】
(delivered in June 2019)
- 16 units in total
 - 11-minute walk from “Ashiya” Station on JR Tokaido Main Line



WAKOHRE Toyonaka-Dearplace

- 【Toyonaka-City, Osaka Prefecture】
(plan to be delivered in January 2020)
- 22 units in total
 - 3-minute walk from “Okamachi” Station on Hankyu Takarazuka Line

(Source: WADAKOHSAN)

Detached house sales business

Since 2007, the company has been developing around 10 houses with the “WAKOHRE-Noie” brand, in Kobe-shi and the Hanshin area, including the Hokusetsu area in Osaka Prefecture.

From the large amount of various site information the company is able to gather, there are many properties suitable for sale for detached house lots in terms of location, area, and site shape. In addition, where the business period for condominiums is just under two years, these projects can be as short as one year, meaning that with high capital turnover and they can be used to fill the gaps of the period completed the condominium construction.

Utilizing the development concept with a focus on landscaping and design and planning abilities cultivated by the work in condominiums, the company aims to differentiate itself from traditional “power builders.”

Other real estate sales business

The company conducts planning, development and sales (of single buildings) of real estate for investment, and the sale of residential land and land for industrial use. As well as shouldering the function of effective utilization of property information, revenue from selling off lease properties (inventory assets) that accompanies property handover is also included in this segment. A few years, the company has enhanced sales of single rental housing buildings aimed at investors.

Property leasing business

The company mainly manages residential properties, in addition, stores and offices, parking lots, self-storage and others. As a business that can maintain a stable cash flow, in an industry that tends to be strongly influenced by condominium market conditions, since its founding the company has continued to contribute to the stability of revenue. Its basic strategies are to assure stable revenue by improving the occupancy rate (the rate of tenants moving in), and to maintain and improve the quality of its portfolio through movement of property. With the residences, keeping in mind the movement of property after a fixed period of time has expired, the asset composition is focused on 200-300 million yen properties, with many hopeful buyers amongst high net worth individuals. The company maintains an occupancy rate of around 95%. In addition, by managing assets and liabilities appropriately, it also aims to reduce the risk of lengthening investment return periods, and the risks associated with assets becoming excessive. The yield of each person is high, at 9-10%, and it aims to cover the burden of indirect expenses with the stable revenue from the leasing operations.

1-2 Strengths of WADAKOHSAN

(1) Japan’s foremost residential area as their region of business

They meet the high demand for housing by making Japan’s foremost residential area, area among Kobe, Akashi and Hanshin, their main area of business while establishing a comparative advantage with their information capabilities; they even have a reputation for building a community entrenched in the region.

(2) Prevailing WAKOHRE brand in Kansai

Their WAKOHRE brand is prevailing in Kansai, and the power of the brand lets them hold their own against other major condominium developers. In the 21th (2018) Condominium Brand Questionnaire Survey, conducted by the Osaka headquarters of Nihon Keizai Shimbun Inc., WAKOHRE was ranked both in the 4th place in the Individuality brand section and the Familiarity brand section.

(3) Maintaining sound finances via thorough risk management

They are maintaining sound finances via thorough risk management, have well-balanced transactions with financial institutions and remain stable. As a result, in their corporate history spanning over 120 years in the real estate industry, where many companies have gone out of business, they have only reported a deficit during fiscal year ended Feb. 2010 after being affected by the global financial crisis. They continue to have stable dividends.

(4) Successful in differentiating themselves from major firms, and having room for growth due to expand their business areas

Small and medium condominium businesses were eliminated due to the real-estate recession after the global financial crisis, and only major real estate companies and railway real estate companies survived. However, since these real estate companies specialize in large-scale properties and properties along the railroads, there are not many cases where they compete in site acquisitions with WADAKOHSAN, who develops

medium-scale condominiums with around 30-50 units. Meanwhile, WADAKOHSAN has its sights on further expanding its operations, making efforts to develop large-scale properties in the existing business area and expanding into Himeji-shi in Hyogo Prefecture and Osaka Prefecture (Hokusetsu area), which are next to their existing business area.

[Actual results in 2018]

Rankings for the number of condominium buildings supplied in the Kinki region

2016			2017			2018		
1st	Pressance	37	1st	Pressance	42	1st	Pressance	53
2nd	WADAKOHSAN	21	2nd	Nihon Eslead	22	2nd	Nihon Eslead	29
3rd	Nihon Eslead	15	3rd	WADAKOHSAN	12	3rd	WADAKOHSAN	21
4th	Tokyu Land Corporation	9	4th	Hankyu Realty	11	4th	Hankyu Hanshin Realty	12
5th	NTT Urban Development Corporation	8	5th	Nissho Estem	10	5th	Nissho Estem	10

Rankings for the number of condominium units supplied in the Kinki region

2016			2017			2018		
1st	Pressance	2,435	1st	Pressance	3,845	1st	Pressance	4,133
2nd	Nihon Eslead	1,476	2nd	Nihon Eslead	2,017	2nd	Nihon Eslead	2,401
3rd	WADAKOHSAN	800	3rd	Sumitomo Realty & Development	968	3rd	Nissho Estem	1,053
4th	Kintetu Real Estate	730	4th	Nomura Real Estate Development	769	4th	Hankyu Hanshin Properties	966
5th	Tokyu Land Corporation	713	5th	Nissho Estem	759	5th	Kintetu Real Estate	734
6th	Daiwa House Industry	658	6th	Hankyu Realty	700	6th	Nomura Real Estate Development	703
7th	Hankyu Realty	620	7th	Kintetu Real Estate	620	7th	WADAKOHSAN	653
8th	Sumitomo Realty & Development	570	8th	Tokyu Land Corporation	520	8th	Sumitomo Realty & Development	589
9th	Nissho Estem	565	9th	WADAKOHSAN	464	9th	Tokyu Land Corporation	575
10th	River Sangyo	555	10th	Sekisui House	436	10th	ES-CON Japan	522

(Based on the data provided by Real Estate Economic Institute, Source :WADAKOHSAN)

2.First Half of Fiscal Year ending February 2020 Earnings Results

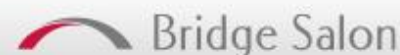
2-1 Non-consolidated results for 1H

	1H of FY 2/19	Ratio to sales	1H of FY 2/20	Ratio to sales	YoY	Initial Forecast	Compared to Forecast
Sales	22,411	100.0%	21,996	100.0%	-1.9%	22,000	-0.0%
Gross profit	4,270	19.1%	4,116	18.7%	-3.6%	-	-
SG&A expenses	1,758	7.8%	1,930	8.8%	+9.8%	-	-
Operating Income	2,511	11.2%	2,185	9.9%	-13.0%	2,200	-0.6%
Ordinary Income	2,147	9.6%	1,700	7.7%	-20.8%	1,850	-8.1%
Net Income	1,420	6.3%	1,270	5.8%	-10.5%	1,250	+1.7%

*Unit: million yen

Sales and operating income declined by 1.9% and 13.0%, respectively, YoY.

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Sales were 21,996 million yen, down 1.9% YoY. The other real estate sales and the property leasing revenue increased, but the sales of condominiums declined by 2.9% YoY, in reaction to the delivery of 2 large buildings with over 100 units in the same period of the previous year.

Operating income was 2,185 million yen, down 13.0% YoY. Gross profit declined by 3.6% YoY, due to the other real estate sales in reaction to the previous term, the posting of expenses related to new real estate, the decline in the profit rate of the property leasing revenue due to the augmentation of repair expenses, etc. SG&A augmented 9.8% YoY, due to the increase in personnel cost and real estate acquisition tax, etc.

Ordinary income dropped by 20.8% YoY, because non-operating expenses augmented due to the cost for fund procurement for acquiring land for large-scale condominiums, but the decrease rate of net income was 10.5%, thanks to the posting of a gain on sale of fixed assets of 131 million yen as an extraordinary income.

The major reason for the difference from the initial estimate of ordinary income is the cost for fund procurement for acquiring land for large-scale condominiums mentioned above.

2-2 Trend of each business segment

	1H of FY 2/19	Ratio to sales	1H of FY 2/20	Ratio to sales	YoY
Condominium sales	20,030	89.4%	19,444	88.4%	-2.9%
Detached housing unit sales	899	4.0%	809	3.7%	-10.0%
Other real estate sales	116	0.5%	331	1.5%	+185.4%
Property leasing revenue	1,309	5.8%	1,368	6.2%	+4.5%
Other	56	0.3%	41	0.2%	-26.1%
Sales	22,411	100.0%	21,996	100.0%	-1.9%
Condominium sales	2,376	81.4%	2,183	83.2%	-8.1%
Detached housing unit sales	23	0.8%	-3	-0.1%	-
Other real estate sales	-23	-0.8%	-11	-0.4%	-
Property leasing revenue	490	16.8%	417	15.9%	-14.9%
Other	51	1.8%	38	1.5%	-26.2%
Adjustment sum	-407	-	-438	-	-
Operating Income	2,511	-	2,185	-	-13.0%

*Unit: million yen

*Other include cancellation deposit income, insurance agency fee income, brokerage fees, etc.

Condominium sales

Sales were 19,444 million yen, down 2.9% YoY, and profit was 2,183 million yen, down 8.1% YoY. The number of units delivered decreased 36.2% YoY to 328, in reaction to the delivery of 2 large-scale buildings with about 100 units in the same period of the previous year, but average price per unit increased from 39 million yen to 59 million yen as the units of the high-priced property “WAKOHRE The Kobe Tor-Road” were steadily delivered (188 out of 192 units have been delivered), and sales declined only 2.9% YoY. The reason why it fell below the initial estimate is the delivery of some units was postponed until the second half, for a reason of purchasers.

The number of units launched dropped 53.8% to 146, but the number of contracted units increased by 39.7% to 292, as contracts for the units released in the previous term have been signed steadily. The number of units contracted yet to be delivered as of the end of the first half increased by 27.4% to 642. The number of units purchased land was 705, due to the acquisition of large-scale real estate, exceeding the annual estimate: 650.

KPI for Condominium Sales Business

	1H of FY 2/19	YoY	1H of FY 2/20	YoY
No. of units delivered	514	+33.9%	328	-36.2%
No. of units launched	316	-23.3%	146	-53.8%

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No. of units contracted	209	-20.8%	292	+39.7%
No. of units contracted(undelivered)	504	-31.2%	642	+27.4%
No. of inventory of units completed	1	-95.0%	19	-
No. of units purchased land	275	-5.8%	705	+156.4%

Sale of detached houses

Sales were 809 million yen, down 10.0% YoY, and there was a loss of 3 million yen (a profit of 23 million yen in the same period of the previous year). The company released “WAKOHRE-Noie Kobe-Kanokodai” (Kita-ku, Kobe-shi, Hyogo Prefecture: a total of 90 houses), “WAKOHRE-Noie Ikeda-Satsukigaoka” (Ikeda-shi, Osaka: a total of 6 houses), etc., and delivered 17 houses (24 houses in the same period of the previous year).

Property leasing revenue

Sales were 1,368 million yen, up 4.5% YoY, and profit was 417 million yen, down 14.9% YoY. The occupancy rate of residential properties, which are the mainstay, was as high as 93.7% and the occupancy rate of shops, offices, etc., too, was as high as 93.4%. With the hope of developing an optimal portfolio of real estate for lease, the company acquired Sea Berth Kobe (Hyogo-ku, Kobe-shi). The company bore repair cost and initial expenses for new real estate for lease.

Property leasing revenue

	Income	Composition ratio	YoY
Residences	920	67.3%	+6.1%
Stores and offices	361	26.4%	-1.2%
Parking lots	47	3.5%	+2.2%
Self-storage and other	37	2.8%	+31.2%
Total	1,368	100.0%	+4.5%

*Unit: million yen

Change of occupancy rate

	End of 1H of 2/18	End of 2/18	End of 1H of 2/19	End of 2/19	End of 1H of 2/20
Residences	94.2%	96.9%	92.1%	95.7%	93.7%
Stores and offices	94.0%	96.0%	89.7%	92.3%	93.4%
Parking lots	66.6%	66.1%	66.6%	67.3%	66.1%

Other real estate sales

Sales were 331 million yen, up 185.4% YoY, and there was a loss of 11 million yen (23 million yen in the same period of the previous year). The company sold real estate in 7 projects (4 projects in the same period of the previous year). The breakdown of the sales is 140 million yen from 2 projects related to the development (1 million yen from 3 projects in the same period of the previous year), 135 million yen from 2 projects of real estate for investment (115 million yen from 1 project in the same period of the previous year), and 57 million yen from 3 other projects (no projects in the same period of the previous year).

The breakdown of real estate for investment is 1 wooden building for investment (4 units) and 1 steel-framed building for investment (9 units). Sales grew considerably, but gross profit rate declined YoY from 33.3% to 19.5%, as there were many profitable properties in the same period of the previous year.

Gross profit of each business segment

	1H of 2/19	Gross profit rate	1H of 2/20	Gross profit rate	YoY
Condominium sales	3,477	17.4%	3,371	17.3%	-3.1%
Detached housing unit sales	115	12.8%	96	11.9%	-16.5%
Other real estate sales	38	33.3%	64	19.5%	+66.8%
Property leasing revenue	592	45.2%	545	39.9%	-7.8%

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Others	48	-	40	-	-
Total	4,270	19.1%	4,116	18.7%	-3.6%

*Unit: million yen

2-3 Balance Sheets And Cash Flow (CF)**Balance Sheets**

	End of Feb.19	End of Aug.19		End of Feb.19	End of Aug.19
Cash and deposits	12,285	11,821	Accounts payable-trade	6,652	8,957
Real estate for sale	5,575	7,821	ST Interest-Bearing Debts	23,748	20,206
Real estate for sale in process	40,376	41,116	Advances received	3,816	2,726
Current Assets	59,325	61,995	LT Interest-Bearing Debts	25,188	32,219
Property, plant and equipment	24,644	25,979	Liabilities	63,734	66,954
Intangible Assets	618	618	Net Assets	22,558	23,475
Investments and Other Assets	1,704	1,836	Total Liabilities and Net Assets	86,292	90,430
Noncurrent Assets	26,967	28,434	Interest-bearing debts	48,937	52,425

*Unit: million yen

The total assets as of the end of the first half were 90,430 million yen, up 4,137 million yen from the end of the previous term. The factors in increasing assets include the increase of real estate for sale through the completion of real estate for investment, the increase of real estate for sale in process, which reflects steady purchases, and the increase of property, plant and equipment due to the purchase of rental property. The major factors in increasing real estate for sale (up 2,246 million yen) are apartments for investment (up 1,970 million yen) and condominiums (up 578 million yen). The major factors in increasing real estate for sale in process (up 739 million yen) are apartments for investment (up 895 million yen) and condominiums (up 723 million yen). Detached houses, etc. decreased.

The factors in increasing liabilities and net assets are the augmentation of accounts payable-trade due to the completion of large-scale properties, the increase in interest-bearing liabilities through fund procurement for purchasing land, and the rise in retained earnings. Equity Ratio is 26.0% (26.1% at the end of the previous term).

The number of new projects and the amount of the asset in 1H

	No. of projects	Amount of assets
Condominiums	15	5,750
Detached housing unit	6	284
Apartments for investment	12	622
Total	33	6,656

*Unit: million yen

Cash Flow (CF)

	1H of 2/19	1H of 2/20	YoY	
Operating CF	1,143	-1,984	-3,127	-
Investing CF	-674	-1,598	-924	-
Financing CF	-3,044	3,135	+6,179	-
Cash and Equivalents at the end of term	8,345	9,419	+1,074	+12.9%

*Unit: million yen

Operating CF was negative 1,984 million yen, as the company posted a pretax profit of 1,831 million yen, a depreciation of 344 million yen, and an increase in inventory assets of negative 2,985 million yen, a payment of income tax of negative 541 million yen, etc. Investing CF was negative 1,598 million yen, mainly due to the acquisition of property, plant and equipment.

3. Fiscal Year ending February 2020 Earnings Forecasts

3-1 Full-year non-consolidated forecasts

	FY Feb. 19 Actual	Ratio to sales	FY Feb. 20 Forecast	Ratio to sales	YoY
Sales	39,287	100.0%	40,000	100.0%	+1.8%
Operating Income	3,445	8.8%	3,500	8.8%	+1.6%
Ordinary Income	2,687	6.8%	2,700	6.8%	+0.4%
Net Income	1,843	4.7%	1,850	4.6%	+0.4%

*Unit: million yen

There is no revision to the full-year forecast, and it is estimated that sales and operating income will grow 1.8% and 1.6%, respectively, YoY.

Sales are estimated to be 40 billion yen, up 1.8% YoY. In the full fiscal year, it is estimated that sales of condominiums and detached houses will increase, but the sales of other real estate will decline as properties to be sold will be downsized from the previous term, and the property leasing revenue will decrease due to the increase of properties sold.

Operating income is forecasted to be 3.5 billion yen, up 1.6% YoY. Gross profit rate is estimated to decrease as the prices of real estate will rise and construction cost will remain high due to the shortage of workers, although SG&A will be unchanged from the previous term.

3-2 Forecasts for each segment

	FY Feb.19 Actual	Ratio to sales	FY Feb. 20 Forecast	Ratio to sales	YoY
Condominium sales	31,229	79.5%	31,700	79.3%	+1.5%
Detached housing unit sales	2,205	5.6%	3,000	7.5%	+36.0%
Other real estate sales	3,106	7.9%	2,700	6.8%	-13.1%
Property leasing revenue	2,647	6.7%	2,600	6.5%	-1.8%
Other	100	0.3%	-	-	-
Total	39,287	100.0%	40,000	100.0%	+1.8%

*Unit: million yen

KPI for Condominium Sales Business

	FY Feb. 19 Actual	YoY	FY Feb. 20 Forecast	YoY
No. of units delivered	755	+11.7%	575	-23.8%
No. of units launched	809	+36.9%	600	-25.8%
No. of units contracted	622	-1.6%	650	+4.5%
No. of purchased land	548	-30.8%	650	+18.6%

Sales are projected to rise by 1.5% YoY to 31.7 billion yen. The estimated number of units delivered in the term is 575. The company will be able to reach this number (estimated sales), by delivering 247 units in the second half. As of the end of the first half, the number of units contracted yet to be delivered was 642 (not all of them are to be delivered this term), so if construction progresses as planned, there will be no concerns over sales.

In the full fiscal year, the company plans to release 600 units. As more units are released in the second half, the number of units contracted in the second half is estimated to be 358, larger than the actual number in the first half: 292. In the second half, the number of units released will increase, so the company will strive to conclude contracts with customers. In the second half, 9 buildings (240 units) are scheduled to be completed, and the company has already signed contracts with customers for 182 units out of them (ratio of contracted units: 75.8%) by the end of the first half. Accordingly, most of the contracted units will be completed from the next term onward.

The company planned to purchase 650 units in the full fiscal year, but has already purchased 705 units by the end of the first half, by purchasing large-scale condominium including over 100 units in Kobe-shi and real estate for market redevelopment at the same scale in

Amagasaki-shi. In addition, the company will keep broadening its target areas, including the Hokusetsu area of Osaka and Himeji-shi, Hyogo Prefecture. The Hokusetsu area of Osaka similar to Kobe and the Hanshin area, which is the major business area of the company because it has good public order and a streetscape surrounded by a rich natural environment, including Expo Commemoration Park. In addition, Kita-Osaka Kyuko Line runs through this region, meeting Midōsuji Line, which is the primary line in Osaka. Accordingly, this region remains popular as a commuter town for people working in the center of Osaka City.

Detached housing unit sales

In the full fiscal year, the company plans to deliver 70 detached houses, earning sales of 3 billion yen, up 36.0% YoY. WAKOHRE-Noie Ikeda-Satsukigaoka (Ikeda-shi, Osaka), which was released this term, has a total of 6 houses. It is located 10 min. on foot from Ikeda Station of Hankyu Takarazuka Line. It is in Ikeda Mountain Scenic Area, which is the largest in Osaka, and its location is convenient. All houses comply with the criteria for the next-generation housing performance titled “certified low-carbon housing,” which is excellent in heat insulation and energy saving.

	FY Feb.13	FY Feb.14	FY Feb.15	FY Feb.16	FY Feb.17	FY Feb.18	FY Feb.19	FY Feb. 20 Forecast
Number of units (units)	73	67	60	45	38	54	62	70
Sales (million yen)	2,336	2,277	2,140	1,752	1,356	1,774	2,205	3,000
Gross profit (million yen)	351	302	255	216	165	223	260	-
Gross profit rate	15.1%	13.3%	11.9%	12.3%	12.2%	12.6%	11.8%	-

Other real estate sales

In the full year, the company plans to sell 4 wooden buildings with 20 units for investment (initial estimate: 4 buildings with 22 units) and 9 steel-framed buildings with 130 units for investment (initial estimate: 7 buildings with 94 units), increasing the estimate for steel-framed buildings for investment. Since many properties are small-sized, sales are estimated to decline 13.1% YoY to 2.7 billion yen.

	FY Feb. 19 Actual	FY Feb. 20 Forecast
Wooden framed building	4 buildings/34 units	4 buildings/20 units
Steel-framed building	5 buildings/77 units	9 buildings/130 units

4. Conclusions

In the Tokyo Metropolitan Area, the number of supplied unit of condominiums is decreasing remarkably, and contract ratio is below 70%, it is said to be the level distinguishing between good and poor conditions, while in the Kinki region, contract ratio exceeds 70%, and the number of supplied unit of condominiums has not decreased like in the Tokyo Metropolitan Area. This is considered because the increase in condominium prices is gentle compared with those in the Tokyo Metropolitan Area. Actually, the average selling price per unit in the Kinki region in the first half of 2019 is around 38 million yen, significantly different from that in the Tokyo Metropolitan Area: over 60 million yen.

Amid this situation, the purchases of Wadakohsan is smooth. This term, the company carefully purchased real estate while putting importance on profitability, but the company has already purchased 705 units by the end of the first half, exceeding the annual plan (650 units). In the Hokusetsu area of Osaka, etc., leading developers, developers of studio apartments, etc. are procuring real estate at high prices in a bullish manner, so the purchase environment is severe there. In Kobe and the Hanshin area, which is the main business area of the company, Wadakohsan seems to be purchasing real estate in a favorably manner through negotiations by utilizing the strong network with local real estate firms. Considering the situation of the market of condominiums in the Kinki region, where prices are reasonable and performance is smooth, and steady purchases by the company, it can be expected that the company will keep growing stably from the next term onward.

< Reference: Strategies for ESG >

As an ESG initiative, WADAKOHSAN is working to create safe, secure, and healthy housing for residents and is also focusing on social contribution by providing housing compensation at the time of natural disasters and youth development support. Furthermore, in terms of governance, as explained in the Corporate Governance Report, the company considers that the establishment of a sound, transparent, and efficient management system is its top priority and works on the development and enhancement of the governance system.

<Environment>

In addition to adopting the City of Kobe's environmental performance standard for condominiums, the company is also working on the development of smart condominiums. It is also implementing a project to install seismic control device as standard in wooden houses. Furthermore, it is taking measures against Sick-House Syndrome for all of their housing.

Adoption of the City of Kobe's environmental performance standard for condominiums.	In Kobe, when constructing a building of a certain scale, the operating company self-evaluates the environmental efforts such as consideration to global warming and safety and security of the residents, and notifies them to the city. The city announces the scoring results on the website, etc. The company publishes this result on the leaflets of condominiums and advertising materials such as websites to show the safety of the building.
Realization of highly insulated and highly airtight housing	"WAKOHRE-Noie Kobe-Kanokodai" adopts the two-by-four method, which has higher air tightness than the conventional framework method, in all residences. Double-roof construction, floor insulation, and high-insulation facilities in the entrance door and bathroom are used to achieve insulation performance about 1.5-fold better than that of the "Thermal Insulation Performance Class 4" houses based on the law to ensure product quality.
Enhance support function with a smartphone app	"WAKOHRE Okurayama Seasons" adopts a service that uses smartphones. It enables the users to confirm energy usage, operate Eco-Jozu (water heater) and gas equipment from outside, and fill the bathtub with hot water with one smartphone. The company supports safe and secure living.
Measures against Sick-House Syndrome	For the floor and fittings of the company's buildings, materials of F☆☆☆☆ grade that emit very little formaldehyde are used. Also, non-formalin type is selected as the vinyl adhesive in consideration for Sick-House Syndrome, etc.

<Society>

Joined the "Phoenix Mutual Aid," a housing reconstruction mutual aid system implemented by Hyogo Prefecture

The company joined the "Phoenix Mutual Aid," the first housing reconstruction mutual aid system of its kind adopted by Hyogo Prefecture in September 2005 (a benefit will be paid for reconstruction or repair in case of damages due to a natural disaster). The company bears the cost of mutual aid premium for one year from the time of delivery of a unit sold by the company in Hyogo Prefecture.

A condominium under construction provided as teaching material for college classes.

So that students who hope to get a job in the construction industry can envision their future jobs clearly, the company offered a condominium under construction as teaching material for classes of Kobe Design University. Classes are given in cooperation with the general contractor in charge of construction, and students see piping, rooftops, etc. that cannot be seen in daily life.

Activities to support youth development

As an aging society with fewer children progresses, the company provides various support for children to have a healthy social life.

Children Painting Competition "My Dream House"	It is a competition in which children from preschool to elementary school freely paint their dream houses to develop expressiveness and creativity.
Vissel Kobe Soccer School Partner	In order to support activities to promote soccer among young people, the company sponsors a "soccer school" run by Vissel Kobe.
Childcare Support Project "Skip" by Kobe Shimbun Co., Ltd.	

The company cosponsors a parent-child participatory regional event “Skip Salon” hosted by Kobe Shimbun on the “Childcare Day,” which is on the 12th of each month.

<Governance, etc.>

Transformation into a company with audit and supervisory committee

The company transformed into a company with audit and supervisory committee, at the general meeting of shareholders in May 2019, in order to tighten corporate governance and improve corporate value. Then, 12 directors were appointed, including 4 outside directors, so that outside directors accounts for one third of directors.

Disclosure

The company developed a disclosure policy and posted it on its website for investors to clarify the policy concerning timely and fair information disclosure to the stakeholders. Furthermore, as IR activities, it posts information materials on financial results and various indicators on the website for investors and holds financial results briefings for analysts and institutional investors twice a year in Tokyo and Kobe. It also holds briefing sessions for individual investors.

Creating a pleasant working environment

In order to create a working environment in which employees can work comfortably, the company is making efforts to improve various welfare programs, including paid vacation and hourly vacation. To improve the working environment for women, it also established the systems of maternity leave, childcare leave and short working hours. For maintaining the health of employees, a health committee meeting with an industrial physician is also held every month, and medical checkups and mental health checks are provided to keep track of their health.

Retention rate within 3 years from joining the company	91.1%	Gender difference in average years of employment	4 months
Rate to take maternity and childcare leaves	100%	Rate of female employees within 5 years of joining a company	37.5%
Rate to return to work from maternity and childcare leaves	100%		

(As of August 2019)

<Reference: Regarding Corporate Governance>

◎“Organization type”

Organization Structure	Company with audit and supervisory committee
Directors	12 directors of whom 4 are outside directors

◎Corporate Governance Report

Last update date: May 29, 2019.

<Basic policy>

As our basic policy for corporate governance, we give top priority to the establishment of a sound, transparent, efficient managerial structure, and strive to improve it. Our company is small-sized, but we have established a simple, efficient organizational structure while considering mutual supervision and independence, and make efforts to develop a governance structure while putting importance in the following five items, to streamline the decision making process and actualize highly transparent business administration.

1. Exertion of the overseeing function based on practical discussions at meetings of the board of directors
2. Timely, appropriate deliberation on important items for making managerial decisions by the board of managing directors
3. Highly effective audit by an audit committee

4. Development of an internal control system by establishing an internal audit division, organizing an internal control committee, etc.
5. Cooperation with external institutions, such as law offices, for actualizing a system for compliance

<Reason for not implementing the principles of the Corporate Governance Code>

The Company has implemented all the “basic principles” of the Corporate Governance Code.

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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