

		WADAKOHSAN CORPORATION(8931)
		 和田興産
Chairperson Norimasa Wada	President Takero Takashima	

Company Information

Market	TSE, Second Section
Industry	Real Estate
Chairperson	Norimasa Wada
President	Takero Takashima
HQ Address	4-2-13, Sakaemachidori, Chuo-ku, Kobe-shi, Hyogo
Fiscal Year End	February
Website	http://www.wadakohsan.co.jp/

Stock Information

Share Price	Number of shares issued (excluding treasury shares)	Total market cap	ROE Act.	Trading Unit	
¥735	11,099,752 shares	¥8,158 million	7.7%	100 shares	
DPS Est.	Dividend Yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥35.00	4.8%	¥153.16	4.8x	¥2,172.53	0.3x

*The share price is the closing price on October 21, 2020. The number of shares issued is the number of shares outstanding at the end of the most recent quarter, excluding treasury stock. ROE is actual for the previous year.

Non-Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	40,093	3,290	2,442	1,781	160.49	35.00
Feb. 2021 Est.	40,000	3,200	2,500	1,700	153.16	35.00

* Unit: Million yen, yen (EPS, DPS)

*The forecasted values were provided by the company.

This Bridge Report presents WADAKOHSAN's earnings results for the second quarter of Fiscal Year ending February 2021 and Fiscal Year ending February 2021 earnings estimates.

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Key Points

- For the first half of the fiscal year ending Feb. 2021, sales fell 27.4% YoY and operating income decreased 41.8% YoY. While sales fell short of the company's forecast due to delayed deliveries of some condominiums caused by the coronavirus pandemic, operating income and ordinary income exceeded the initial forecast set at the beginning of the fiscal year. The main factor behind the sales decline is a decrease in the average real estate price in the condominium sales business (as there were many high-priced properties in the same period previous year), which has been already factored into the company's initial forecast. The number of units delivered was almost in line with the same period previous year. In addition, sales of detached house and other real estate fell, but property leasing revenue from high-margin business grew 13.3% YoY due partly to new lease properties acquisitions and the operation of investment apartments for sale.
- Full-year forecast for the fiscal year ending Feb. 2021 is unchanged, and it is projected that sales and operating income will decrease 0.2% and 2.7% YoY, respectively. While the company is slightly concerned over the performance of the detached house sales business, annual property leasing revenue, which is projected to decline, is outpacing the company's initial forecast, and other real estate sales are growing steadily too, with property purchase and sale being solid. If condominium deliveries progress as planned, both sales and profit could see YoY growth. The company will no longer pay a commemorative dividend of 1 yen/share and plans to increase its common dividend by 1 yen/share to 35 yen/share (estimated payout ratio: 22.9%).
- As of October 19, there have been no coronavirus patient in the company, and none of its business partners have had to suspend operations due to the spread of the coronavirus. While some deliveries were pushed back to the third quarter due to contract delays, the impact has been minimal overall. The company's condominium gallery, which serves as a sales base, was forced to close down and handing out property leaflets was stopped due to the government's state of emergency declaration, but it resumed operations once as the declaration of the cancellation. To ensure social distancing, they are limiting the number of visitors and an appropriate distance is put in each consultation space. Infection prevention measures are also enforced thoroughly, such as air ventilation and disinfection. On other business operation, employees are working at home and meetings are being held remotely to avoid "Three Cs" (Closed spaces with poor ventilation, Crowded places with many people nearby, and Close-contact settings such as close-range conversations), and some property deliveries are also being carried out remotely. Housing design catered to living in the post-pandemic era is a key issue that needs addressing.

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. As for the sales of condominiums under the "WAKOHRE" brand name, although its focus is on medium scale condominiums with 30-50 units, in recent years, it is also working on the development of large-scale condominiums. The company is also expanding the business area to Hokusetsu area and Himeji-shi, which are adjacent to the above-mentioned business areas. The company is the first-place condominium supplier in Kobe-shi for 22 consecutive years, and is in the third place in the Kinki

region (both in 2019). As of the end of August 2020, the cumulative supply results were 501 buildings with 18,974 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, contract cancellation fees and brokerage fees, etc. not included in the report segment. The sales composition for the term ended Feb. 2020 puts the condominium sales at 77.1% (FY2/19: 79.5%), sales of detached houses at 5.3% (FY2/19: 5.6%), other real estate sales revenue at 10.4% (FY2/19: 7.9%), property leasing revenue at 7.1% (FY2/19: 6.7%), and others at 0.1% (FY2/19: 0.3%). The segment profit composition puts condominium sales at 58.7% (FY2/19: 71.3%), sales of detached houses at -0.2% (FY2/19: 1.7%), other real estate sales at 17.2% (FY2/19: 1.9%), property leasing revenue at 22.8%(FY2/19:23.4%), and others at 1.5% (FY2/19: 1.7%).

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. Also, in recent years, the company is pursuing new possibilities by carrying out large-scale projects over 100 units, responding to increasing construction cost and reflecting purchasing power, and expanding the business areas to the Hokusetsu area in Osaka Prefecture and Himeji-shi in Hyogo Prefecture, which are adjacent to Kobe-shi and the Hanshin area.

FY Feb. 21 Project Example



WAKOHRE Kobe-Okurayama Seasons
【Chuo-ku, Kobe-City】
(plan to be delivered in November 2020)
26 units in total. 8-minute walk from
“Kobe” Station on JR Kobe line.



WAKOHRE The Mikage
【Higashinada-ku, Kobe-city】
(plan to be delivered in February 2021)
30 units in total. 3-minute walk from
“Mikage” Station on Hankyu Kobe line.



WAKOHRE Ikeda Station Flats
【Ikeda-City Osaka Prefecture】
(delivered in August 2020)
39 units in total. 4-minute walk from
“Ikeda” Station on Hankyu Takarazuka line.

WAKOHRE Kobe-Okurayama Seasons has become a highly sought-after condominium in recent years, located in a very convenient, central part of the city. Its condominium units have been selling well. WAKOHRE The Mikage is an example of a high-end condominium including luxury apartments worth over 100 million yen. Amid an increase in the number of projects in highly convenient, exclusive locations, this is a proof that the WAKOHRE brand is gradually permeating the high-end condominium market. WAKOHRE Ikeda Station Flats was developed in Ikeda City, Osaka Prefecture as part of a geographic expansion strategy. The company has been establishing its presence across a broader business area in order to expand the scope of its business.

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 steel-framed apartments and other profitable properties (for sale as a single building) and sales of residential land. 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. In recent years, the company has enhanced the development of aforementioned smaller investment properties for sale (steel-framed/wooden-framed apartments).

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

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.

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 22th (2019) Condominium Brand Questionnaire Survey, conducted by the Osaka headquarters of Nihon Keizai Shimbun Inc., WAKOHRE was ranked in the 3rd place in the Individuality brand section and 5th in the Familiarity brand section.

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.

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.

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

	2015		2016		2017		2018		2019	
1st	Pressance	31	Pressance	37	Pressance	42	Pressance	53	Pressance	62
2nd	WADAKOHSAN	21	WADAKOHSAN	21	Nihon Eslead	22	Nihon Eslead	29	Eslead	24
3rd	Nihon Eslead	17	Nihon Eslead	15	WADAKOHSAN	12	WADAKOHSAN	21	WADAKOHSAN	11
4th	Nomura Real Estate Development	12	Tokyu Land Corporation	9	Hankyu Realty	11	Hankyu Hanshin Properties	12	Nissho Estem	8
5th	Kintetsu Real Estate	9	NTT Urban Development Corporation	8	Nissho Estem	10	Nissho Estem	10	Kintetsu Real Estate	7

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

	2015		2016		2017		2018		2019	
1st	Pressance	1,669	Pressance	2,435	Pressance	3,845	Pressance	4,133	Pressance	3,825
2nd	Nihon Eslead	1,377	Nihon Eslead	1,476	Nihon Eslead	2,017	Nihon Eslead	2,401	Eslead	2,121
3rd	Sumitomo Realty & Development	915	WADAKOHSAN	800	Sumitomo Realty & Development	968	Nissho Estem	1,053	Sumitomo Realty & Development	744
4th	Nomura Real Estate Development	865	Kintetsu Real Estate	730	Nomura Real Estate Development	769	Hankyu Hanshin Properties	966	Kintetsu Real Estate	704
5th	WADAKOHSAN	838	Tokyu Land Corporation	713	Nissho Estem	759	Kintetsu Real Estate	734	Nissho Estem	646
6th	Kintetsu Real Estate	775	DAIWA HOUSE INDUSTRY	658	Hankyu Realty	700	Nomura Real Estate Development	703	Hankyu Hanshin Properties	596
7th	Nissho Estem	709	Hankyu Realty	620	Kintetsu Real Estate	620	WADAKOHSAN	653	Kanden Realty & Development	524
8th	Tokyu Land Corporation	659	Sumitomo Realty & Development	570	Tokyu Land Corporation	520	Sumitomo Realty & Development	589	WADAKOHSAN	507
9th	MITSUBISHI JISHO RESIDENCE	610	Nissho Estem	565	WADAKOHSAN	464	Tokyu Land Corporation	575	ES-CON Japan	445
10th	Hankyu Realty	595	RIVER	555	Sekisui House	436	ES-CON Japan	522	Tokyu Land Corporation	435

(Source: WADAKOHSAN)

2. The second quarter of Fiscal Year ending February 2021 Earnings Results

[Impact of the coronavirus pandemic]

On the sales front, the condominium gallery was forced to close down and handing out property leaflets was stopped due to the government's state of emergency declaration, but it resumed operations once as the declaration of the cancellation. To ensure social distancing, the company is limiting the number of visitors and an appropriate distance is put in each consultation space. Infection prevention measures are enforced thoroughly, such as air ventilation and disinfection. While some deliveries were pushed back to the third quarter due to contract delays, impact has been minimal overall.

According to research by a real estate research firm, in the first half of this fiscal year (January to June) for the Kinki region, due to the impact of the coronavirus, the number of new condominium units supplied decreased 29.5% YoY to 5,299. As a result of this decline, the percentage of units contracted was 70.5%, just above 70%, which is considered as an indication of peaks and troughs in the market (a 3.5-point drop YoY). The number of new condominium units supplied dropped 19.7% YoY to 559 in Kobe City and decreased 30.2% YoY to 484 for Hyogo Prefecture.

In terms of construction, there were concerns of delays in bringing in housing equipment due to supply chain disruptions, but deliveries were unaffected. Housing design catered to living in the post-pandemic era is a key issue that needs addressing.

On the work front, as of October 19, there have been no coronavirus patient in the company, and none of its clients and partners have had to suspend operations due to the spread of the coronavirus. Employees are working from home and meetings are being held remotely to avoid "Three Cs" (Closed spaces with poor ventilation, Crowded places with many people nearby, and Close-contact settings such as close-range conversations), and some property deliveries are also being carried out remotely.

2-1 Non-consolidated results in the first half

	FY 2/20 1H	Ratio to sales	FY 2/21 1H	Ratio to sales	YoY	Initial Forecast	Compared to Forecast
Sales	21,996	100.0%	15,965	100.0%	-27.4%	18,000	-11.3%
Gross profit	4,116	18.7%	3,178	19.9%	-22.8%	-	-
SG&A expenses	1,930	8.8%	1,905	11.9%	-1.3%	-	-
Operating Income	2,185	9.9%	1,272	8.0%	-41.8%	1,200	+6.0%
Ordinary Income	1,700	7.7%	877	5.5%	-48.4%	850	+3.3%
Quarterly net Income	1,270	5.8%	516	3.2%	-59.3%	580	-10.9%

*Unit: million yen

Sales and operating income fell 27.4% and 41.8% YoY, respectively

Sales fell 27.4% YoY to 15.96 billion yen. Although real estate rental income grew 13.3% YoY thanks to the operation of new apartments for development and an increase in occupancy rates for existing properties, and other real estate sales also increased, sales for the mainstay condominium sales business declined 31.3% YoY due to a drop in the average sales price. Sales for the detached house sales business decreased 21.0% YoY due to the decrease of units delivered.

Meanwhile, operating income decreased 41.8% YoY to 1.27 billion yen. While Gross profit margin improved due partly to property leasing revenue accounting for a higher ratio of total sales, contract signings progressed steadily, and SG&A expenses decreased due to curbed sales activities amid the coronavirus pandemic. However, this was outweighed by the decline in sales. While non-operating income/loss improved, owing partly to lower financing costs, 71 million yen in losses on the sale and retirement of noncurrent assets booked under extraordinary losses resulted in net income falling 59.3% YoY to 510 million yen.

Factors behind differences from initial forecast

Sales fell short of the initial forecast set at the beginning of the fiscal year, because some deliveries that had been scheduled for the second quarter ended up being pushed back to the third quarter due to contract delays caused by the coronavirus pandemic. Excluding the

properties affected by the coronavirus pandemic, operating income and ordinary income exceeded initial forecast, with selling costs ending up lower than expected due to steady progress with contract signings. The undershoot for net income owed to the booking of extraordinary losses associated with the transfer of lease properties (noncurrent assets) to the condominium sales business and so on.

2-2 Trend of each business segment

	FY 2/20 1H	Ratio to sales	FY 2/21 1H	Ratio to sales	YoY
Condominium sales	19,444	88.4%	13,358	83.7%	-31.3%
Detached housing unit sales	809	3.7%	639	4.0%	-21.0%
Other real estate sales	331	1.5%	354	2.2%	+6.9%
Property leasing revenue	1,368	6.2%	1,550	9.7%	+13.3%
Other	41	0.2%	62	0.4%	+50.8%
Sales	21,996	100.0%	15,965	100.0%	-27.4%
Condominium sales	2,183	83.2%	1,194	68.5%	-45.3%
Detached housing unit sales	-3	-0.1%	-31	-1.8%	-
Other real estate sales	-11	-0.4%	-22	-1.3%	-
Property leasing revenue	417	15.9%	546	31.4%	+30.9%
Other	38	1.5%	56	3.3%	+48.6%
Adjustment sum	-438	-	-470	-	-
Operating Income	2,185	-	1,272	-	-41.8%

*Unit: million yen

Condominium sales

Sales came to 13.35 billion yen (down 31.3% YoY) and segment profit to 1.19 billion yen (down 45.3% YoY). 326 units were delivered (18 units short of the initial target), including WAKOHRE City Hyogo Ekimaedori (Hyogo Ward, Kobe City; a total of 99 units). The number of units delivered was in line with the same period previous year, but the average sale price was 41 million yen, down 18 million yen (or 30.5%) YoY. Meanwhile, gross profit margin remained in line with the same period previous year at 17.3% and SG&A expenses fell slightly, but this was insufficient to make up for the sales decline.

As for other KPIs, the number of units launched was 306 (up 109.6% YoY), the number of units contracted was 223 (down 23.6% YoY), and the number of undelivered contracted units was 632 (down 1.6% YoY). The number of units completed in inventory as of the end of the second quarter was 25, but as of October 19, this declined to 17 (9 units planning to delivery in the previous term, 8 units planning to delivery in the first half of this fiscal year). Also, of the 8 buildings (335 units) scheduled for completion in the second half of this fiscal year, contracts have been concluded for 291 of these units as of the end of the second quarter (contract ratio of 86.9%).

The number of units purchased fell 33.8% YoY as particularly large number of units were purchased the year before, but remained high at 467. As of the end of the second quarter, the number of projects unlaunched with land already purchased came to 36 buildings (1,683 units), which by area breaks down to 20 buildings (953 units) in Kobe City, 11 buildings (444 units) in the Hanshin area, 3 buildings (218 units) in Akashi City/Himeji City, and 2 buildings (68 units) in Osaka Prefecture.

KPI for Condominium Sales Business

	FY 2/20 1H	YoY	FY 2/21 1H	YoY
No. of units delivered	328	-36.2%	326	-0.6%
Average price per unit	59 million yen	+20 million yen	41 million yen	-18 million yen
No. of units launched	146	-53.8%	306	+109.6%
No. of units contracted	292	+39.7%	223	-23.6%
No. of units contracted (undelivered)	642	+27.4%	632	-1.6%
No. of units purchased land	705	+156.4%	467	-33.8%

Detached house sales

The company reported sales of 630 million yen (down 21.0% YoY) but a segment loss of 31 million yen (a loss of 3 million yen in the same period previous year). The number of houses delivered was 14 houses, less than the 17 delivered in the same period previous year. The number of houses contracted was 16 houses (23 in the same period previous year) and the number of undelivered contracted houses was 10 houses (23 in the same period previous year).

Other real estate sales

The company reported sales of 350 million yen (up 6.9% YoY), but a segment loss of 22 million yen (a loss of 11 million yen in the same period previous year). Although sales grew YoY thanks to the booking of sales from 3 projects, the loss widened because in the same period previous year, there were contributions from high-margin wooden-framed apartment buildings for investment. By project, sales break down to 220 million yen from 1 development related project (140 million yen for 2 projects in the same period previous year), 100 million yen from 1 investment apartment building for sale (140 million yen from 2 apartment buildings in the same period previous year), and 25 million yen from 1 lease property etc. (57 million yen for 3 properties in the same period previous year). The investment apartments for sale involved the sale of 1 steel-framed building (9 units) for investment (1 wooden-framed building [4 units] and 1 steel-framed building [9 units] in the same period previous year).

The company also made steady progress with purchase, bringing the total number of properties under development at the end of the second quarter to 88 buildings and 1,223 units (74 buildings and 1,077 units in the same period previous year).

Breakdown of other real estate sales

	FY 2/20 1H		FY 2/21 1H		YoY
	Project number	Sales (million yen)	Project number	Sales (million yen)	
Other real estate sales	7	331	3	354	+6.9%
Development related	2	140	1	225	+60.7%
Investment property	2	135	1	105	-21.8%
Lease properties	3	57	1	25	-57.0%
Total	7	331	3	354	+6.6%

Property leasing revenue

Real estate rental income was 1.55 billion yen (up 13.3% YoY) and segment profit was 540 million yen (up 30.9% YoY). While some commercial store tenants requested for lowering rents, income increased thanks to (1) the operation of newly properties for investment, (2) a higher occupancy rate for existing properties (maintained a high occupancy rate of over 95% on the back of a 2.1-point increase), and (3) growth in leasing revenue for mainstay residential properties due partly to improvement in delinquency ratio.

Breakdown of property leasing revenue

	Income (million yen)	Composition ratio	YoY
Residences	1,120	72.3%	+21.7%
Stores and offices	347	22.4%	-3.9%
Parking lots	53	3.4%	+11.1%
Self-storage and other	28	1.8%	-24.7%
Total	1,550	100.0%	+13.3%

BRIDGE REPORT



Change of occupancy rate

	End of 1H of 2/19	End of 2/19	End of 1H of 2/20	End of 2/20	End of 1H of 2/21
Residences	92.1%	95.7%	93.7%	96.5%	95.8%
Stores and offices	89.7%	92.3%	93.4%	95.9%	94.1%
Parking lots	66.6%	67.3%	66.1%	67.3%	68.5%

In the first half of this fiscal year, the company also worked on the Radohre Kamikawa Akiya (abandoned building) Renovation Project in a bid to help revitalize the local community. Namely, in Kamikawa Town in Hyogo Prefecture, which boasts many tourist spots such as Gin no Bashamichi (the old silver mine carriage road) designated as a Japan Heritage Site, and Tonomine Kogen / Mineyama Kogen Resorts, the company renovated an abandoned house over 50 years old, turning it into Radohre Kamikawa, a multi-purpose facility that serves as a guest house, cycle rental shop, cafe, and coworking space.



(taken from the company's material)

Gross profit of each business segment

	FY 2/20 1H	Gross profit rate	FY 2/21 1H	Gross profit rate	YoY
Condominium sales	3,371	17.3%	2,314	17.3%	-31.3%
Detached housing unit sales	96	11.9%	71	11.2%	-25.4%
Other real estate sales	64	19.5%	58	16.5%	-9.3%
Property leasing revenue	545	39.9%	675	43.6%	+23.8%
Others	40	-	60	-	-
Total	4,116	18.7%	3,178	19.9%	-22.8%

*Unit: million yen

2-3 Balance Sheets And Cash Flow (CF)

Balance Sheets

	End of Feb.20	End of Aug.20		End of Feb.20	End of Aug.20
Cash and deposits	8,965	9,039	Accounts payable-trade	6,745	8,454
Real estate for sale	9,223	12,739	ST Interest-Bearing Debts	18,893	23,125
Real estate for sale in process	40,918	43,647	Advances received	2,795	2,882
Current Assets	60,532	66,614	LT Interest-Bearing Debts	34,498	34,331
Property, plant and equipment	26,729	26,432	Liabilities	65,634	71,273
Intangible Assets	616	614	Net Assets	23,978	24,114
Investments and Other Assets	1,734	1,726	Total Liabilities and Net Assets	89,613	95,388
Noncurrent Assets	29,080	28,773	Interest-bearing debts	53,392	57,457

*Unit: million yen

The total assets at the end of the second quarter of this fiscal year came to 95.38 billion yen, up 5.77 billion yen from the end of the previous term. This owed partly to an increase in real estate for sale in order to boost sales in the second half of the year (sales of 15.9 billion yen in the first half, and 24 billion yen in the second half), as well as an increase in real estate for sale in process amid steady progress with new acquisitions. Meanwhile, both interest-bearing debt and shareholder's equity increased. Interest-bearing debt breaks down to major bank loans for 45.2% (47.3% in the end of the previous term), regional bank loans for 34.1% (32.1% in the end of the previous term), and credit union loans for 20.7% (20.6% in the end of the previous term). Equity ratio was 25.3% (26.8% in the end of the previous term).

The 12.73 billion yen in real estate for sale breaks down to 2.2 billion yen for condominiums, 1.32 billion yen for detached houses, 8.66 billion yen for other real estate (primarily those for investment), and 550 million yen for lease properties. The 43.64 billion yen in real estate for sale in process breaks down to 38.54 billion yen for condominiums, 2.81 billion yen for detached houses, and 2.29 billion yen for other real estate (primarily those for investment).

Cash Flow (CF)

	FY 2/20 1H	FY 2/21 1H	YoY	
Operating CF (A)	-1,984	-3,075	-1,091	-
Investing CF (B)	-1,598	-437	+1,160	-
Free CF (A+B)	-3,582	-3,513	+69	-
Financing CF	3,135	3,676	+541	+17.3%
Cash and Equivalents at the end of term	9,419	6,424	-2,994	-31.8%

*Unit: million yen

Operating CF was negative 3.07 billion yen, as the company posted a pre-tax income of 810 million yen (1.83 billion yen in the same period previous year), a depreciation of 350 million yen (340 million yen in the same period previous year), and an increase in inventory assets stemming from growth in real estate for sale and real estate for sale in process. Investing CF was negative due mainly to the acquisition of property, plant and equipment such as lease properties. Financing CF came to 3.67 billion yen thanks partly to income from long- and short-term loans and the payment of dividends.

3. Fiscal Year ending February 2021 Earnings Forecasts

3-1 Full-year non-consolidated forecasts

	FY 2/20 Actual	Ratio to sales	FY 2/21 Forecast	Ratio to sales	YoY
Sales	40,093	100.0%	40,000	100.0%	-0.2%
Operating Income	3,290	8.2%	3,200	8.0%	-2.7%
Ordinary Income	2,442	6.1%	2,500	6.3%	+2.4%
Net Income	1,781	4.4%	1,700	4.3%	-4.6%

*Unit: million yen

Full-year estimates are unchanged, and it is expected that sales and operating income will decrease 0.2% and 2.7% YoY, respectively

Sales is forecast to edge down 0.2% YoY to 40 billion yen. The company anticipates YoY growth of 5.5% for condominium sales and 42.4% for detached house sales on the back of an increase in the number of units delivered in the second half of the year. At the same time, other real estate sales and property leasing revenue are expected to fall YoY.

Operating income is forecasted to decline YoY, with the company assuming a decline in gross profit and flat SG&A expenses, but ordinary income is expected to grow 2.4% YoY to 2.5 billion yen as there will be no longer any loan fees. Meanwhile, net income is expected to decrease 4.6% YoY on the absence of 130 million yen in gains on the sale of property, plant and equipment booked a year earlier.

As for the dividend, the company will no longer pay a commemorative dividend of 1 yen/share and plans to increase the common dividend by 1 yen/share to 35 yen/share (estimated payout ratio: 22.9%).

3-2 Forecasts for each segment

	FY 2/20 Actual	Ratio to sales	FY 2/21 Forecast	Ratio to sales	YoY
Condominium sales	30,907	77.1%	32,600	81.5%	+5.5%
Detached housing unit sales	2,106	5.3%	3,000	7.5%	+42.4%
Other real estate sales	4,174	10.4%	1,600	4.0%	-61.7%
Property leasing revenue	2,837	7.1%	2,800	7.0%	-1.3%
Other	65	0.1%	-	-	-
Total	40,093	100.0%	40,000	100.0%	-0.2%

*Unit: million yen

Condominium sales

Sales are projected to rise 5.5% YoY to 32.6 billion yen. The company is planning to deliver 690 units (up 24.3% YoY), including WAKOHRE Itami Nishidai Station Flats (Itami City, Hyogo Prefecture; 26 units in total). While the number of units delivered in the first half of this fiscal year was 326, the company is expecting to deliver 364 units (83 units in the third quarter, 263 units in the fourth quarter, a total of 346 units as projected in initial forecast), including 18 units undelivered in the first half of this fiscal year, in the second half of this fiscal year. Undelivered contracted units as of the end of the second quarter totaled 632 units.

The company plans to launch 700 units (up 74.6% YoY), including WAKOHRE Motomachi I'z (Chuo Ward, Kobe City; 35 units in total) launched in September 2020, and expects the number of units contracted to come to 650 (up 6.2% YoY).

It plans to purchase land for 650 units in the full year. The number of units purchased as of the end of the second quarter was 467, accounting for 71.8% of this target. It is placing emphasis on profitable acquisitions while also focusing on area renovation (retail market redevelopment). WAKOHRE City KOBE Minatogawa Koen (Hyogo Ward, Kobe City; a total of 168 units, 2 stores), released in October 2020, is a large-scale renovation property and a competition project offered by the Kobe City Government (Minatogawa Market Redevelopment Project).

Furthermore, the company is also continuing with the development of condominiums in Osaka Prefecture and Himeji City in Hyogo Prefecture as part of efforts to expand its business area. In the Hokusetsu region, it is currently working to sell WAKOHRE Ikeda The House (Ikeda City, Osaka Prefecture; a total of 24 units), scheduled for delivery in December 2021. In Himeji City, it has completed the sale of WAKOHRE Himeji The Suite (Himeji City, Hyogo Prefecture; a total of 43 units), scheduled for delivery in February 2021, and is selling WAKOHRE Himeji Joson Gardens (Himeji City, Hyogo Prefecture; a total of 48 units), scheduled for delivery in January 2022. In Osaka Prefecture, it has also expanded into Osaka City due to its increased ability to acquire land information, and has completed sales for WAKOHRE Osaka Shinmachi Tower Residence (Nishi Ward, Osaka City; a total of 118 units), scheduled for delivery in January 2021, its first property supplied in this area.

KPI for Condominium Sales Business

	FY 2/20 Actual	YoY	FY 2/21 Forecast	YoY
No. of units delivered	555	-26.5%	690	+24.3%
No. of units launched	401	-50.4%	700	+74.6%
No. of units contracted	612	-1.6%	650	+6.2%
No. of purchased land	1,027	+87.4%	650	-36.7%

Detached house sales

The company projects sales to grow 42.4% YoY to 3 billion yen. It mainly supplies houses in the Hanshin area and the Hokusetsu area in Osaka Prefecture, including high-priced houses. It expects the number of delivered houses to exceed 48 units, which was achieved in the previous term.

Other real estate sales

Sales are estimated to decrease 61.7% YoY to 1.6 billion yen. Although sales are expected to decrease, as purchases and sales have been solid recently, the company will continue with its community-based strategy and efforts to expand its business area in Osaka Prefecture.

Projects under development and properties to be sold in the second half of fiscal year ending Feb. 2021

	Number of projects under development	Units	Properties scheduled to sell in FY 2/21 2H	Units
wood-framed buildings	15 buildings	173	4 buildings	27
steel-framed buildings	73 buildings	1,050	10 buildings	105
RC construction, S construction	6 buildings	207	1 building	24
Total	88 buildings	1223	14 buildings	132

Recently, in the businesses of condominiums for investment, issues of inappropriate lending by some financial institutions and inadequate construction by a major condominium building company emerged, but the company's business on properties for investment targets only wealthy people with needs for inheritance measures and asset management, instead of corporate employees, and in consideration of compliance, it also does not offer sub-leasing services including after-sale rent guarantee, which often causes problems such as rent reduction. The company purchases lands that are not suitable for condominium development at a reasonable price and carries out all relevant works from planning and designing to leasing. Because of this, it is well received by buyers, resulting in many repeat clients. Since it is a business that can utilize the network of local real estate distributors, which is the company's strength, it is intending to continue to accumulate results.

Property leasing revenue

It is intending to aggressively work on property replacement while maintaining a high occupancy rate. It plans to achieve 2.8 billion yen in real estate rental income, which is about the same as that in the previous year (down 1.3% YoY).

4. Conclusions

With regard to the Tokyo metropolitan area, according to the Real Estate Economic Institute, in the first half of the fiscal year ending March 2021 (April to September), the number of newly built condominiums launched in the Tokyo metropolitan area decreased 26.2% YoY, marking a record low for said period since records began in 1973. However, customers have apparently been very active recently, owing partly to an upsurge in demand due to sales being curbed for a prolonged period of time. The same picture likely applies to condominium sales in the Kinki region, which saw a sharp drop in the supply of new properties in the first half of the fiscal year amid the impact of the coronavirus pandemic. There is a rich support for such purchases in the form of persistently low housing loan interest rates and enhanced government support. While they will not contribute to earnings until the next fiscal year onward, the company expects to see an increase in condominium sales in the second half of this fiscal year.

From June 16 to 19, 2020, the company conducted a survey on condominiums in the coronavirus pandemic, targeting 500 men and women in their thirties to fifties living in the Kanto and Kansai regions. Results showed the emergence of new housing demands associated with changes to people's lifestyles caused by the coronavirus pandemic, communication between members of the household, and new styles of work, such as remote meetings (online meetings). For example, for what people now want in a condominium in terms of layout/facilities compared to before the outbreak of the coronavirus, space related answers accounted for a large portion (number of rooms, storage space, bigger rooms, etc.). Many people also answered that they would prefer to live somewhere that had good sound insulation, which reflects the increase in companies adopting teleworking. Based on the answers regarding remote work and housing, it also shows that many respondents were carrying out remote meetings in the relatively open areas of their home, such as the living or dining room.

The company plans to utilize peoples' new views toward their lifestyles and new housing demands clarified by this survey in its condominium development going forward.

<Reference: ESG activities >

As an ESG activities, 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, 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 Kobe City's environmental performance standard for condominiums, the company also applies the standards for Approved Low-carbon Housing to its detached houses. It is also taking measures against Sick-House Syndrome for all housing, and is working on the development of smart condominiums, including the adoption of services that use smartphones, at some of its condominiums.

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.
Detached houses that satisfy the standards for Approved Low-carbon Housing	For detached houses, the company is taking measures to curb carbon dioxide emissions, so the company's houses have been designated as Approved Low-carbon Housing (buyers can receive preferential tax treatment by fulfilling certain requirements). By satisfying these standards, the company provides environmentally-friendly housing that also keeps household costs down.
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.
Enhancing support functions via smartphone apps	Some of the company's condominiums adopt services that use smartphones. This enables users to confirm energy usage, operate Eco-Jozu (a water heater), gas equipment even when not at home, and bathroom monitor system to prevent death in the bathroom with a single smartphone. The company supports safe and secure living.

<Society>

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

Based on lessons learnt from the Great Hanshin-Awaji Earthquake, in September 2005 Hyogo Prefecture rolled out Phoenix Mutual Aid, a house reconstruction mutual aid system that gives aid for the reconstruction/repair of housing in the case of damage caused by a natural disaster, the first of its kind in Japan. The company participates in this mutual aid for all of its condominiums sold in Hyogo Prefecture, and can receive compensation by bearing the cost of mutual aid premiums until the end of the fiscal year the unit is delivered and one fiscal year after the delivered year.

Adoption of non-face-to-face management support utilizing AI and communication technology

As the shortage of management staff becomes an increasingly serious problem in the condominium management industry, the company plans to adopt Niho Support, a non-face-to-face digital management service utilizing AI (Artificial Intelligence) technology, at WAKOHRE City KOBE Minatogawa Koen, where sales are currently underway. Using tablets supplied in common areas and an app specifically made for the condominium, it will offer support for residents such as various procedures, requests to the management company, etc. 24 hours a day, 7 days a week, in addition to the management staff stationed in the building.

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 12 th 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.

Compliance system

The company established various manuals including “Internal Reporting Regulations” and “Supplier Management Regulations” using the “Compliance Regulations” as a basic policy. In addition, the Internal Control Committee was established as the department in charge of compliance to appropriately verify the status of legal compliance and implement improvement measures. An internal audit office was also established directly under the Audit and Supervisory Committee to strengthen the check function. It also entered into advisory contracts with an external law firm and tax accountants to enhance the compliance system.

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	91.4%	Gender difference in average years of employment	3 months
Rate to take maternity and childcare leaves	100%	Rate of female employees within 5 years of joining a company	36.1%
Rate to return to work from maternity and childcare leaves	100%		

(As of August, 2020)

<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 28, 2020.

<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

< Main principles of the Corporate Governance Code which the Company doesn't Carry out and the Reasons>

【Principle 5-2. Establishing and Disclosing Business Strategies and Business Plans】

We use ROE as a management index with the goal of continuously improving shareholder value. In addition, we are aware of the numerical value of capital cost. However, we recognize that utilizing other numerical targets rather than formulating profit plans and business policies using these figures will enable us to operate more effectively on a practical level. Having said so, as it is more than ever required of us to improve shareholder value and accountability to investors, we will continue to manage our business by formulating investment plans using indicators such as capital costs and promoting efficient capital management and strive to improve management.

< Main Principles of the Corporate Governance Code which the Company Disclosed >

【Principle 3-1. Enhancement of information disclosure】

- (i) In our securities report, we clearly state the basic philosophy regarding management, business development policy, etc., including our corporate philosophy of “symbiosis (living together).”
- (ii) The concept of corporate governance is also described in the securities report and “1. Basic policy” above.
- (iii) Regarding the determination of remuneration, the total amount is determined at the general meeting of shareholders, and the remuneration of each director is determined at the Board of Directors according to the duties and roles in charge.
- (iv) Regarding the appointment/dismissal of the senior management including directors, the Board of Directors determines the agenda item for the General Meeting of Shareholders, and they are determined by the resolution of the General Meeting of Shareholders based on the achievements of each director.
- (v) The reasons for the appointment of directors are disclosed in the business report.

【Principle 5-1. Policy for Constructive Dialogue with Shareholders】

We hold a briefing on financial results twice a year in Kobe and Tokyo with the Corporate Planning Division of the General Planning Department as the IR department. We also hold briefings for individual investors in Osaka and Tokyo to proactively communicate with shareholders and others. In addition, we are striving to improve our website in order to enhance the understanding of our company among shareholders.

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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