

GCC Management™ Analysis Report: Shinoken Group Co., Ltd.

First Section of the Tokyo Stock Exchange Code: 8909

December 12, 2020

Aiming to be a Leader in Real Estate industry Trust DX* Initiatives:

The Significance of Investment in an Industry-leading ROIC & PBR 1x Company

This report analyzes corporate value based on the perspective of GCC Management™ which emphasizes three elements: **G**rowth (sales growth), **C**onnection (of all stakeholders, leading to improved profitability of capital), and **C**onfidence (enhanced trust and lowered business risks).

*Trust DX: One of the three elements of digital transformation (DX) (efficiency DX, high value-added DX, trust DX). It refers to innovation through technology that is indispensable for "free data linkage" that is being promoted by My Number Card, the organizational certification that the legal system is going to advance, and efforts to prevent data tampering.

A company advancing a paradigm shift in pursuit of the credo "customer success is everything."

The Shinoken Group, Co. ("Shinoken G") was established in 1990 to support asset creation to relieve concerns about the future. The company succeeded in achieving a paradigm shift in real estate distribution concepts, ensuring customers that "even if you don't have land, even if you lack personal funding, you can manage an apartment building." This made it possible for ordinary office workers to build assets without difficulty. The Group went public in 2002.

Transforming into a living support company while strengthening its apartment management model

In addition to its apartment management model, which boasts a 99%*1 occupancy rate, the company has used M&A to diversify into condominium sales and management, general contracting, energy supply, and the life care business, and is transforming into "Shinoken living support," promoting lifelong living support for its customers. There are many upside topics, such as REITs (Japan and Indonesia), and the overseas expansion of the successful domestic model. The company has also partnered with an external IT company to promote DX in earnest. **Of note is the introduction of the latest Estonian-derived technology in "Trust DX," which promotes the free linkage of data. At this time, no listed real estate company besides Shinoken G has been recognized as emphasizing a "Trust DX" initiative. In this report, we provide an overview of the paradigm shift that will result from this cutting-edge initiative in new technology.**

*1: Occupancy rate: As of March 31, 2020, including properties planned, developed, and managed by the company at the time of its establishment. The same standard is used for occupancy rates in the text below.

*2: As of November 20, 2020, Shinoken G is the only listed company that appears on Google and other search engines under the search term "real estate, Trust DX."

More than 4x benefit when recognizing high ROIC and growth themes

Revenues have been on a downward trend due to apartment-management related scandals at other companies in the industry, and Shinoken G has a low PBR of around 1x and a 6x PER. However, this valuation deviates from its intrinsic value in light of (1) an industry-leading ROIC of around 11%, (2) high annual growth rates of more than 20% since 2016 for all but "real estate sales (apartment and condominium sales)," and (3) its leading position due to its game-changing Trust DX technology. Even if earnings remain flat from the next fiscal period onwards, the company's shareholder value is calculated to be just under three times its current market capitalization, and the growth scenario of its existing business alone is estimated to be 4x shareholder value. If Shinoken G's growth potential is properly valued, a significant benefit can be expected.

Basic report

Written and Edited by
J-Phoenix Research Inc.

Corporate Profile

Headquarters	Chuo-ku, Fukuoka
President & CEO	Hideaki Shinohara
Established	June 1990
Capital	1,094 million yen
Listed	December 2002
URL	www.shinoken.co.jp/
Industry	Real estate business

Key Indicators
(as of November 20, 2020)

Stock price	1,118 yen
Highest in 52 weeks	1,372 yen
Lowest in 52 weeks	656 yen
Outstanding Shares	36,380,400 stocks
Trading Units	100 stocks
Market Capitalization	40,673 million yen
Prospective Dividend	41.00 yen
Established Profit Base EPS	174.13 yen
Estimated PER	6.4 times
Actual BPS (December 2019)	1,170.98 yen
Actual PBR	0.95 times

Performance	Sales Million yen	Y-o-Y %	Operating profit Million yen	Y-o-Y %	Ordinary income Million yen	Y-o-Y %	Net profit Million yen	Y-o-Y %	EPS Yen	Annual DPS Yen	Stock price (yen)	
											Low	High
FY2017	105,936	30.3%	12,920	22.2%	12,201	23.3%	8,489	27.4%	254.92	27.50	1,390	936
FY2018	111,390	5.1%	11,843	-8.3%	10,699	-12.3%	7,415	-12.6%	220.08	30.00	1,997	630
FY2019	95,786	-14.0%	9,754	-17.6%	9,018	-15.7%	5,875	-20.7%	172.68	38.00	1,372	631
FY2020 (forecast)	96,000	0.2%	8,800	-9.7%	8,300	-7.9%	5,900	0.4%	174.13	41.00	-	-
3Q of FY2019	72,787	-14.7%	8,150	-13.9%	7,480	-14.1%	4,955	-15.4%	145.68	-	884	631
3Q of FY2020	72,558	-0.3%	6,712	-17.6%	6,224	-16.7%	4,190	-15.4%	123.37	-	1014	761

Shinoken G conducted a stock split (2 shares per common share) on July 1, 2018. The EPS for the fiscal year ended December 2017 in the above table is calculated assuming that the stock split was conducted at the beginning of the fiscal year 2017.

In addition, the DPS for the fiscal year ending December 2017 and FY12 / 18 is the amount calculated retroactively in consideration of the stock split.

* a J-Phoenix Research (hereinafter, "JPR") systematizes the concept of corporate value in easy-to-understand terms. See "What is the GCC Management™ Analysis Framework?" At the end of the book.

1. Shareholder value outlook

Current status of drivers of shareholder value creativity

A paradigm shift through innovation in real estate distribution overturning stereotypes

Long-term creation of "real personal trust-based relationships" with apartment management owners

Promoting innovation in real estate distribution based on the founder's experience

Two drivers

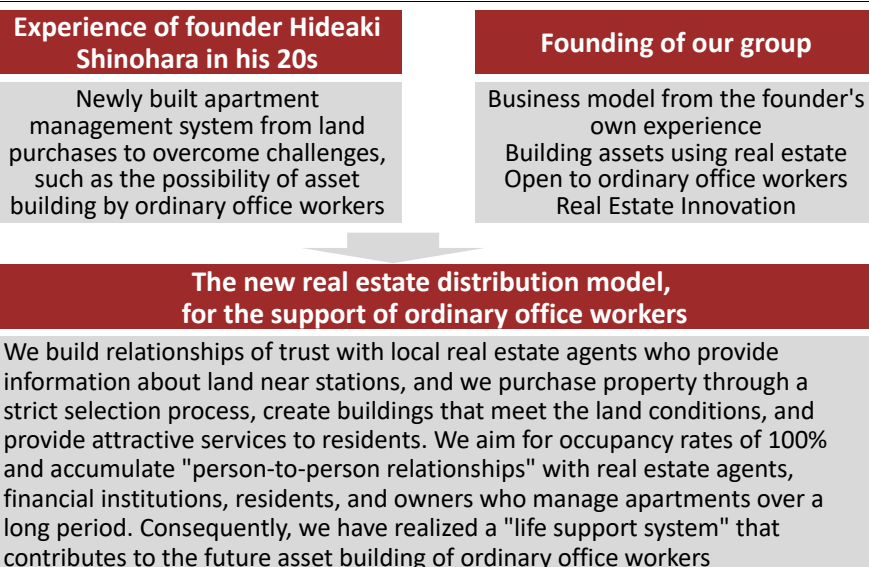
The drivers of Shinoken G's ability to create shareholder value can be summarized as (1) innovation in real estate distribution through its ability to conceive and implement optimization, and (2) a "living support system" that "helps customers to succeed throughout their lives."

Innovation in real estate distribution through the ability to conceive and implement optimization

Since its founding 30 years ago, Shinoken G has overturned the stereotypical view held by many company employees that "there's no way I could manage an apartment," and has achieved a paradigm shift in promoting innovations in real estate distribution, providing "apartment management from the standpoint of company employees, making it something even company employees can achieve." The driving force behind this is the company's ability to conceive and implement optimization. Specifically, this can be described as the ability (1) to achieve its goals, (2) to not be bound by stereotypes, (3) to think for itself about the overall optimization of the system, (4) to put things into practice itself, and (5) to overcome the various challenges and risks that it faces.

The following table, an excerpt from the "Mid-to-Long term Vision 2020," published by Shinoken G on November 18th, 2020, succinctly illustrates this driving force:

Real estate innovation initiated by Shinoken group



Source: Shinoken group "Mid-long-term Vision 2020"

That driving force is rooted in the experience of the company's founder. The founder, who wanted to live a secure, enjoyable, and comfortable life upon reaching retirement at 60, wanted to purchase land and succeed in apartment management while he was still in the corporate world. He took on this challenge for himself and succeeded.

The business model constructed from the founder's experience is the keystone of the group's overall business and can be called the source of Shinoken G's ability to create value for its shareholders.

Grasp the hearts of customers with the "life support system" for the further development and expansion of stock business

What is a "life support system"?

In order to develop a permanent paradigm shift, Shinoken G has built a unique "life support system" that follows customers throughout their lives. It is a vertically integrated model through which everything from land purchase to development, construction, service operation, and management is conducted through the group. In order to achieve the lifelong success of our customers, we (1) set clear numerical targets and (2) achieve these targets. We will consider the optimal concept for this purpose and (3) build long-term relationships of trust with various specialists and stakeholders necessary for realizing the concept, and optimally cooperate to build a "real relationship of trust between people." The table below summarizes the "life support system" in "asset creation by apartment management."

Examples of "Living support systems": "Creating assets through apartment management"

<p>(1) Clear numerical targets</p>	<ul style="list-style-type: none"> • Tenancy rate 100%: When you hear "asset creation by apartment management," the risk that everyone thinks of is "occupancy rate" • The occupancy rate of Shinoken G with more than 38,000 rental units is over 99%, but from the standpoint of each owner, this 1% vacancy is a very large and important number. • Shinoken G will concentrate on filling this 1% and continue to pursue 100% occupancy rate as an eternal theme.
<p>(2) An optimal concept for achieving numerical targets</p> <div data-bbox="209 994 408 1200"> <p>一般的なアパートメントメーカーは、駅徒歩10分圏外や主要都市圏をはずれた郊外・地方物件も多い</p> </div> <div data-bbox="424 994 536 1200"> <p>カラーモニター付きインターホン</p> </div> <div data-bbox="552 994 644 1200"> <p>独立洗面化粧台</p> </div> <div data-bbox="552 1178 644 1200"> <p>階段屋根裏収納</p> </div>	<p>A. Development in carefully selected locations: Within 10 minutes by foot from the station</p> <ul style="list-style-type: none"> • Within 30 minutes from the terminal station. Limited to cities with many single households Only 5 areas and 6 cities [Tokyo, Kansai (Osaka / Kyoto), Nagoya, Fukuoka, Sendai] <p>B. Reasonable rent setting suitable for the market</p> <ul style="list-style-type: none"> • Rent assessment based on the know-how and data cultivated over 30 years, taking into account the actual market price and assuming stable occupancy for a long period of time. <p>C. Capture occupancy needs and reflect them in design and specifications</p> <ul style="list-style-type: none"> • We will conduct questionnaires for existing residents to understand their needs. Reflecting the findings in the design and specifications, will lead to the creation of high-performance properties.
<p>(3) Forging long-term relationships of trust with the various specialists and stakeholders required to realize the concept and collaborate optimally</p>	<ul style="list-style-type: none"> • Build a steady relationship of trust with a local real estate agent and introduce land information near the station • Purchasing through a strict selection process • Providing attractive services for lessees by creating buildings that meet the conditions of the land • Management aiming for 100% occupancy rate • Accumulate "real relationships of trust between people" from real estate agents, financial institutions, lessees, and owners who manage apartments over a long period of time.

Achieving "customer's lifelong success" with Shinoken G's unique "life support system"

Source: Created by JPR from Shinoken G "Medium- to Long-term Vision 2020"

Business content that supports the "Life support system"

Business Description

Through the pursuit of "living support systems," and in addition to expanding its operations through M&A activities and the flow-on businesses of apartment and condominium sales, the company has expanded its operations by focusing on stock business, lease management, energy supply, services for tenants, and providing life care.

As of 2020, Shinoken G has 31 consolidated subsidiaries and two equity method affiliates, and is developing its businesses in real estate sales, real estate services, general contracting, energy, life care, and other businesses (including business overseas).

Business content of Shinoken G for the fiscal year December 2020

Segment	Business
Real Estate Sales Business	<ul style="list-style-type: none"> Planning, development, construction, and sales of investment apartments Planning, development, and sales of investment condominiums
Real Estate Service Business	<ul style="list-style-type: none"> Recruitment of rental housing tenants, rent repair, maintenance, etc. Full support for rental housing management, condominium management, debt guarantees such as rent, sales of household property insurance for rental housing tenants, real estate fund, and private REIT Shinoken G are engaged in the composition and asset management business
General Contractor Business	<ul style="list-style-type: none"> General construction contracts for condominiums, office buildings, public facilities, etc. Perform planning, design, and construction LPG retail (retail sales of LP gas) and electric power retail
Energy Business	<ul style="list-style-type: none"> LPG retail (retail sales of LP gas) and electric power retail
Life Care Business	<ul style="list-style-type: none"> Shinoken G own and manage serviced housing for the elderly, daycare (day service) facilities, group homes, and small-scale multi-function-type home care facilities, along with conducting visit nursing care Support for disabled people (after school daycare, self-training, and employment support)
Other (Overseas)	<ul style="list-style-type: none"> In overseas business, Shinoken G are developing real estate leasing and sales brokerage business in Shanghai and Singapore. In Indonesia, Shinoken G conduct private construction and public works and other construction-related businesses. Shinoken G also developed service apartments by "Sakura Terrace" brand as a real estate development business in Jakarta.

Source: Created by JPR from Shinoken G "Medium- to Long-term Vision 2020"

M&A

Half of the business portfolio has been expanded through M&A

Proven capability in post-M&A integration

Strategic M&A

Shinoken G conducts M&A to create long-term synergies, strategically and continuously build a competitive value chain, enhance Shinoken G's overall strength, and serve as a driving force for business expansion.

A typical example is one of the main businesses in the real estate sales business, investment condominium sales. In terms of segments, the general contractor, energy, and life care business started through M&A. The operating companies that have joined Shinoken G through M&A have demonstrated their individual strengths and achieved further growth in each business area; moreover, each has become one of the pillars that support Shinoken G.

The figure below is organized by segment. As of the end of September 2020, the contribution of the M&A-acquired business to business performance accounted for approximately 45% of Shinoken G's total net sales and approximately 50% of profits.

Shinoken G believe that M&A will continue to be an important strategic means for the growth of Shinoken G. As in the past, Shinoken G will continue to actively work on creating group synergies, such as life care and DX areas where social needs are increasing, and overseas M&A.

Business overview expanded by M & A

Segments	Main business	Type / Year of M&A	Net Sales Constitution	Operating Income Constitution
Real Estate Sales	Apartment Sales (Investment)	[Founding Business] Shinoken Produce	Founding Business	Founding Business
	Condominium Sales	[M&A (2003)] Shinoken Harmony		
		[Alliance (2015)] Properst		
Real Estate Service	Rent management	[Founding Business] Shinoken Facilities	Self Established	Self Established
	Rental brokerage	[M&A (2019)] All Way MYU Corporation		
	Condominium Management	[M&A (2010)] Shinoken Amenity		
	Small amount short-term insurance	[M&A (2013)] JICC SSI		
	Guarantee of Rent, etc.	[Established] Shinoken Communications		
	Asset Management	[Established] Shinoken Asset Management		
General Contractor	Construction	[M&A (2014)] Ogawa Construction	Net Sales From Business obtained by M&A	Operating Income From Business obtained by M&A
Energy	Retail of LPG and Electricity	[M&A (2001)] SK Energy		
Life Care	Elderly care	[M&A (2015)] Friend / Apple Care		
	Support for people with disabilities	[Alliance (2020)] Yutaka College		
Other - Overseas	Shared Service	[Established] Shinoken Office Service		
	Overseas subsidiary	[M&A(2018)] Local General Contractor Real Estate Brokerage		
			45%	50%

Source: Shinoken group "Mid-long-term Vision 2020"

Mission Vision

The globalization of DX is accelerating under a new vision

Further expansion into the living support field

New Vision & Mission

In "Medium- to long-term vision 2020," Shinoken G's unique "life support system," which has been built since its founding in anticipation of the arrival of an "ultra-longevity society," will be introduced in Japan and around the world. A new vision and mission have been defined, renewing Shinoken G's determination to deliver to people in Japan across national borders and generations, and positioning the management philosophy, which has been cherished since Shinoken G's founding, as a value.

The concept of REaaS is attracting attention. REaaS is an abbreviation of Real Estate as a Service, which means "real estate service," and makes it easier and safer for more people to trade real estate from a small amount by integrating business model innovation and technology. By promoting this, Shinoken G will provide many people with opportunities to create assets for the future, solve not only future financial instability, but also various social issues, and realize life support for all people. Shinoken G will pursue the new vision of "life support companies of all generations around the world."

These will further strengthen the drivers of the shareholder value creativity in the following two ways: (1) real estate distribution innovation based on overall optimal conception and practical skills, and (2) "life support system" that realizes "support for customers' lifelong success."

New Vision & Mission

Vision

**A Life Support Company
for every generation across the world**

Shionken, having innovated the way of Real Estate transaction in Japan over the course of 30 years, developed its distinctive life support model that stays close throughout the lives of our customers. Now, we will extend it from Japan to the world, across borders, and to the generations of our children and grandchildren

Mission

**Resolve the problems of
the people and society through REaaS**

※REaaS : "Real Estate as a Service"

By driving REaaS, more people can take place in Real Estate transaction easily and safely for a smaller price. REaaS is possible by combining innovation of business model and technology, and will resolve not only future financial anxiety but also various problems in society, which includes elderly care and the shortage of workforce

Value

- All for customers success
- Never forget Gratitude
- Challenge Spirit

The unchangeable values in achieving the Vision and Mission, and the common code of conduct for all employees of Shinoken since the establishment

- (1) Real estate distribution innovation based on overall optimal conception and practical skills
- (2) "Life support system" that realizes "support for customers' lifelong success"

Source: Created by JPR from Shinoken G "Medium- to Long-term Vision 2020"

Shareholder value
creativity driver
Future outlook

Further strengthening
the drive for innovation
and living support
capabilities through
digital transformation

Business transformation

Business transformation toward becoming a Life Support Company

Shinoken G is currently building a management base that can flexibly respond to any changes in the economic environment and a business that is not affected by temporary booms or headwinds. Shinoken G are promoting "business transformation" to evolve into a "life support company" that creates Lifetime Value (LTV) throughout the lifetime of consumers, such as owners, residents, and their families, by expanding room for growth and strengthening the recurring business through the following three initiatives: (1) expanding business areas, (2) changing the business structure, and (3) expanding life support.

(1) Real estate distribution innovation based on overall optimal conception and practical ability will continue to be accelerated in REaaS, but further with (2) a leap forward in the "life support system" that realizes "supporting customers' lifelong success." Shinoken G aims to strengthen this through digital transformation and overseas expansion.

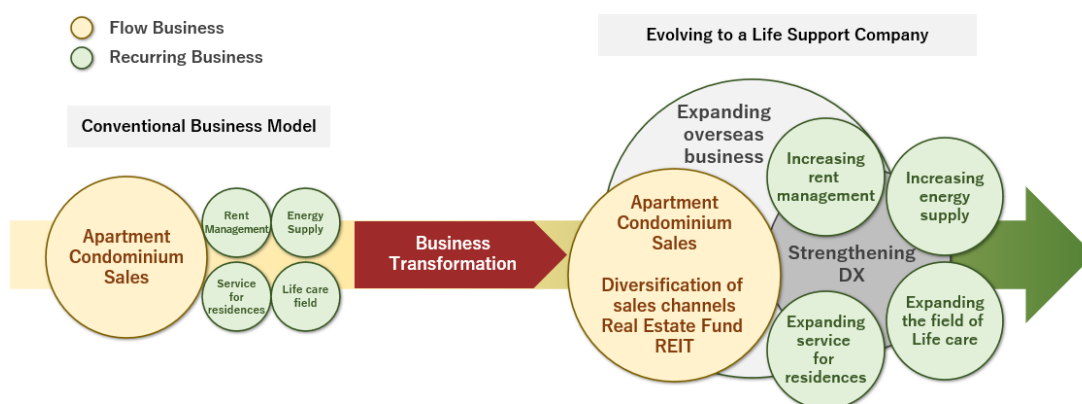


Image of business transformation and content of activities

Activities		Content	
1	Base development	Japan	Expansion in major cities in Japan, mainly in Tokyo
		Overseas	Promote overseas expansion to Asia such as Indonesia
2	Transformation of business structure	Strengthening group synergies	Strengthen group synergies by promoting M&A expansion of business and capital alliances both in Japan and overseas
		Multiple sales channels	Real estate fund/REIT formation and crowdfunding initiatives
		Strengthening Digital Transformation (DX)	Accelerating the introduction of real estate tech by technology subsidiaries
		Responding to a labor shortage	Human resource development/education and recruitment/development of overseas human resources
3	Expansion of life support	Expansion of real estate services	Improvement of rental management ability, expansion of insurance, and guarantee services
		Energy supply	LP gas, power supply
		Expansion of life care field	Long-term care facility ownership/operation, long-term care services, services for people with disabilities (after-school day services, independence training, and employment transition)

Source: Shinoken group "Mid-long-term Vision 2020"

Development of overseas business with strong growth potential

A successful domestic model that is applicable overseas

Pivoting the domestic value chain spiral to include business overseas

Securing overseas business growth through REITs

Aiming to establish a dominant position

Growth strategy

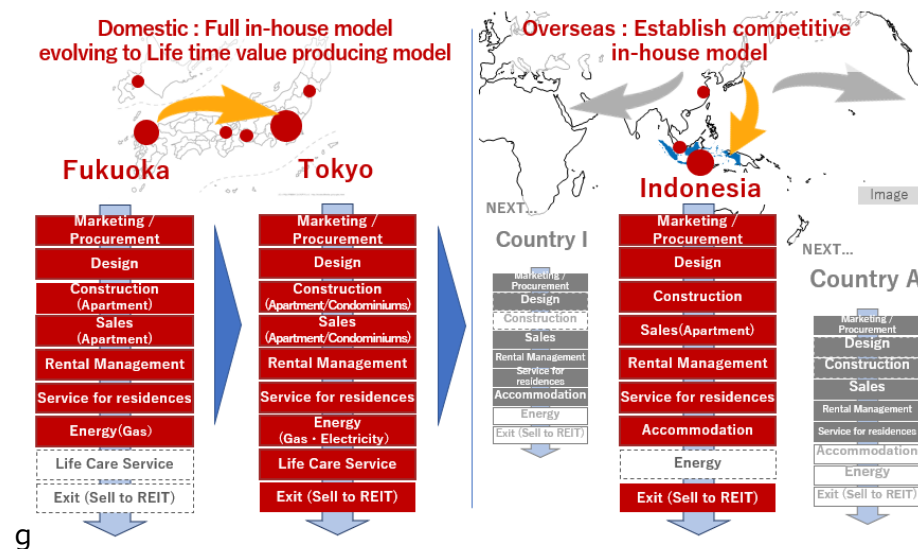
The Mid-to-Long Term Vision 2020 lists the following growth strategies: (1) Overseas business, (2) Development of REaaS, and (3) M&A. Digital transformation (DX) of real estate, and in particular Trust DX, is described in detail in (2). The strategic development of M&A is set out in (3). Here, Shinoken G refer to (1) and (2), which are expected to bring about a particularly big leap forward.

① Oversea business

Shinoken G will export and develop the life support system that the Group has cultivated in Japan. As a concrete plan, in addition to expanding rental business profits by developing serviced apartments developed and operated from land purchase through vertical integration with its own capital in Indonesia, Shinoken Asset Management Indonesia (Shinoken Asset Management Indonesia) (Hereinafter referred to as "SAMI") has acquired Indonesia's first REIT license as a foreign-affiliated company, which makes it possible to create an exit scenario in which SAMI sells to REIT, which is entrusted with asset management operations, as a strategic option. By turning the spiral on this new value chain, Shinoken G will eventually have a safe and stable exit called REIT while developing properties one after another, and Shinoken G's value chain will further increase its uniqueness. In addition, Indonesian REITs by SAMI are highly interested and inquired by both overseas companies that have already expanded into Indonesia and companies that want to expand into Indonesia, want to stably develop real estate in Indonesia, and were developed by Shinoken G. Demand for REIT composition on the scale of tens of billions to hundreds of billions of yen emerging outside of properties. After the formation, by accumulating asset management fees, a model and system that can be expected to grow the stock business are in place, as in Japan. Shinoken G will continue to demonstrate the strengths of its unique value chain in Indonesia and establish an overwhelming competitive advantage.

Overseas business development

Success model that started in Fukuoka, to Tokyo and nation wide
Next, reproducing the domestic model to overseas countries



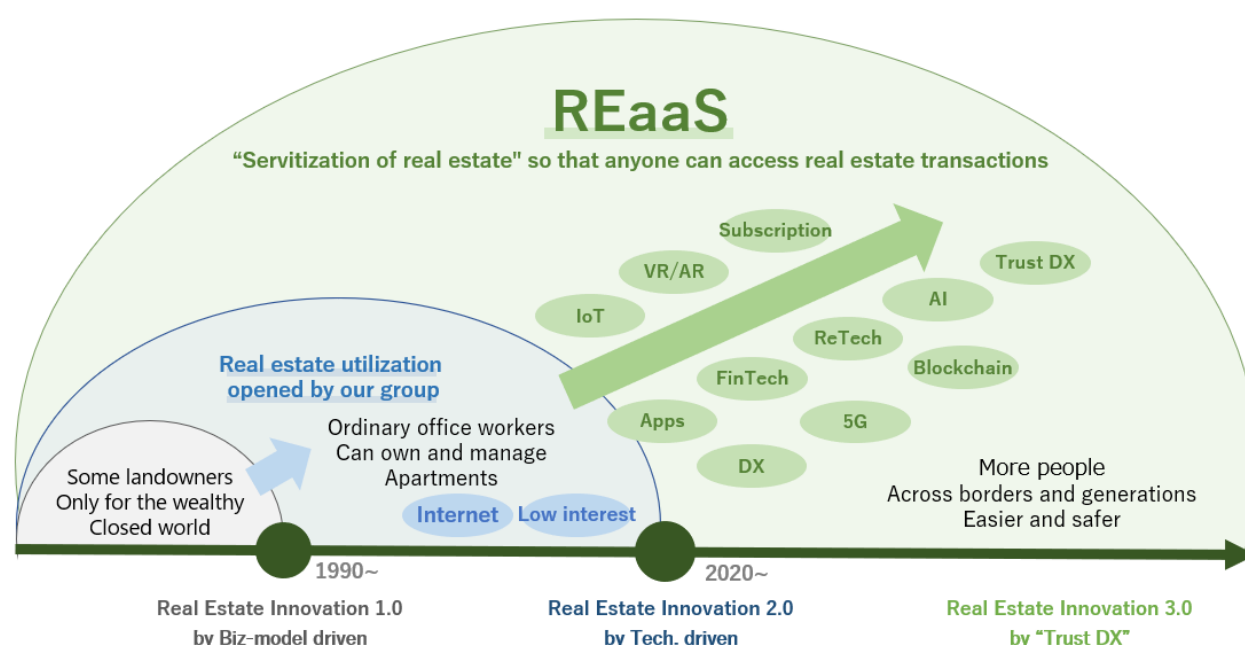
② Deployment of REaaS-Overview

Full-scale REaaS to advance "Real estate servitization"

Ongoing innovation in real estate distribution

REaaS, which promotes a "real estate service" that allows anyone to access real estate transactions, is defined as an unchanging mission that will continue to the next generation. If we position the transformation by a business model that enables us to work on general office workers as "Real Estate Distribution Innovation 1.0," due to the rise of so-called real estate tech that is currently taking place worldwide, real estate transactions that were mainly analog are becoming digital. The current trend of digitization, which has become easier to do with just one app, may be positioned as "Real Estate Distribution Innovation 2.0." Furthermore, in digital transformation, by promoting Trust DX, which promotes free data distribution, a paradigm shift will be realized to real estate distribution innovation 3.0, which allows more people to easily and safely cross national borders and generations. The Shinoken G aims for this.

REaaS



Source: Shinoken group "Mid-long-term Vision 2020"

Building a platform using Trust DX to promote free data linkage will accelerate innovation in real estate distribution

A platform for public-private partnerships in real estate will also be developed

② Deployment of REaaS ~ Real estate distribution innovation revived with "Real Estate Trust DX"

To implement REaaS, Shinoken G has agreed to conduct joint research and development into "Trust DX," which promotes the improved reliability of digital data distribution for real estate transactions and living support services, with Scala Group (CEO: Norikatsu Nagino) with the aim of not simply streamlining DX but advancing "Trust DX," which is an essential element to digitizing real estate transactions in a real sense.

DX in the real estate industry has three stages: (1) Streamlining: digitizing analog-centric real-estate transactions. (2) Adding value: Using AI, IoT, VR, and so on, to add value to digital transactions, products, and services. (3) Ensuring the reliability of data distribution: Developing reliable and free data distribution infrastructure that guarantees legitimacy, tamper-proofing, and integrity between business-related stakeholders such as customers, companies, and local governments. Trust DX is an initiative that focuses on the third stage.

Trust services are a key technology for Society 5.0

Collaboration with xID, which has experience operating in Estonia, a world-leading country

Prioritizing Trust DX from among the 3 steps of real estate DX

Trust DX is built around a "trust service" that combines data legitimacy (people, organizations, IoT devices, digital transactions), tamper protection for data (encryption and blockchain technology), and data integrity.

Trust services are described by the Ministry of Internal Affairs and Communications as a mechanism to prevent spoofing of senders and the falsification of data, forming the foundation for reliable data distribution in the Society 5.0 era* in which cyberspace and real space are integrating and society as a whole is undergoing digitization.

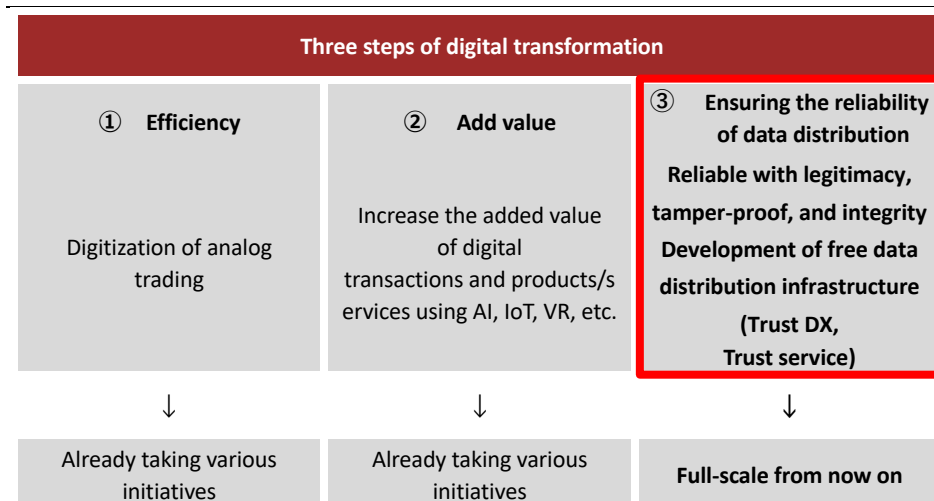
*Society 5.0 is a human-centric society that achieves both economic development and solutions to issues in society through a system in which cyberspace (the virtual world) and real space (the real world) are highly integrated. A concept proposed by the Cabinet Office and other organizations in the Fifth Science and Technology Basic Plan offering a vision of the future society that Japan should aim for, it refers to a new society following on from hunter-gatherer society (Society 1.0), agrarian society (Society 2.0), industrial society (Society 3.0), and the information society (Society 4.0).

Source: https://www8.cao.go.jp/cstp/society5_0/

xID Corporation (Representative: Hikaru Kusaka), which has experience operating in Estonia, the world's most advanced country in Trust DX, has agreed to collaborate on this concept of constructing a Trust DX platform for real estate.

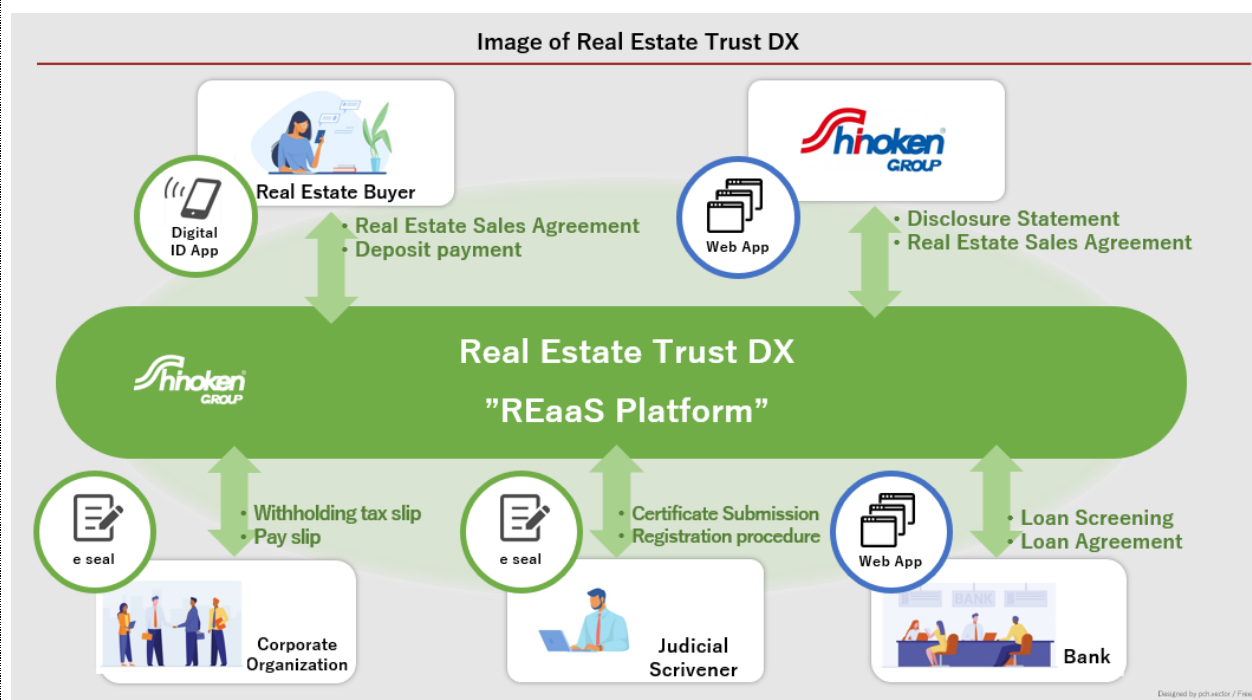
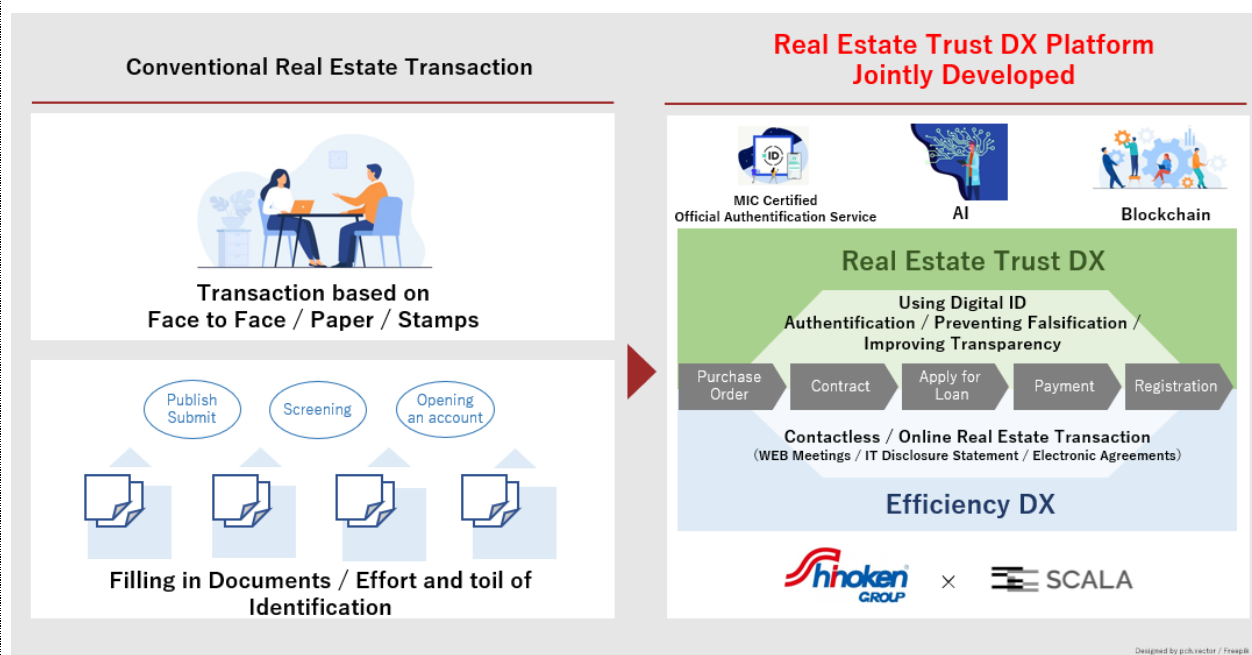
In the trust services domain, an area that is expected to take off in Japan going forward, Shinoken is aiming to construct the world's most advanced "real estate trust DX" platform.

Three steps of digital transformation and what our group's aims for



Source: Shinoken group "Mid-long-term Vision 2020"

Image of "DX in Real Estate"



Source: Shinoken group "Mid-long-term Vision 2020"


Relevant trust services policies to come into full effect going forward

Trust services expected to see high growth

Trust services initiatives are a major contributor to the digitization of real estate transactions

To the extent of JPR's understanding, Shinoken G is the only listed real estate company to have launched Trust DX at this time

The following chart provides an overview of trends in trust services-related legislation and the growth potential of relevant markets

 Trends in legislative development and policy discussions on trust services and market growth

E-Document Law	Enables the electronic storage of legal documents such as national tax documents that were previously required to be stored in paper form.
Basic Act on the Advancement of Public and Private Sector Data Utilization	The government is to take the measures necessary to make it possible to complete administrative procedures online as a matter of principle. The government is to take the measures necessary to promote making it possible for the private sector to make contract applications and carry out other procedures online.
Digital Procedures Act	Strengthening measures to promote public administration using information and communication technology.
Data Free Flow with Trust (DFFT)	Discussion of the importance of the DFFT concept encompassing both "free and open data flows" and "data safety and security" at the G20 Ministerial Meeting on Trade and Digital Economy.

Legal development driving the expansion of related markets



¥9.4 billion market in 2018



Base case, preliminary calculations for the year 2030:

Base case ¥27.1 billion (9% annual growth rate)

Growth Case ¥103.5 billion (22% annual growth rate)

Source: Created by JPR based on the Ministry of Internal Affairs and Communications document "Key Points of the Trust Services Working Group Final Report," November 8, 2019

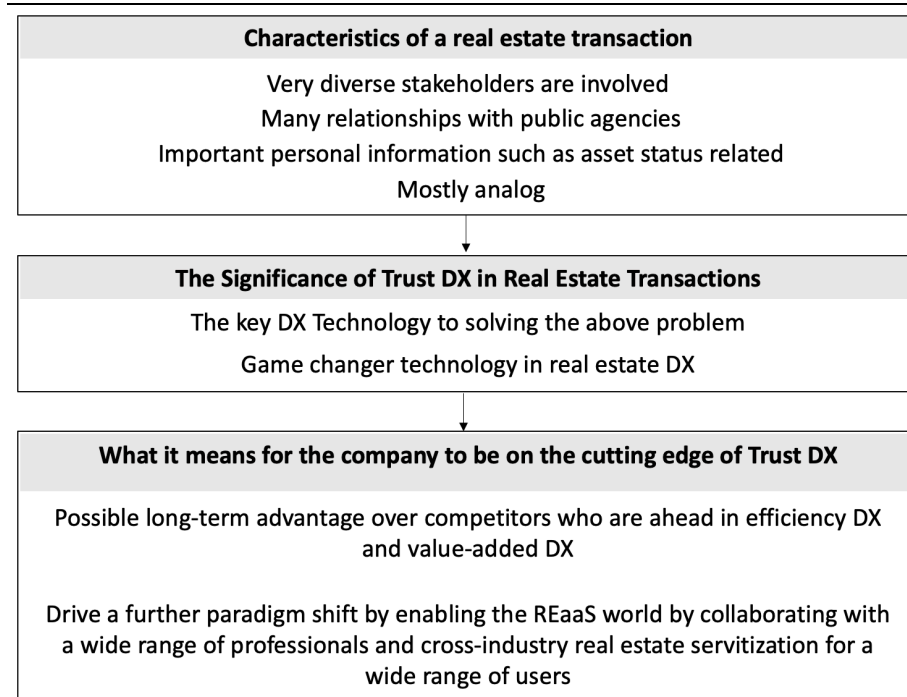
As shown in the chart, Shinoken G aims to build the world's most advanced platform with its "real estate trust DX" in the trust services domain, a field that is expected to take off in Japan in the future. The "real estate Trust DX platform" will make it possible for free and secure transactions to be performed by anyone in the world. At the same time as functioning as a measure for Shinoken G to realize its mission of achieving an REaaS with a global scope, the company is aiming to provide living support to people of all ages around the world by creating an open platform that can be used by various companies and industries, regardless of their size.

Real estate transactions are extremely complex and largely remain analog in nature, involving a particularly wide variety of stakeholders' requiring the handling of extremely important personal information, information about assets, and so on; and moreover, involving the submission of many official registration documents. If Shinoken G is able to become a world-leading platform in trust DX, it could embrace a wide range of related fields and establish a competitive advantage in the construction of real estate DX platforms.

No listed real estate company besides Shinoken G has been recognized for prioritizing trust DX initiatives at this time. As shown below, JPR believes that Trust DX has the potential to be a game-changing technology for real estate DX, and as a result, it has ample potential to become a core technology of greater importance than streamlining DX or value-added DX in the long term.

Trust DX is a game changer for real estate DX

■ Significance of Shinoken G working on Trust DX with the world's most advanced technology



Source: JPR

High probability of achieving the mid-to-long term vision for the business

Benefits are expected

Significant benefit is expected to accompany success in trust DX

Numerical targets in the mid-to-long term vision

In light of the above initiatives, Shinoken G has reviewed its earnings forecasts for the next 10 years, and, as shown below, has set targets for sales revenue of ¥150 billion and ¥13.5 billion in operating profit for the fiscal year ending December 2025, and sales revenue of ¥200 billion and operating income of ¥17 billion by 2030.

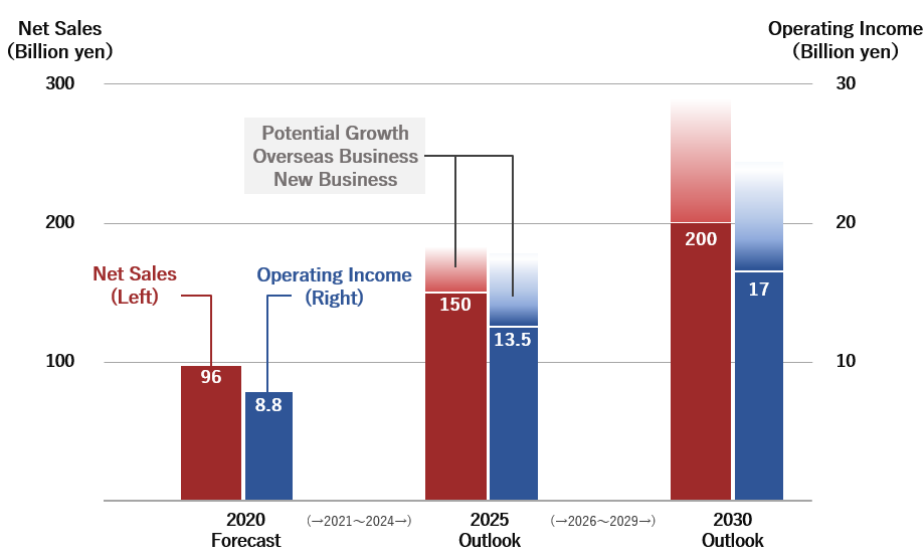
This is the base case, which excludes overseas and new business, and factors in solely considering the growth of its existing businesses. On an annualized basis, sales growth is expected to be 9% between 2020 to 2025, and about 6% from 2025 to 2030.

As shown in the following pages, sales revenue for business other than the real estate sales business, an area of future focus, have grown by more than 20% between 2016 and 2020; thus, the rate of growth set out in the mid-to-long term vision is highly likely to be achieved.

This does not take into account the impact of overseas and new business, and so these numerical targets have scope for further growth.

If Shinoken G is able to become a leader in real estate DX through its leading initiative in Trust DX, a game changer in real estate DX, while difficult to quantify, significant benefits can be expected.

Financial goals for Medium- to Long-term Vision 2020

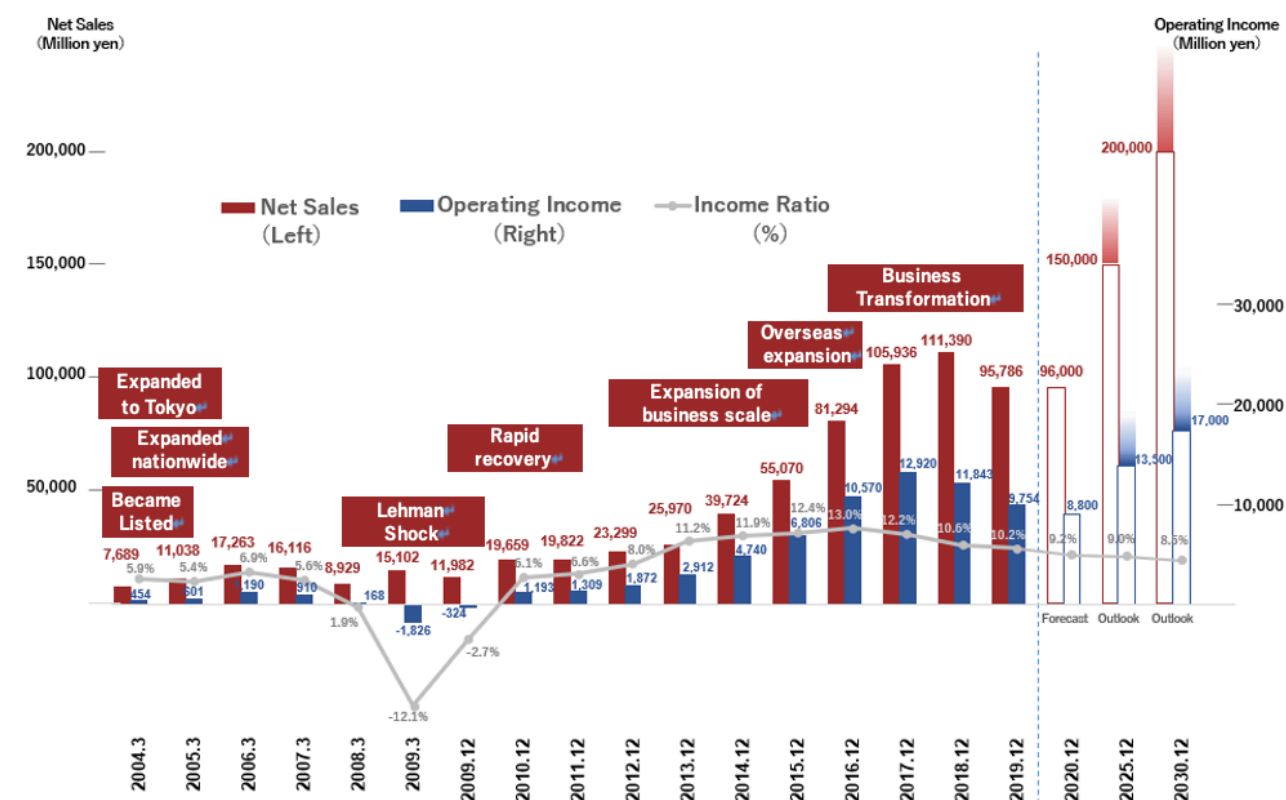


**With the preceding Trust DX,
If you become a leader in real estate DX,
Expect even greater benefits**

Source: Created by JPR from Shinoken G "Medium- to Long-term Vision 2020"

The following chart shows trends in the company's long-term performance. The company believes that its "Mid-to-Long Term Vision 2020," which aims for sales revenue of ¥200 billion and operating income of ¥17 billion, can be achieved through the growth of its existing business. Moreover, the following growth scenario can be considered to be conservative, as the company is also focusing on achieving greater growth by strengthening its overseas and new business areas through M&A.

Long-term business performance trends



Source: Shinoken group "Mid-long-term Vision 2020"

Financial performance and shareholder value indicators

Stock business shows high growth

Focusing on growth outside of real estate sales through business transformation

The consolidated downward trend has bottomed out

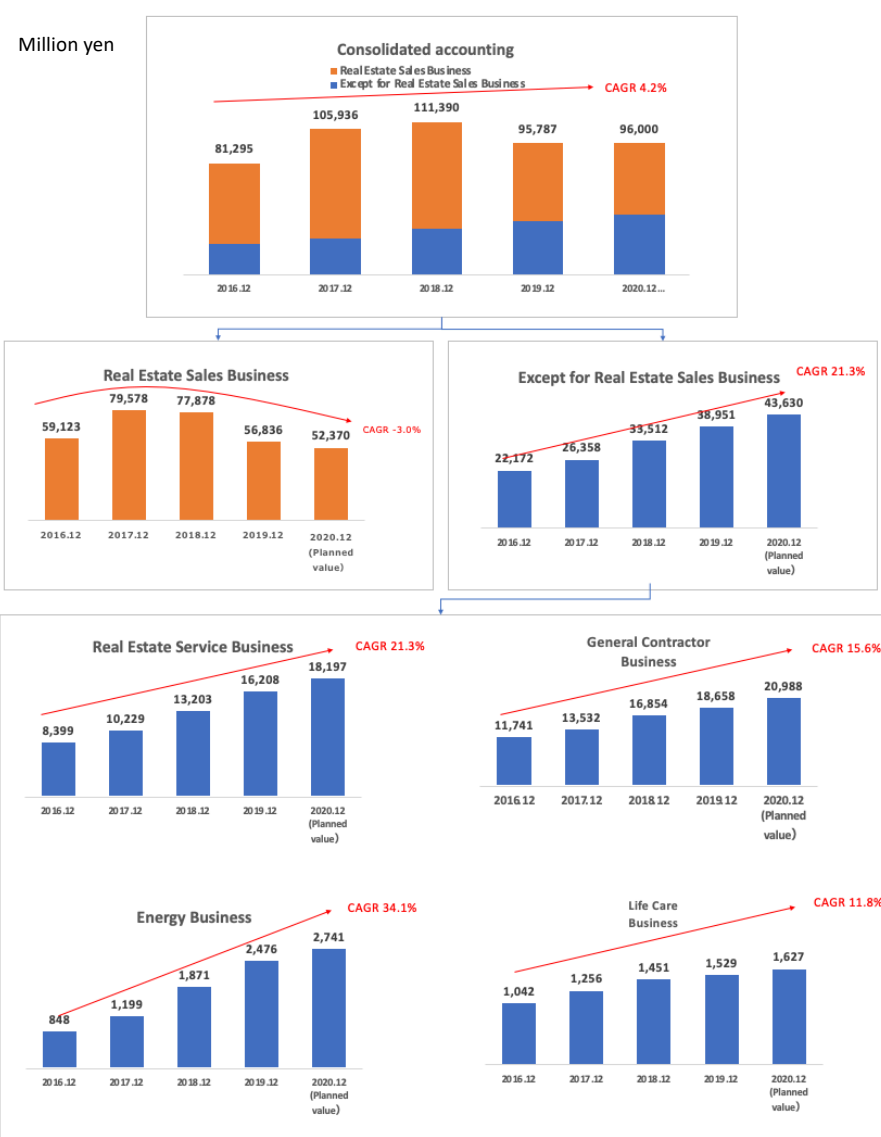
High-growth segments to make a strong contribution to consolidated growth

With business transformation underway, although there is a negative trend on a consolidated basis, high growth can be seen in all business fields other than real estate sales

Sales growth trends

The graph below shows sales trends on a consolidated basis and by segment. The company's largest segment, real estate sales (sales of apartments and condominiums), is experiencing a negative trend in sales growth due to apartment management-related scandals at other companies in the industry, resulting in a low growth rate on a consolidated basis. However, with the exception of for real estate sales (apartment and condominium sales), which is an area of focus for business transformation, the company's other businesses are growing rapidly at an annual rate of more than 20%.

Consolidated / segment sales trends



Source: Created JPR from FactSet. In December 2020, JPR estimates based on the actual results from the company sales plan for the fiscal year ending December 2020.

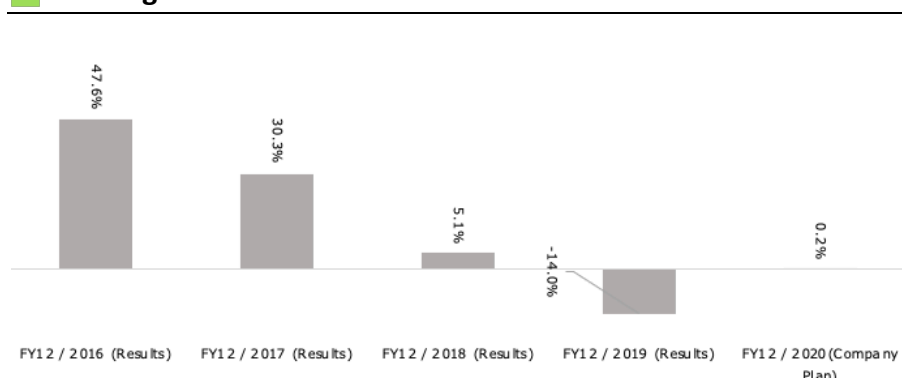
The downward trend in the sales growth rate has bottomed out

High profitability in other businesses will compensate for lower profit margins in the core real estate sales business.

Trends in the sales growth rate

While there has been a significant drop from the previous high rate of growth, this appears to have bottomed out.

Sales growth rate



Source: Created JPR from FactSet. December 2020 is calculated by JPR from the company sales plan for the fiscal year ending December 2020

Trends in profit margin

The table below shows trends in consolidated and per-segment sales. Consolidated operating profit margins have been on a downward trend due to sluggish profit margins in the real estate sales business.

With the exception of the general contracting business, the real estate services, energy, and living support businesses have higher profit margins than the real estate sales business. Going forward, profit margins are expected to improve if business transformation expands and non-real estate sales businesses expand.

Trends in consolidated / segment operating profit margin / sales segment profit margin

	2016.12	2017.12	2018.12	2019.12	2020.12 (company plan)
Consolidated	12.4%	13.0%	12.2%	10.6%	9.3%
Real Estate Sales Business	11.3%	15.8%	14.2%	11.6%	9.0%
Real Estate Service Business	23.7%	14.0%	14.7%	19.4%	19.3%
General Contractor Business	11.4%	12.3%	10.7%	9.2%	7.5%
Energy Business	10.5%	16.0%	18.7%	20.6%	26.0%
Lefe Care Business	38.8%	12.4%	7.5%	13.4%	14.4%

Source: Created JPR from FactSet. In December 2020, JPR estimates based on the actual results from the company sales plan for the fiscal year ending December 2020.

Industry-leading ROIC reverses its downward trend

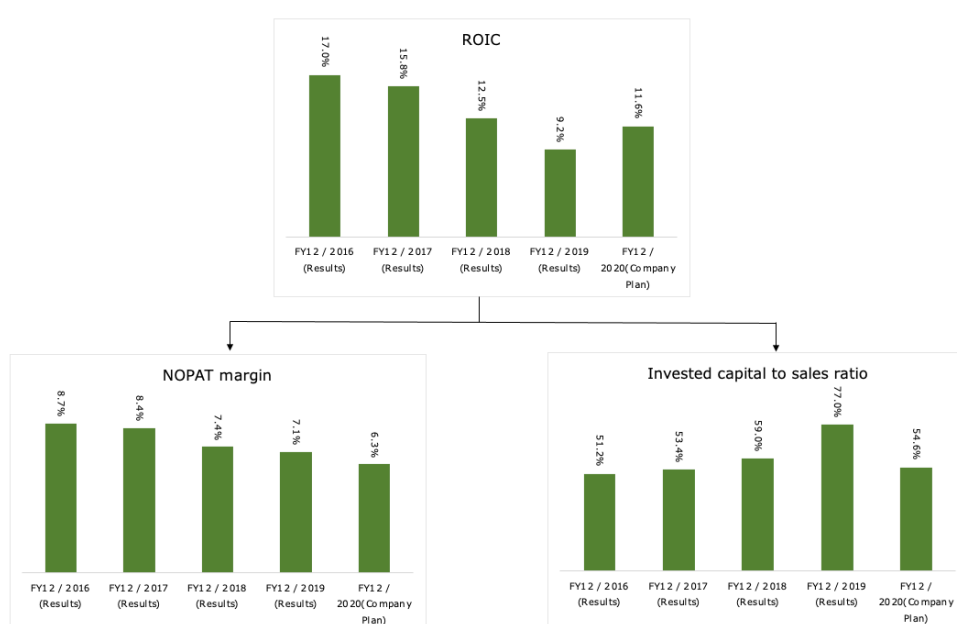
ROIC*

The Group's return on investment* is one of the highest in the industry (see the per-industry corporate value analysis report in Appendix Materials (2)), having recovered slightly from its downward trend in FY2020. ROIC can be decomposed into Net Operating Profit After Tax (NOPAT) margin/investment to sales ratio.

The higher the NOPAT margin, and the lower the investment to sales ratio, the higher the ROIC and the higher the ability to create shareholder value. The NOPAT margin maintains its downward trend, with the investment to sales ratio rising briefly in December 2019. However, this is expected to fall in FY2020.

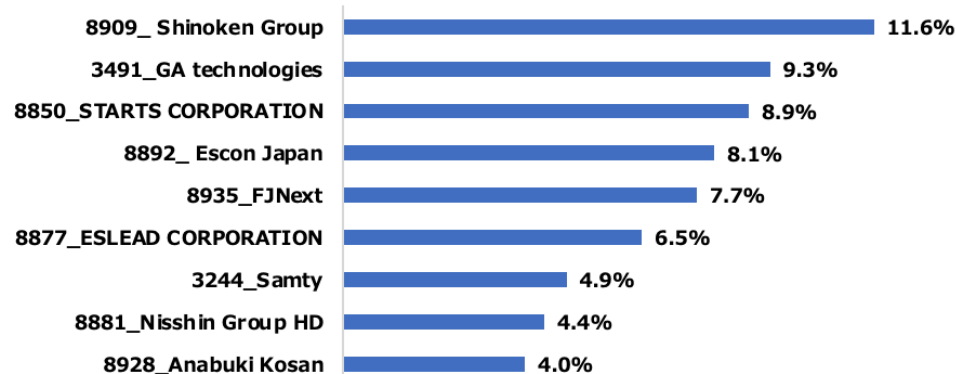
* Return on invested capital = Return on invested capital: Return of operating income after tax on capital procured from the capital market and invested in the business. An important indicator that occupies the essence of shareholder value. JPR calculates as follows: (1) Surplus cash and deposits-Monthly sales 1.5 months, (2) Non-business assets = Deferred hedge gains and losses + Land revaluation difference + Foreign exchange translation adjustment account, (4) Invested capital = Total assets-①-②-Current liabilities other than interest-bearing debt. ⑤ After-tax operating profit margin = operating profit (1-effective tax rate), ⑥ ROIC = ⑤ ÷ ④

Trends in ROIC at Shinoken G



Source: Created JPR from FactSet. In December 2020, JPR estimates based on the actual results from the company sales plan for the fiscal year ending December 2020.

ROIC ranking of comparatively similar companies (Invested capital is at the end of the most recent quarter, operating income after tax is based on the current plan)



Source: Created JPR from FactSet. As of November 20, 2020. Companies classified as condominium development/sales/real estate brokerage in the Nikkei industry classification, and the sales plan for this term has already been announced at the time of analysis, targeting companies with company-planned sales of 30 billion yen or more.

A recent rise in business risk

However, the financial balance is being strengthened to respond to risk

Business risk = β trends

As an indicator of business risk, we analyzed the coefficients (β) estimated from a temporal regression of TOPIX daily returns and Shinoken G stock price returns on a five-year rolling basis for debt-free β^* excluding leverage effects. The results indicate that the recent upwards trend shown below will continue. Since consolidated sales are on a downward trend, this can be interpreted as a rise in risk.

*: The non-debt β is calculated by dividing the coefficient obtained by the regression equation by $(1 + (1 - \text{effective tax rate}) \times D / E)$. D: Interest-bearing debt, E: Market capitalization

Trends in debt-free β



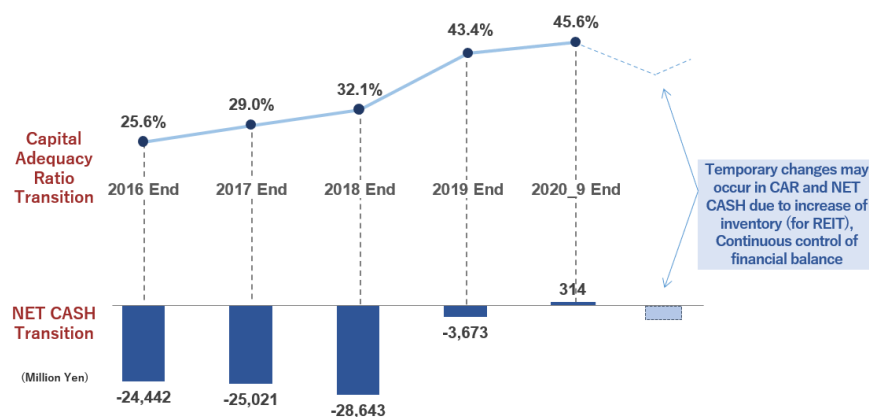
Source: Created JPR from FactSet

Optimization of the financial balance

As a result of the systematic setting of targets and strengthening the Group's financial position, as of the end of September 2020, a record high capital adequacy ratio of more than 45% has been achieved, together with a net cash positive position making the business substantively debt-free.

Taking the provision of about ¥20 billion of properties to REITs each fiscal year into account, as well as the active M&A and new business development outlined above, the capital ratio is expected to be around 40% going forward; however, this is necessary for sustainable growth. The company is expected to continue to strike a balance between an "offensive" posture of expanding its revenue base and its "defensive" posture of strengthening its financial base to keep pace with the times, putting the group as a whole on the path to growth.

Financial balance



Source: Shinoken group "Mid-long-term Vision 2020"

Shareholder value estimation

Shinoken G's awareness of shareholder value in focus

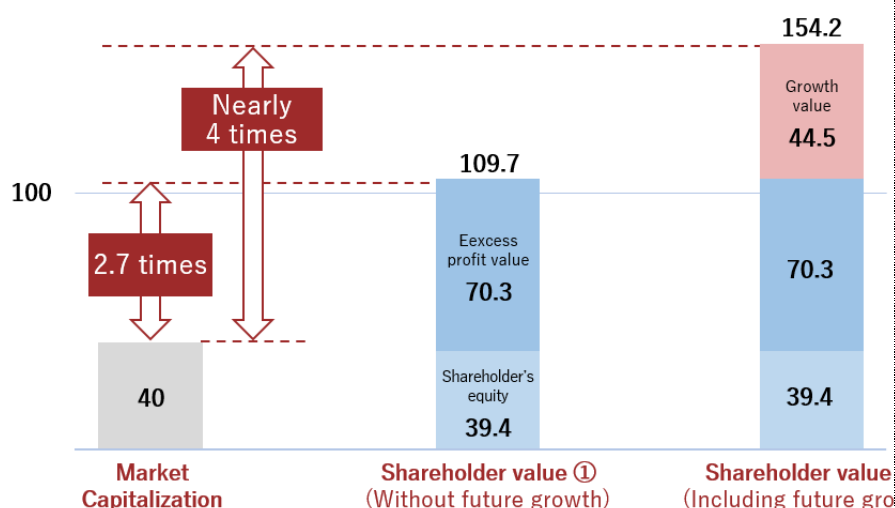
Focusing on understanding the gap in perception as the first step to a stock price correction

Shinoken G's estimate

An estimate of shareholder value is made in Shinoken G's Mid-to-Long Term Vision 2020. The following is a quote thereof:

Market capitalization vs shareholder value

(Billion yen)
200
100



Source: Shinoken group "Mid-long-term Vision 2020"

In light of the results of the above test calculation, Shinoken G states the following in its Mid-to-Long Term Vision 2020:

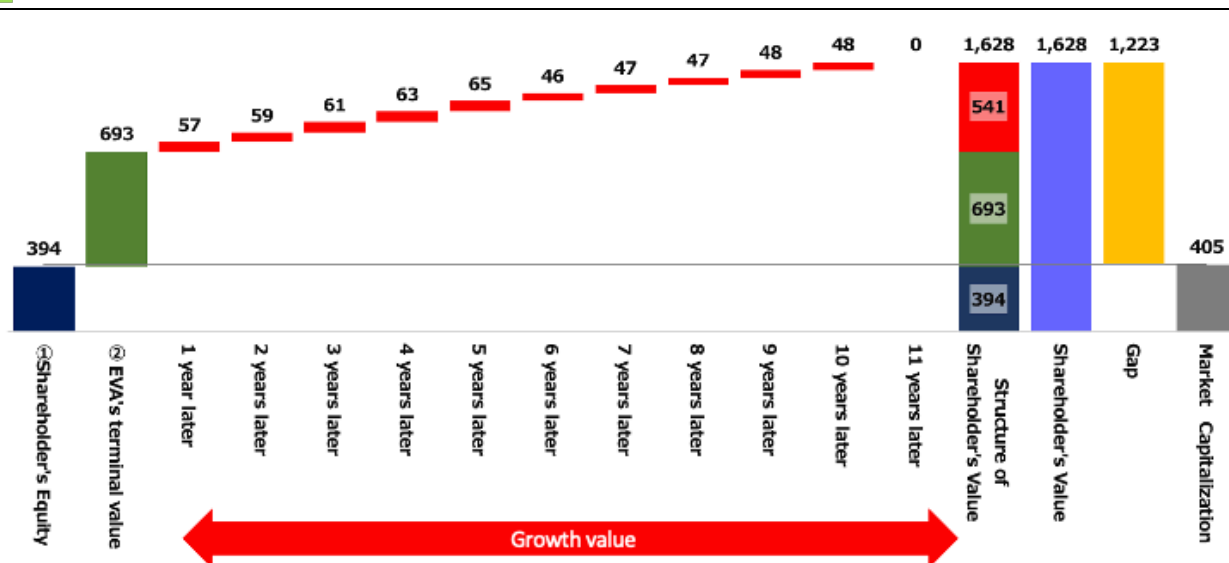
"We analyzed the gap in market capitalization (≒¥40 billion) calculated from the share price as of November 16, 2020. As a result, theoretically, shareholder value, calculated as ¥39.4 billion in shareholder equity, plus ¥70.3 billion in excess profit value and growth value through to 2030 (the present discounted value of the increase in excess profit) was ¥154.2 billion, nearly four times the market capitalization. Even without factoring in the value of growth, the gap is already large at 2.7x."

Understanding this gap in perception should be in focus as the first step in correcting stock prices.

JPR's estimate

JPR has also made an estimate, as shown on the next page, using the same 5% cost of capital as Shinoken G, and the results of this estimate were almost identical (see next page for details, shareholder value of ¥162.8 billion). Note that JPR's own calculation of the cost of capital, which takes the current increase in risk (5.8%) into account, resulted in a shareholder value of about ¥135 billion, about three times the market capitalization (detailed calculation results are omitted).

JPR's shareholder value estimation results



Source: FactSet, Nikkei Needs, created using company disclosure information, as of November 17, 2020

[¥100mn]	Current Year 2020.12	1 year later 2021.12	2 years later 2022.1	3 years later 2023.1	4 years later 2024.1	5 years later 2025.1	6 years later 2026.1	7 years later 2027.1	8 years later 2028.1	9 years later 2029.1	10 years later 2030.1	11 years later 2031.1	Terminal Value
Basic financial indicator	Sales	960	1,050	1,148	1,255	1,372	1,500	1,589	1,683	1,783	1,888	2,000	2,000
	Operating income	88.0	95.9	104.4	113.8	123.9	135.0	143.0	151.5	160.4	169.9	180.0	180.0
	Operating margin	9.2%	9.1%	9.1%	9.1%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
4 Driver	Sales growth rate	0.2%	9.3%	9.3%	9.3%	9.3%	9.3%	5.9%	5.9%	5.9%	5.9%	5.9%	0.0%
	NOPAT margin	6.3%	6.3%	6.3%	6.3%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
	Invested capital turnover ratio	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%	54.6%
	WACC	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Creativity of corporate value	ROIC = NOPAT margin ÷ invested capital net sales ratio	11.6%	11.6%	11.5%	11.5%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%	11.4%
	ROIC / WACC (value created with the original hand of 1 yen)	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3	¥2.3
Excess Value	NOPAT	61	66	72	79	86	93	99	105	111	117	124	124
	Invested capital × WACC	26	29	31	34	37	41	43	46	49	52	55	55
	EVA	35	38	41	44	48	52	55	59	62	66	70	70
	EVA = NOPAT - invested capital × WACC	35	38	41	44	48	52	55	59	62	66	70	70
	Value created in each year	693	60	65	71	77	83	62	66	70	74	78	0
	Discount Rate	100%	95%	91%	86%	82%	78%	75%	71%	68%	64%	61%	58%
	Present value of EVA	693	57	59	61	63	65	46	47	47	48	48	0
	Invested capital ① Origin	524											
	Over profit value (Permanent value of EVA of this term) ②	693											
	Growth value (Present value of increase in EVA) ③	541											
Corporate value	Non-business asset value ④	229											
	Corporate value = ① + ② + ③ + ④	1,986											
	Interest-bearing debt, etc.	-358											
	Shareholder value	1,628											

Source: From Shinoken G "Medium- to long-term vision 2020," using the figures for 2025 and 2030, the annual growth rate is automatically estimated in the middle of the year and created by JPR.

There are numerous reasons to revise the low valuation

When will this be recognized by investors?

2-4x Upside is expected

The current market capitalization is low, with a PBR of about 1x, and a PER of about 6x. The reasons for this include a declining trend decline in overall consolidated financial performance and stock prices, and a relative decline in real estate sales, which have been the company's core business since its founding. Although the company has been shifting toward other businesses as part of its business transformation, this, combined with the negative image resulting from apartment management scandals at other companies in the industry, may be spurring this low valuation. JPR believes that this low valuation will be corrected because (1) ROIC is one of the best in the industry at the 11% level, (2) all businesses other than real estate sales (apartment and condominium sales) have shown high growth rates in excess of 20% since 2016, and (3) the company is ahead of the curve with its game-changing Trust DX technology. Acknowledging these three elements, this low valuation appears to be at a distance from the company's intrinsic value.

2. Company outline

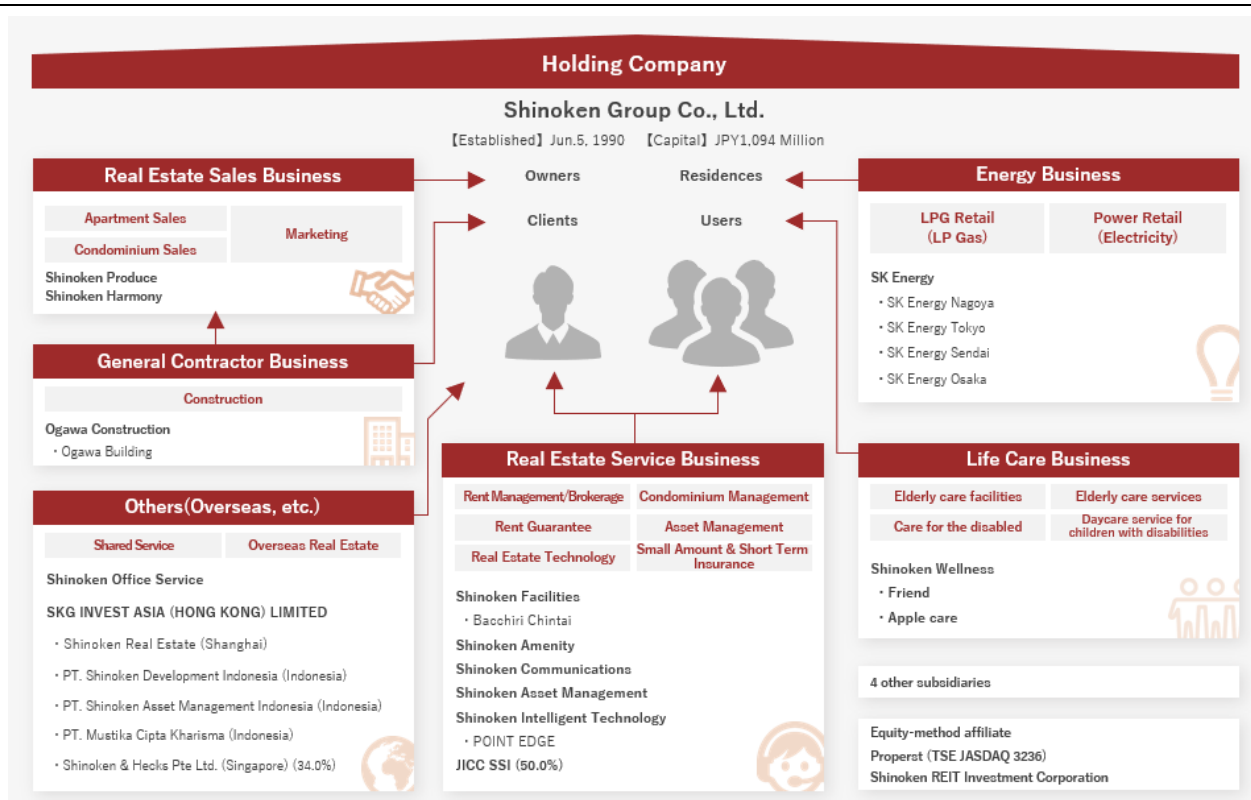
Company outline

Company outline

Company name	Shinoken Group Co., Ltd. (English notation: Shinoken Group Co., Ltd.)
Established Date	July 5, 1990
C E O	Hideaki Shinohara
Headquarters location	(Fukuoka Headquarters), 1-1-1, Tenjin, Chuo-ku, Fukuoka (Acros Fukuoka) (Tokyo Headquarters) 2-3-1, Hamamatsucho, Minato-ku, Tokyo (Nippon Life Hamamatsucho Crea Tower)
Capital	1,094 million yen (As of end of 2019)
employee	1,038 people (As of end of 2019)
Fiscal year	Ends in December
Main business	Business management of each subsidiary (pure holding company)
Listed date	May 12, 2002
Listed stock exchange	Tokyo Stock Exchange JASDAQ Market [Code: 8909]
Company name	https://www.shinoken.co.jp/

Source: Created JPR based on disclosed information

Group structure



Source: Shinoken group "Mid-long-term Vision 2020" (As of end of Sep. 2000)

History

1990	Established Shinohara Construction System Co., Ltd., started apartment sales business and real estate rental management business (Current Shinoken Group Co., Ltd.)
1991	Launched the first brand of asset management type apartment "Compartment House" series
1993	Completed the first office building (3-stories, own building) in Kasuya-machi, Kasuya-gun, Fukuoka
1995	Launched a new brand, steel-framed "Neo Compartment House" series
1997	"Compartment House" series became first-place in the Fukuoka area, for the number of traditional wooden structured apartments built
1999	Established current Shinoken Communications Co. Ltd. to conduct Guarantee of rent, etc. Started ground guarantee for apartment sales. Developed independently and added to all apartment sales properties
2000	10th anniversary of the establishment. Completed new office building in Hakata-ku, Fukuoka (10 stories, own building) and moved head office at the same time
2001	Expanded to Tokyo, opened an office in Minato-ku, Tokyo SK Energy Co., Ltd. started LPG retail business by business transfer
2002	Registered our shares with the Japan Securities Dealers Association (currently listed in the Tokyo Stock Exchange JASDAQ market) Introduced the industry's first all-you-can-use internet system with a constant internet connection to all properties
2003	Expanded to Nagoya, and opened an office in Naka-ku, Nagoya Acquired 100 % of Nissho Harmony Co., Ltd., which develops and sells one-room condominiums in the Tokyo metropolitan area and made it a wholly owned subsidiary (Current Shinoken Produce Co., Ltd.)
2004	Business tie-up with Tokyo Star Bank, Japan's first non-recourse loan (limited borrower liability) for a personal apartment loan
2005	Consolidated net sales exceeded 10 billion yen Expanded to Sapporo, and opened an office in Chuo-ku, Sapporo
2006	Expanded to Sendai, and opened an office in Aoba-ku, Sendai First expansion to the overseas market established a subsidiary in Shanghai, China
2007	Introduced a holding company system, changed the trade name to "Shinoken Group Co., Ltd.," and shifted to a system with the company as a holding company
2008	Established current Shinoken Facilities Co., Ltd., which specializes in real estate rental management.
2009	Established current Shinoken Real Estate (Shanghai)
2010	20th anniversary of the establishment Made current Shinoken Amenity Co., Ltd. a wholly owned subsidiary to enter the condominium management business
2011	Established Shinoken Produce Co., Ltd. for planning and marketing the apartment sales business (Current Shinoken Harmony Co. Ltd.)
2012	Established Shinoken Wellness Co., Ltd. for supervising the life care business
2013	Headquarters moved to Acros Fukuoka (Chuo-ku, Fukuoka) Received the Good Design Award for the business model of " Safety housing for the elderly " (Ju-life Plan) Made JICC Small-amount Short-term Insurance Co., Ltd. a subsidiary and entered the small-amount short-term insurance business
2014	Made Ogawa Construction Co., Ltd. a wholly owned subsidiary and entered the general contractor business Expanded to Osaka, and opened an office in Yodogawa-ku, Osaka
2015	Consolidated net sales exceeded 50 billion yen Made Properst Co. Ltd. an affiliate accounted for by the equity method Made Friend Co. Ltd. a wholly owned subsidiary and entered the group home business Ogawa Construction Co., Ltd. opened Indonesia representative office
2016	Established Shinoken Asset Management Co., Ltd. for managing real estate funds Established PT. Shinoken Development Indonesia for the purpose of expanding business in Indonesia Made Apple Care Co. Ltd. a wholly owned subsidiary and entered the home-visit nursing care business Double-winning the Good Design Award for BRICK and PLATFORM of "New Standard," the main product for apartment sales
2017	Consolidated net sales exceeded 100 billion yen Entered the electricity retail business and started selling "Shinoken Denki"
2018	Established PT. Shinoken Asset Management Indonesia to conduct asset management business in Indonesia Made Indonesian local general contractor PT. Mustika Cipta Kharisma a subsidiary Raised Japan's first full-scale private apartment fund for institutional investors Changed "Tokyo office" to "Tokyo head office" and moved to a two-head-office system of Fukuoka and Tokyo
2019	Defining "REaaS," a new concept for real estate distribution by combining real estate tech with the current business Established REaaS technologies to promote and realize the concept of REaaS Established Bacchiri Chintai Co., Ltd. for expanding the rental brokerage business Made All way MYU Corporation and 3 other companies wholly owned subsidiaries Obtained the first foreign-owned real estate fund management license in Indonesia Began Cancer GCLI in the apartment sales Completed the first building of "Sakura Terrace" in Indonesia and started operation as a serviced apartment Investment condominium "Harmony Residence Shinjuku Gyoen" won the Good Design Award
2020	30th anniversary of the establishment Established Shinoken REIT Investment Corporation Raised and started operation of a 10 Billion-yen private REIT, mainly for rental housing real estate located in the 23 wards of Tokyo. Made POINT EDGE Co. Ltd. a subsidiary to strengthen and promote REaaS and branding Capital and business alliance with Yutaka College, which operates a welfare college for young people with disabilities After-school day service "Kids Life Higashi Fukuoka" opened Decided to form a mutual fund (investment trust) for individuals jointly with the Indonesian Financial Services Agency, etc. in Indonesia

3. Initiatives of each segment

Real Estate Sales Business

Sites purchased within a 10-minute walk from train stations in major cities maintain a stable occupancy rate over the long-term.

Contributing to building owners' assets by achieving both quality control and cost reductions through custom-made designs that suit the site and the surrounding environment and carrying out construction in-house.

Number one in Japan for five consecutive years since 2015 in terms of the number of in-house building developments.

Main business of Shinoken G

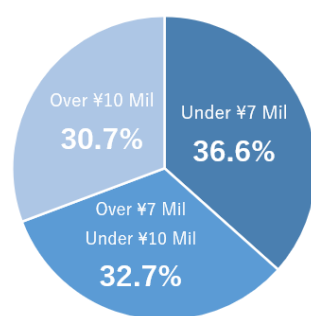
Outline of the Business

Since its establishment in 1990, our group has been proposing a business model for investment apartment management to individual investors (office workers). The main sources of income are investment apartment planning, development, construction, sales and investment condominium planning, development, and room-by-room sales. This business accounts for about half of the consolidated net sales.^{*2} Specialists in the fields of land purchasing, sales, design, and construction provide a one-stop apartment management system to help owners build their assets. Regarding the land purchases, we limit ourselves to a 10-minute walk from stations in major cities. To ensure that the occupancy rate is stable over a long period, we purchase without compromise with our own knowledge and marketing. In addition, we have in-house construction teams and contribute to owners' assets by achieving both quality control and cost reduction by custom-made design according to the land shape and surrounding environment.

Percentage of consolidated results: Cumulative results for the third quarter of the fiscal year ending December 2020

Real Estate Sales Business: Business content summary

Income range of customers



※Jan – Dec 2019

Purchase Land

Select to keep high occupancy
Main cities, within 10 min on foot

Design Build

Custom-made design
According to the land shape and surrounding environment

Apply for Loan Screening

Exclusive loan plans based on trust with several financial institutions

Completion Hand over

Initial occupancy 100% guaranteed

Source: Shinoken group "Mid-long-term Vision 2020"

Number of construction kick-offs, No. 1 in Japan

In the "Ranking of Construction Companies strong in Rental Housing" published by "Zenchin," a nation-wide Rental Housing Newspaper, our number of self-developed construction kickoffs was ranked first in Japan for five consecutive years since 2015. Our group has provided much support from selecting the most suitable land to financing owners who do not have land or have little capital. Since we have one of the best achievements in Japan, we have earned the trust of various financial institutions and have realized smooth financing.

Since the company provides a one-stop-shop spanning design to construction to sale, shortening the time required to construct a single building is important from the perspective of capital efficiency and business risk.

Real Estate Service Business

Lease management services for apartments and condominiums sold.

An application for building owners was released in January 2020 that allows them to visualize property revenue and the current state of the real estate they hold.

Wooden structures enabling flexibility and speed

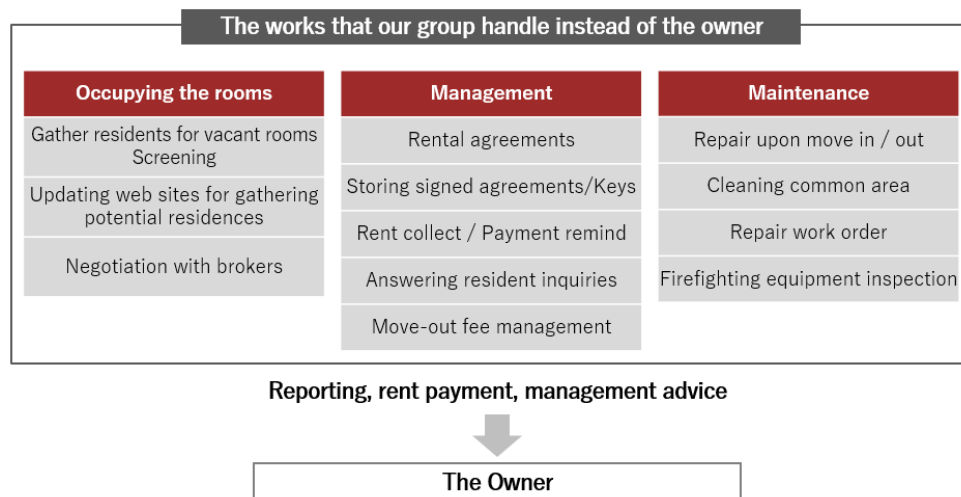
Since our Group handles everything from design to construction and sales in a one-stop manner, the period spent on one building must be shortened from the perspective of financial efficiency and business risk. Hence, we have provided housing centered on wooden buildings, which has the advantages of high design flexibility and short construction periods. As a result, it will be possible to recover the invested funds at an early stage, reduce the risk associated with changes in the economic environment, and provide owners with competitive profitable properties that match the shape of the land.

Recurring business, a strong revenue basis

Outline of the business

In this segment, we undertake all rental management operations mainly for apartments and condominiums sold by group companies, such as "tenant support," "building maintenance," "occupying vacant rooms," and "move-out payment," that are indispensable for rental management, and back up so that the owner does not have to bear the burden of rental management. In addition, the number of managed units is 38,317, which ranked first in terms of the number of managed units by a management company based in Kyushu (Rental Housing Newspaper No. 1422). In January 2020, we released a smartphone app that allows owners to visualize the profits of properties and the current state of the real estate they own. Going forward, we will continue to make improvements to provide more convenient services by using group synergies so that we can comprehensively support our customers from various angles. In addition to rental management, this business consists of business companies involved in condominium management, guarantee of rent, etc., small-amount short-term insurance, rental brokerage, asset management, and real estate technology. This segment covers approximately 20% of the consolidated sales and approximately 30% of the consolidated operating income.

Real Estate Service Business: Business content summary



Source: Shinoken group "Mid-long-term Vision 2020"

Shinoken G's lease management services are what support high occupancy rates.

Expected synergies with REITs

Occupancy rate exceeds 99%

The occupancy rate is supported by our group's rental management business. We provide comprehensive consulting from occupying the rooms to follow-up after tenants move in and restoration work when they move out. We have a specialized "owner's team" that supports owners in these tasks. In addition, to improve the occupancy rate, we have organized a specialized sales force and have built strong relationships with real estate rental brokers in each region. As a result, we ensure as few vacancies as possible, leading to a high occupancy rate. In addition, since residents' satisfaction level of residents is also an important factor, we regularly conduct questionnaire surveys on equipment and floor plans and conduct daily research. Through these actions, we are striving to make the property more comfortable for residents to live in.

As a sponsor of the REIT

We have established the real estate investment corporation "Shinoken REIT Investment Corporation" by concentrating the property development and management knowledge that our Group has cultivated since its establishment. Until now, we have proposed business models for investment apartment management and investment condominium management to individual investors (office workers). However, we will strengthen the supply of properties to the REIT as an additional sales channel. Raising a private REIT of 10 billion yen was completed in July 2020, and we are aiming to be listed on the Tokyo Stock Exchange after expanding the assets to about 30 billion yen by the end of 2021.

General Contractor Business

Founded in 1909
(Meiji 42)

Sales to clients
outside the group
have consistently
exceeded 80% of
total sales

Long history and promising technology

Outline of the business

In February 2014, we started the general contractor business by making Ogawa Construction, which was established in 1909, a wholly owned subsidiary. Sales, which were about 5.9 billion yen at the time of M&A, have grown to 23.2 billion yen,*³, which is four times the original amount, and this business accounts for about 25% of the consolidated net sales and about 15% of the consolidated operating income.*². We provide various corporate, individual, and government customers with integrated services from planning, design, and services related to construction in general to after-sales maintenance. The technical capabilities and trust of Ogawa Construction, which has been cultivated over 110 years since its establishment, are highly evaluated by all parties. In addition, sales outside our group constantly exceed 80% of total sales, and we are building a profit base that does not depend on our group (construction of condominiums developed by Shinoken Harmony).

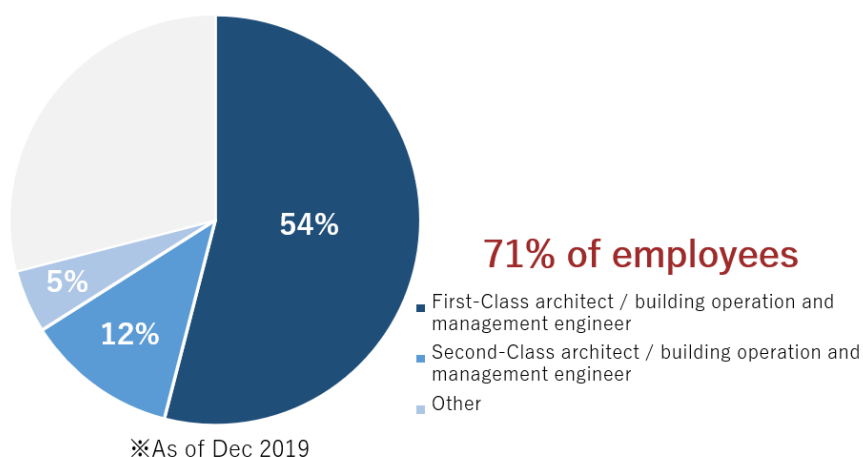
General Contractor Business: Business content

Business name	Contents
Construction contract	We consistently conduct planning, design, construction, and maintenance.
Architectural renewal	We conduct renovation, large-scale repairs, and seismic retrofitting.
Land usage	We propose plans that make the best use of land, from land effectiveness diagnosis to planning and design, and decision of business method choices.

Source: Shinoken group "Mid-long-term Vision 2020"

Highest ratio of qualified personnel in the contractor industry

Ratio of qualified personnel



Source: Shinoken group "Mid-long-term Vision 2020"

Ogawa Construction aims to "let customers leave the work to us with peace of mind" and "work from the customer's perspective." To achieve this, we have increased the number of qualified personnel and aimed to become professionals in the field. We are currently challenging all employees to obtain qualifications as we strive to develop more experts.

Construction projects over more than 110 years of history (Partial)

【Modern Bank Architecture and Registered Culture Property Architecture】



【Educational properties, factories, etc.】



【Condominiums】



Source: Shinoken group “Mid-long-term Vision 2020”

Energy business

The sales growth rate (CAGR) has been in excess of 40% for the past four years up to the end of FY2019

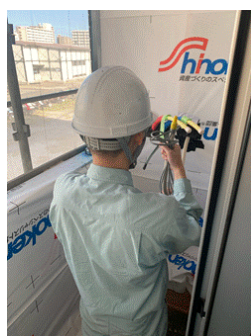
No accidents have occurred, demonstrating high safety levels

Another pillar of our recurring business

Outline of the Business

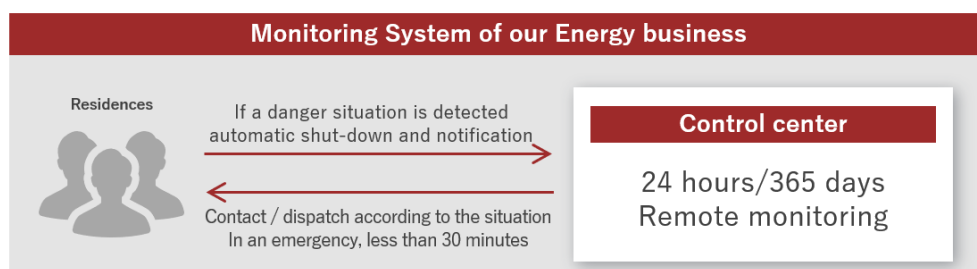
This segment engages in LPG retail (LP gas retail) and power retail (electricity retail) mainly for properties sold by our group. This business accounts for approximately 3% of the consolidated sales and approximately 7% of the consolidated operating income.^{*2} The compound annual growth rate (CAGR) for the last four years up to FY 2019 has exceeded 40%. This is one of the pillars that support our group's recurring business by selling energy while creating synergies with the rental management business of the real estate service business. As of the end of September 2020, LP gas and electricity were supplied to 37,636 households and 23,615 households, respectively. Stable growth has been achieved. With the establishment of a safety monitoring system that operates 24 hours/365 days, zero accidents have occurred since the business started, demonstrating high safety.

Work image



Source: Shinoken group "Mid-long-term Vision 2020"

Zero gas accidents since the start of business



Source: Shinoken group "Mid-long-term Vision 2020"

The strength of this segment is the safety management system, with zero gas accidents since the business started. The gas meter set in the room and the centralized control center are connected online. Moreover, we have constructed a remote safety monitoring system that works 24 hours, 365 days per year. This makes it possible to respond immediately in the unlikely event of a gas leak.

Life Care business

Maintaining a 99% occupancy rate at sites owned and operated by the company

The ability to provide services at low-cost and with high customer satisfaction

A field with high social demand




Outline of the business




In this segment, we mainly own and operate various elderly care facilities and provide services. As of the end of September 2020, the occupancy rate of the facilities owned and operated has been maintained at 99%. The contents of the operating facilities include "rental housing with elderly safety service," "serviced housing for the elderly," "day service," and "group home for dementia." In addition, we have begun to expand into new fields. In March 2020, we formed a capital and business alliance with YUTAKA COLLEGE, which conducts independence-training business and employment transition business for young people with intellectual disabilities. Moreover, in June 2020, we have opened "Kids Life," an after-school day service for children with disabilities.

Three companies work together to provide life support services at a reasonable price

This segment is operated by three group-operating companies: (1) Shinoken Wellness, which provides housing and day service facilities for the elderly with services; (2) Friend, which provides group homes and small-scale multifunctional home care facilities; and (3) AppleCare, which provides home care support, home-visit care support, and day services, including after-school services for kids. The synergy between these three companies allows us to provide services at reasonable prices with high customer satisfaction is possible.

Elderly care facilities of our Shinoken G

Serviced housing for the elderly Detailed support by the staff	Care staff present 24 hours/365 days Residences can feel free to consult the care staff anytime	Looking around and confirming safety Visiting the resident's room more than once everyday to check
Helping out with simple chores Simple daily life chores such as changing a light bulb	Making a social work plan According to the residence's lifestyle	Holding events To help the residences establish friendship
Family members can visit any time Family members are free to visit 24 hours/365 days	Front desk service Handling guests and mail for the residences	Meal (Able to choose from once a day) For those who wish, room delivery is also possible
Ju-life Takashimadaira (Tokyo) 	Ju-life Tokiwadai (Tokyo) 	Ju-life Aqua villa Kashiha (Fukuoka) 

Group Homes Elderly people with dementia for a small group of nine people, and we provide care so that they can live together in a safe and homy atmosphere		
<ul style="list-style-type: none"> Providing health care and cooperating with medical institutions Cooperating with hospitals nearby, thus providing comprehensive medical support There are home visits twice a month, and even in an emergency, contact to nurses and doctors can be done swiftly Night time emergency response Placing a night staff on each floor, making it possible to respond to sudden health state changes at night Dealing with Emergency Regularly running drills for evacuation in emergencies such as disasters Standardizing emergency protocols, making it smooth and speedy to secure manpower 		
Friend Takashimadaira (Tokyo) 	Friend Tennoji (Osaka) 	Friend Kasumigaoka (Fukuoka) 

Source: Shinoken group "Mid-long-term Vision 2020"

Plans to expand into areas of business with high social need, such as support for people with disabilities and human resource-related business

Addressing other social issues

Shinoken Wellness Co., Ltd., which develops the life care business of our group, entered a capital and business alliance with YUTAKA COLLEGE Co., Ltd. (hereinafter, "Yutaka College") and undertook a loan with stock acquisition rights of 200 million yen. Our group has provided services for the elderly, such as housing and day service facilities, and Yutaka College operates a "welfare college" for young people with intellectual disabilities. Taking the opportunity of this alliance with college, we aim to expand the field of life care from elderly care to life support services throughout.

In the long term, we plan to expand our business domain to areas with high social needs, such as employment support and human resources-related businesses. In promoting this plan, a high social need is considered to create an environment in which people with disabilities, who account for 7.4% of Japan's population, can play an active role. Therefore, with the support of our Group, Yutaka College plans to triple the number of operating facilities to approximately 30 facilities within 3 years and promote business development while taking IPO into consideration.

Disability care

For the growing social demand

**"Kids Life",
A daycare service for children with disabilities**



"YUTAKA COLLEGE" (Alliance)



<https://yutaka-college.com/>



Source: Shinoken group "Mid-long-term Vision 2020"

Other Business (Overseas)

Outline of the Business

In this segment, we are mainly engaged in the real estate business in Asia (China) and Southeast Asia (Singapore, Indonesia). In China and Singapore, we mainly provide rental brokerage to Japanese expatriates and sales brokerage of Japanese real estate to local wealthy people. In Indonesia, PT. Shinoken Development Indonesia (SKDI) will develop and manage the serviced apartment "Sakura Terrace" series in central Jakarta, and the local general contractor subsidiary PT. Mustika Cipta Kharisma will undertake the construction of Sakura Terrace while also conducting private and public construction projects. Moreover, PT. Shinoken Asset Management Indonesia (SAMI) is the first foreign-affiliated company in Indonesia to obtain a license for investment management business and is steadily organizing projects toward the start of our financial business. In this way, we have established a comprehensive system from real estate development to construction, operation/management, and exit strategy in Indonesia. Furthermore, the lofted living room of "Sakura Terrace" has been officially certified as intellectual property by the Indonesian government.

Global Business Network of our group
















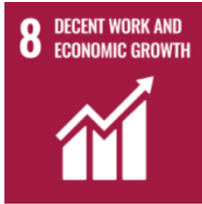


Source: Shinoken group "Mid-long-term Vision 2020"

4. SDGs

Shinoken G supports the United Nations Sustainable Development Goals (SDGs) and is developing the following initiatives that contribute to its achievement. We believe that such efforts will improve sustainability and contribute to the improvement of corporate value.

Contribution to SDGs throughout the Group's business

Business area	Contents and the relating SDGs
Wooden Apartment	<ul style="list-style-type: none"> Reduction of CO2 emissions due to the short construction period CO2 absorption/storage effect (about four times that of steel structures) Efforts to recycle waste wood Realization of carbon neutrality   
Construction	<ul style="list-style-type: none"> Safety construction method, safety management standard Active use of recycled aggregate Raw material traceability implementation   

Business area	Contents and the relating SDGs
Sales service	<ul style="list-style-type: none"> • Support for foreigners moving in to the rooms our group manages • Support for low-income elderly people • Employment support • Development and creation of long-term care personnel • After-school day service for children with disabilities • Started EV conversion of company-owned vehicles • Formation and sales of investment trusts in developing countries (financial Inclusion) <div>     </div>
Indirect operations	<ul style="list-style-type: none"> • New graduate scholarship repayment support (poverty problem) • Benefit-type scholarship (no repayment required) – Benefits at Shinohara Foundation • Promotion of female managers • Promotion of employment of people with disabilities • New life support system • Acceptance of technical intern trainees from overseas <div>     </div>
Corporate social responsibility	<ul style="list-style-type: none"> • In response to the global issue of rainforest decline problem • Planting trees in rainforests in Indonesia (planned) • Carbon offset actions started about carbon offset <div>   </div>

Source: Shinoken group "Mid-long-term Vision 2020"

5. Structured by GCC Management TM and Management Design Sheet

Structured by GCC ManagementTM

The company is expected to strike a good balance between the three elements of Growth, Connection, and Confidence

Structuring value creativity with GCC management TM

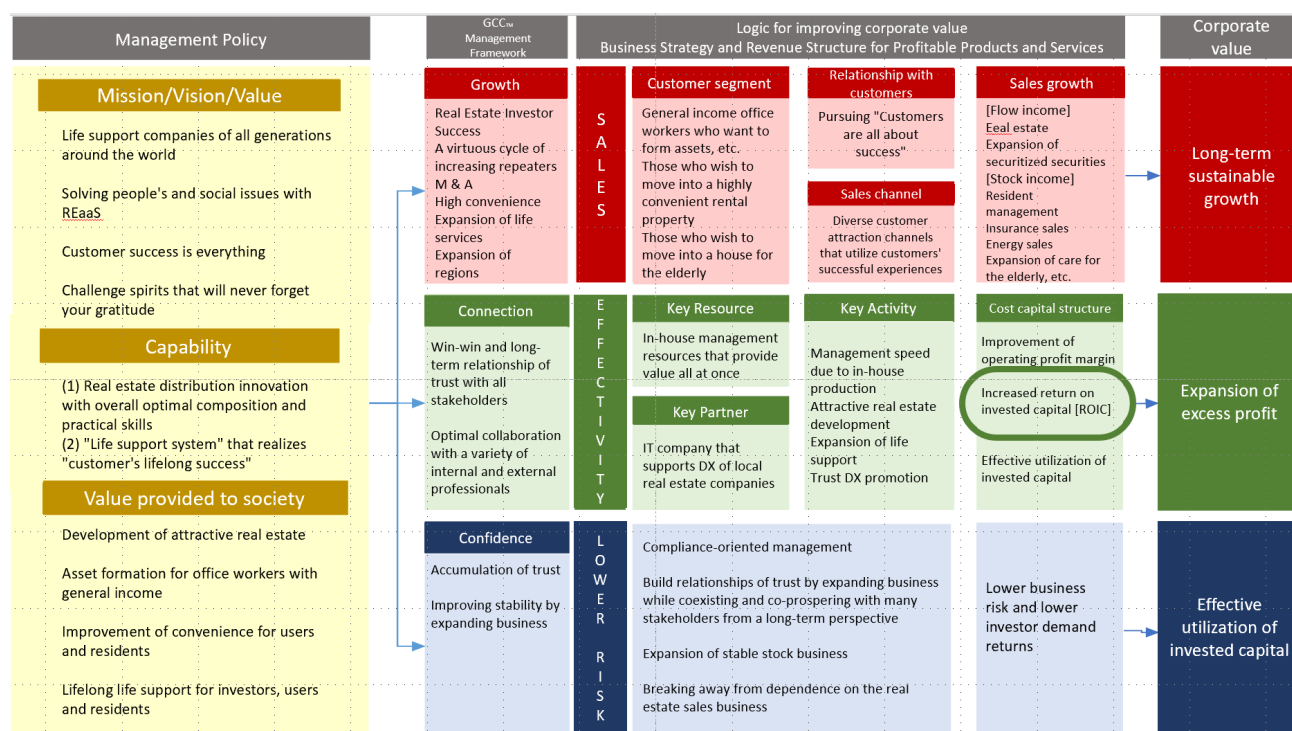
It is as follows when organized from three perspectives in a big flow.

Growth: The ability to develop highly convenient real estate creates a virtuous cycle of increasing repeaters due to successful real estate investment. Promote M&A with abundant cash flow, expand life support services for customers, promote expansion of successful models in Japan and overseas, and achieve sales growth.

Connection: Improve profitability by providing attractive value through long-term win-win and long-term relationships of trust with all stakeholders and optimal collaboration with various internal and external professionals. Achieve high ROIC by operating the business with increased asset turnover and less invested capital than sales.

Confidence: Build relationships of trust with stakeholders. Business expansion. Realized reduction of business risk by expanding stock business.

Structuring value creativity through Shinoken G's GCC managementTM



Source: JPR

Structured by management design sheet

Management design sheet

What is a management design sheet?

The management design sheet is a "tool for designing management by accurately evaluating the role that intellectual property plays in the value creation mechanism of a company" created by the Secretariat for Promotion of Intellectual Property Strategy of the Cabinet Office*. The socio-economic environment is changing from the 20th century type, in which a stable supply of goods drives the market, to the 21st century type, in which the diverse values of users seeking experience and empathy drive the market. The role played by intellectual property, which is the source of the economy, is increasing, and it was developed based on the wisdom of experts and practitioners in various fields in order to visualize such movements, and was announced in June 2018. Cutting-edge knowledge for designing management is condensed in this framework; it allows the visualization and design of the value creation mechanism that can be the future management foundation for the sustainable growth of the company, and the number of cases of its use in the company is increasing. With this one sheet, one can get a bird's-eye view of the management of a company that is conscious of the time axis, and it becomes easy to be aware of the relationship between "resources," "business model," and "value."

In order for companies to appeal to the diverse values of users, it is necessary to flexibly and continuously design the value creation mechanism to create innovation. For that purpose, intellectual property accurately plays a role in the value creation mechanism. Expected to be evaluated. Companies that can organize their management strategies based on the concept of the management design sheet can be considered to have a strategy built without exception in the 21st century logic. Shinoken G can also be organized consistently, as shown on the next page.

* See https://www.kantei.go.jp/jp/singi/titeki2/keiei_design/index.html.



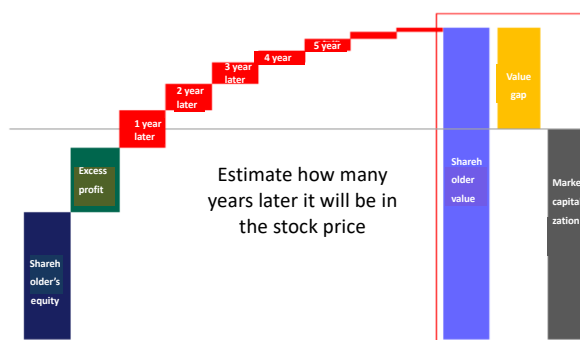
Supplementary material 1: Framework for valuation based on excess profit

Corporate
value
estimated by
use of ROIC and
excess return

Excess return analysis framework

Excess profit or economic value added is widely used worldwide as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued when its market cap is higher than its theoretical corporate value, and undervalued when the market cap is lower. The contribution of each year's corporate value can be visualized in the following figure, in which shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated in the stock price.

Breakdown of corporate value using excess return



Source: JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets that are not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated by using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- Excess return = NOPAT – Invested capital X WACC
- Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- Invested capital = Total assets – Non-business assets – Current liabilities excluding interest-bearing debt
- Non-business assets = Cash and deposits that exceed 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X $\frac{D}{(E+D)}$ + Cost of shareholders' equity X $\frac{E}{(E+D)}$
- Cost of shareholders' equity = $0.5\% + 5\% \times \beta$
- β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company
- E = Market cap at the time of calculation
- D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

Supplementary material 2: Industry-specific corporate value analysis report

The following is an excerpt of the industry-specific corporate value evaluation report issued by JPR on October 28, 2020.

(https://www.j-phoenix.com/report/jpr_industryreport_condominium_development_20201028/)

As this report is highly relevant and the conclusions still valid, I updated a part of it, deleted the part that overlapped with the text, and reprinted it.

Industry-classified analysis report about corporate value Condominium development/sales/real estate agency

Written by J-Phoenix Research, Inc.

Analysis based on the scenario of the double market capitalization compared to the present.

In this report, J-Phoenix Research Co., Ltd. (JPR) ranks by ROIC for each specific industry and shows the prerequisites for the double market capitalization of the top companies below. We target companies with company planned sales of 30 billion yen or more in classified as condominium development/sales/real estate agencies in the industry classification by Nikkei at the time of analysis. (Closed on October 20, 2020)

List of companies to be analyzed

code	name	company overview	Last fiscal year	Last term sales	Planned sales for this term	Last term operating income	Company plan operating income	Profit for the previous period	Company plan net income	Market Value	Profit-based PER for the previous period
8928	Anabuki Kosan	Engaged in real estate related businesses centered on condominium sales such as the "Alpha" series and real estate brokerage in the Chugoku and Shikoku regions.	2020/06	95,379	99,000	5,744	4,500	3,282	2,700	18,803	7.0
8881	Nisshin Group HD	A condominium developer business that plans and sells condominiums, rents and manages real estate, etc., based in the Tokyo metropolitan area.	2020/03	82,116	75,000	5,058	3,800	3,949	2,000	18,921	9.5
3244	Samty	"Comprehensive real estate business". Based on rental income, it plans, develops and sells rental condominiums, manages assets, manages properties, manages properties, and plans, develops, owns and operates business hotels.	2019/11	85,552	95,500	15,395	15,300	9,740	9,100	72,277	7.9
8877	ESLEAD CORPORATION	A condominium developer based in Kansai.	2020/03	61,638	64,000	7,948	7,200	5,070	4,050	20,971	5.2
8935	FJNext	Planning, development and sale of urban condominiums mainly for asset management in the Tokyo metropolitan area.	2020/03	84,840	71,000	10,412	7,500	6,732	5,000	33,850	6.8
8892	Escon Japan	Real estate developer business that develops commercial development, hotel development, etc. with the development of condominiums at the core	2019/12	72,106	86,000	12,912	13,300	8,155	8,500	62,661	7.4
8850	STARTS CORPORATION	The rental brokerage business and the sales brokerage business will open a real estate business store "Pitot House", manage rental apartments and condominiums, and sell housing.	2020/03	209,091	190,000	23,912	15,500	15,059	11,500	146,605	12.7
3491	GA technologies	Operates "RENOSY" that matches used real estate with those who wish to purchase it on its website.	2019/10	39,286	61,000	1,193	1,800	510	770	84,740	110.1
8909	Shinoken Group	The main business is the real estate sales business, which proposes investment apartment management for the purpose of "asset building" for office workers.	2019/12	95,787	96,000	9,754	10,500	5,875	5,900	40,382	6.8

Source) Created by JPR from FactSet, Nikkei Needs data, as of November 20, 2020, all sources are the same.

■ Important message

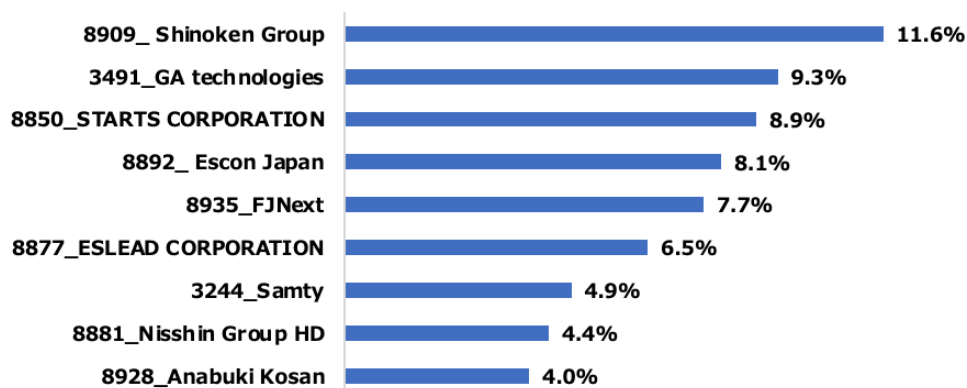
At the time of analysis (2020/10/20), we analyze the following three companies according to ROIC ranking based on each planning company, especially based on the scenario of double market capitalization compared to the present; the first place is Shinoken Group Co., Ltd. (policy number: 8909), the second is GA technologies (3491), and the third place ES-CON JAPAN Ltd. (8892). As a result, we conclude that these three companies can realize the scenario of double market capitalization. When ranking the feasibility of the scenarios, the order is Senario Shinoken Group Co., Ltd.> ES-CON JAPAN Ltd.> GA technologies are.

■ Feasibility of the scenario of the double market capitalization

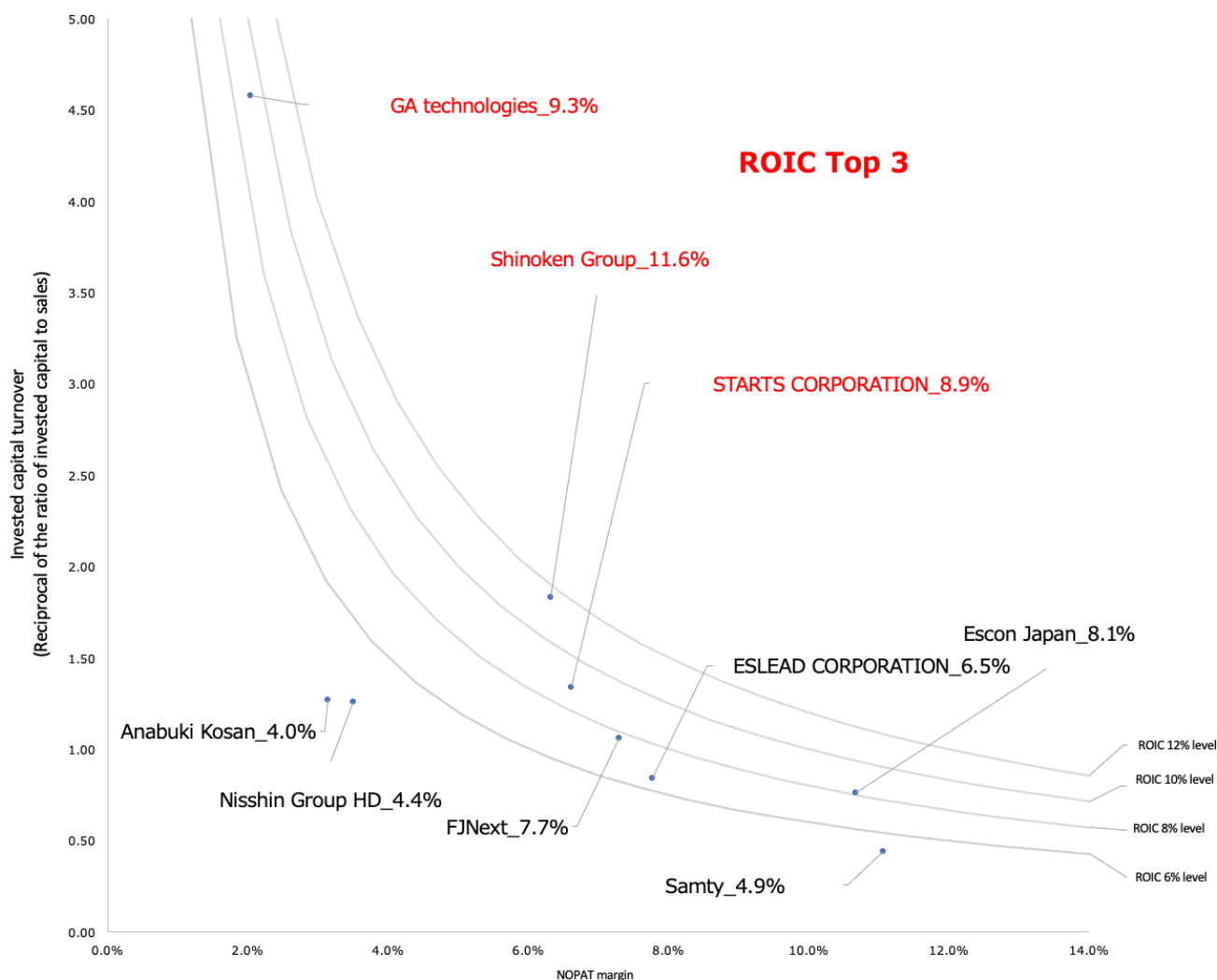
The stress test indicates that Shinoken Group Co., Ltd. is the most feasible of the three companies. Even if profits declined by 10% compared to the company's plan in the fiscal year ending December 2020 (then decreased by 10% from the forecast until 2031) and sales decreased by 5% (similarly, the shareholder value decreased by 5%), shareholder value was estimated to be more than double the market capitalization.

Shinoken Group Co., Ltd. has a strong image of an "apartment" and seems to be underestimated due to fraudulent issues in the industry. However, when analyzing the latest releases and explanatory materials in recent years, it has a wide range of business structures, such as nursing care and energy business. We are also focusing on real estate technology and achieving results overseas (especially in Indonesia). When these objective facts are widely recognized by general investors, it can be said that the double scenario is fully feasible.

■ ROIC (Invested capital is at the end of the last quarter, operating income after tax is based on the current plan)



ROIC = NOPAT Margin x Invested Capital Turnover
(Company name_ROIC)



(Source) Created by JPR from FactSet, Nikkei Needs data, as of November 20, 2020, all sources are the same.

8909: Shareholder value of Shinoken Group Co., Ltd. = Double market capitalization scenario

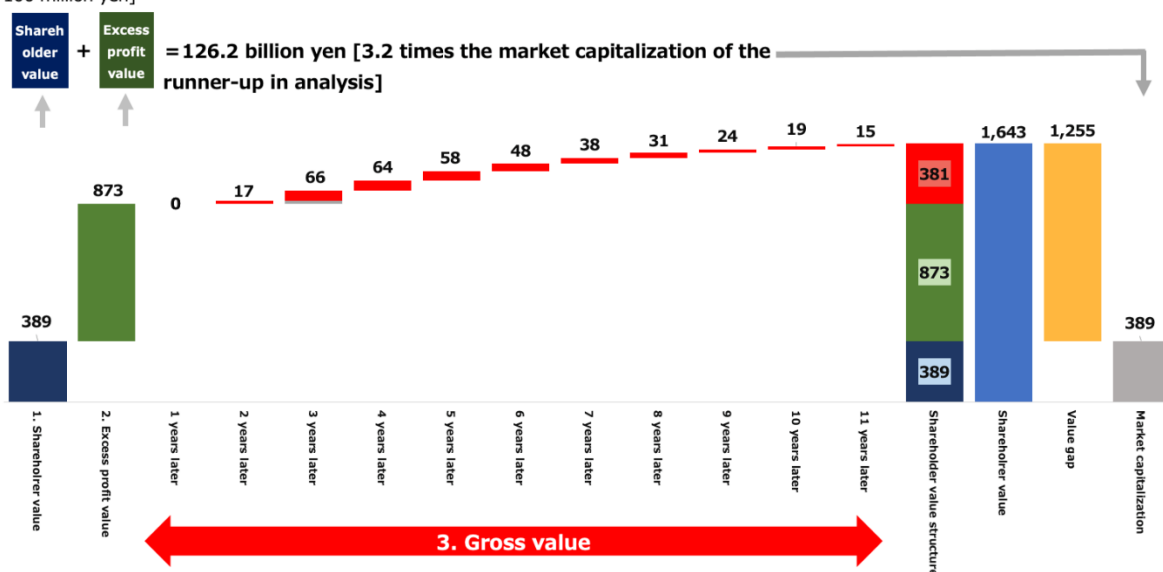
Simulation based on the Company-planned value: The assumption of WACC 5%

Even if it does not grow after the fiscal year ending December 2021, the shareholder value is estimated to be 3.2 times, and the double scenario will have been achieved.

Despite being the top ROIC in the industry, Shinoken Group Co., Ltd. (8909), the PBR is less than 1 times, which leads to cheaper stocks. The reason for this is that sales in FY12/2019 were -14% YoY. This is evaluated as low by investors, and it is estimated that the excess profit value of 87.3 billion yen + the book value of shareholders' equity of 38.9 billion yen (=shareholder value is zero growth) is 126.2 billion yen, but the market capitalization is less than 40 billion yen.

Based on Company-planned value: Current shareholder value VS Market capitalization analysis (Closed on October 20, 2020)

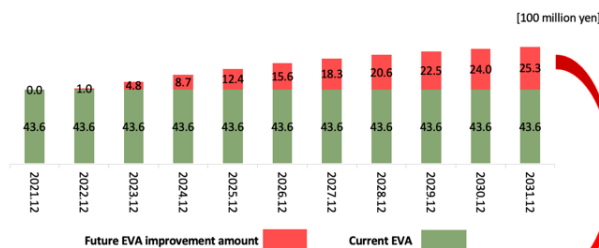
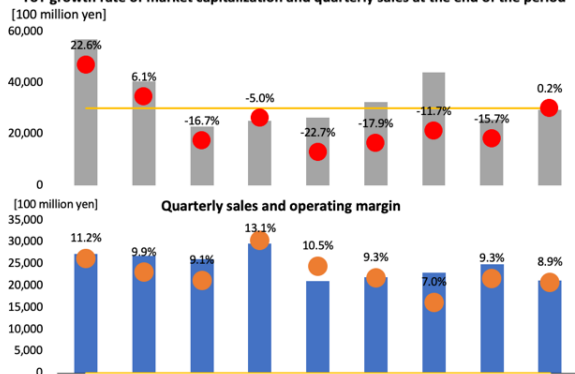
[Unit: 100 million yen]



	JPR forecast 1 year later	JPR forecast 2 year later	JPR forecast 3 year later	JPR forecast 4 year later	JPR forecast 11 year later
year	2021.12	2022.12	2023.12	2024.12	2031.12
Sales	1,020	1,230	1,338	1,444	1,901
Y-o-Y growth rate	0.0%	20.6%	8.8%	7.9%	1.9%
Operation profit	105.0	115.0	125.0	135.0	177.8
Operating profit margin	10.3%	9.3%	9.3%	9.3%	9.3%
NOPAT	72.6	79.5	86.4	93.3	122.9
NOPAT margin	7.1%	6.5%	6.5%	6.5%	6.5%
Invested capital / sales	56.8%	56.8%	56.8%	56.8%	56.8%
ROIC	12.5%	11.4%	11.4%	11.4%	11.4%
Effective tax rate	30.9%	30.9%	30.9%	30.9%	30.9%
WACC	5.0%	5.0%	5.0%	5.0%	5.0%

	2016.12	2017.12	2018.12	2019.12	2020.12
Sales	813	1,059	1,114	958	1,020
Growth rate	47.6%	30.3%	5.1%	-14.0%	6.5%
Operation profit	105.7	129.2	118.4	97.5	105.0
Operating profit margin	13.0%	12.2%	10.6%	10.2%	10.3%
NOPAT margin	9.0%	8.4%	7.4%	7.1%	7.1%
Invested capital / sales	51.2%	53.6%	59.0%	77.0%	56.8%
ROIC	17.6%	15.7%	12.5%	9.2%	12.5%

YoY growth rate of market capitalization and quarterly sales at the end of the period



Present value of future EVA improvement = growth value 38.1 billion yen

The growth rate beyond the above period will decrease by 20%, and the growth value is estimated on the assumption that the growth will be zero in 2028.

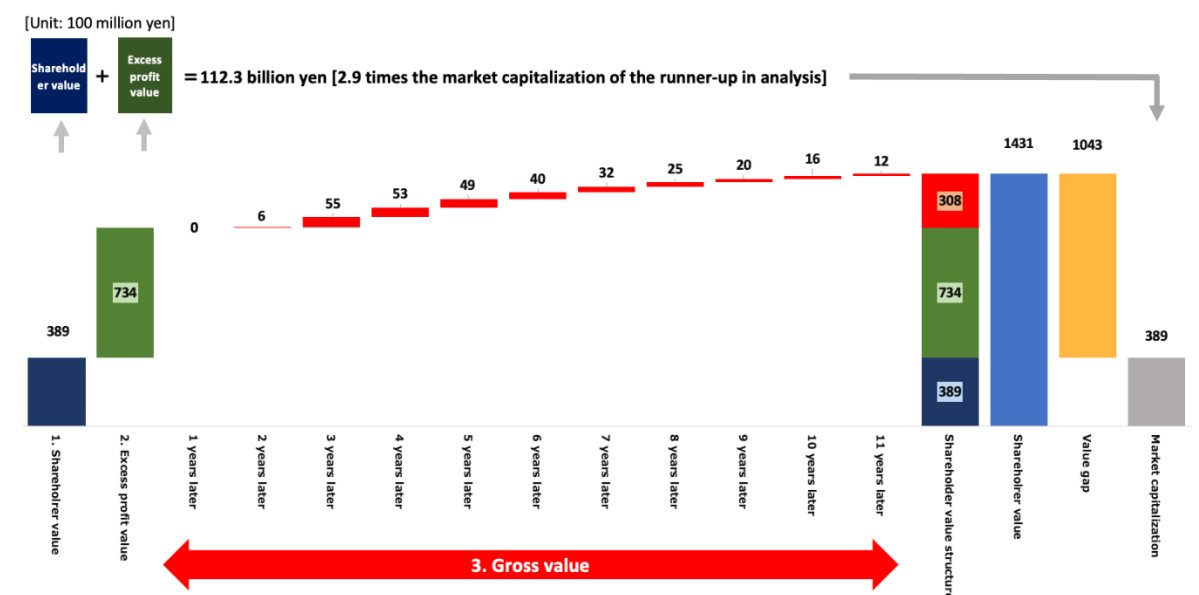
[Created using FactSet, Nikkei Needs, company disclosure materials, etc., as of October 20, 2020]

8909: Stress test of Shinoken Group Co., Ltd.

Stress test: Operating income decreased by 10% from the company plan, and then decreased by 10% (WACC 5%)
Shareholders' equity + excess profit value is estimated to be 2.9 times the market capitalization. Achieved double scenario even in the stress test.

Based on the assumptions discussed on the previous page (company forecasts up to 11 years after 2031), we conducted a stress test assuming that operating income would decrease by 10% and sales would decrease by 5% until 2031. Even so, the sum of excess profit value + book value of shareholders' equity is 112.3 billion yen, which is 2.9 times the market capitalization at the time of analysis. Even if the company's plan falls by 10%, it can be said that double the market capitalization is theoretically feasible. (the simulation analysis of "shareholder value = market capitalization double scenario" is omitted.)

Stress test: Current shareholder value VS Market capitalization analysis (Closed on October 20, 2020)

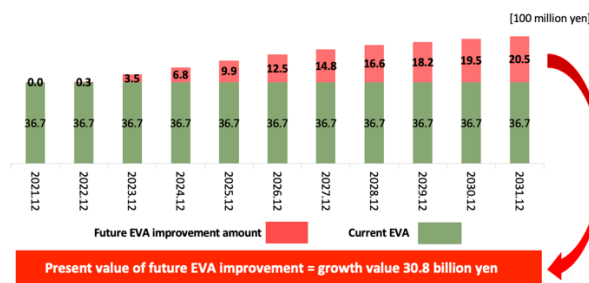
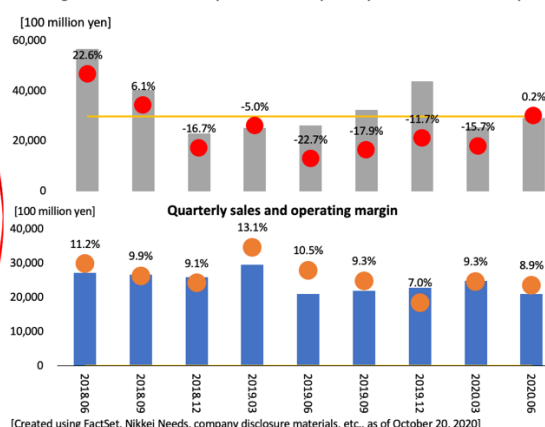


	JPR forecast 1 year later	JPR forecast 2 year later	JPR forecast 3 year later	JPR forecast 4 year later	JPR forecast 11 year later
year	2021.12	2022.12	2023.12	2024.12	2031.12
Sales	969	1,169	1,271	1,372	1,806
Y-o-Y growth rate	0.0%	20.6%	8.8%	7.9%	1.9%
Operation profit	94.5	103.5	112.5	121.5	160.0
Operating profit margin	9.8%	8.9%	8.9%	8.9%	8.9%
NOPAT	65.3	71.6	77.8	84.0	110.6
NOPAT margin	6.7%	6.1%	6.1%	6.1%	6.1%
Invested capital / sales	59.1%	59.1%	59.1%	59.1%	59.1%
ROIC	11.4%	10.4%	10.4%	10.4%	10.4%
Effective tax rate	30.9%	30.9%	30.9%	30.9%	30.9%
WACC	5.0%	5.0%	5.0%	5.0%	5.0%

Stress test

	2016.12	2017.12	2018.12	2019.12	2020.12
Sales	813	1,059	1,114	958	969
Growth rate	47.6%	30.3%	5.1%	-14.0%	1.2%
Operation profit	105.7	129.2	118.4	97.5	94.5
Operating profit margin	13.0%	12.2%	10.6%	10.2%	9.8%
NOPAT margin	9.0%	8.4%	7.4%	7.1%	6.7%
Invested capital / sales	51.2%	53.6%	59.0%	77.0%	59.1%
ROIC	17.6%	15.7%	12.5%	9.2%	11.4%

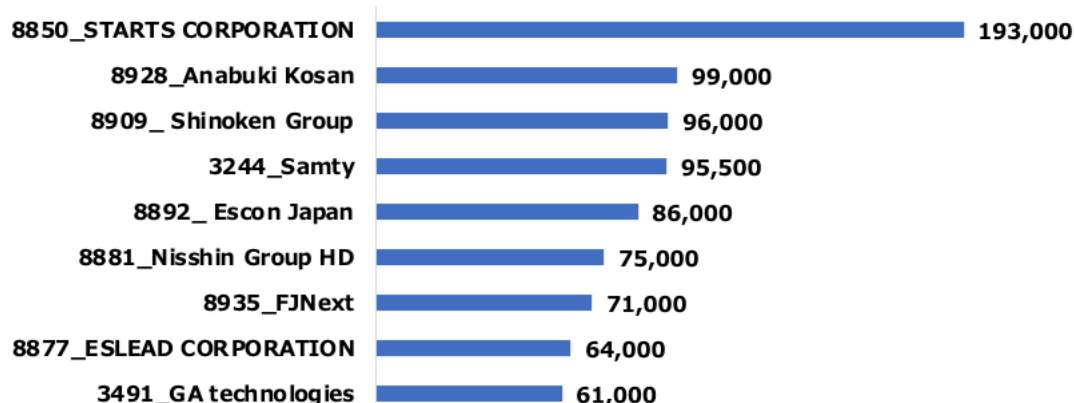
YoY growth rate of market capitalization and quarterly sales at the end of the period



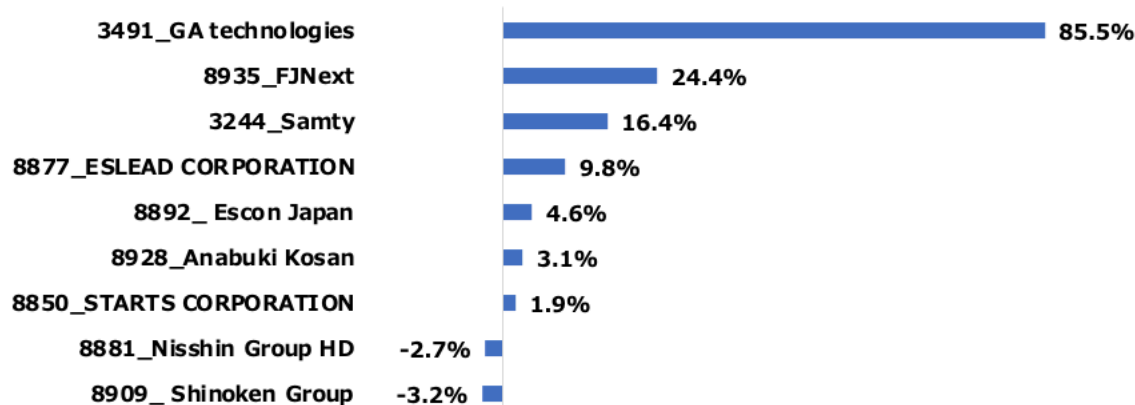
The growth rate beyond the above period will decrease by 20%, and the growth value is estimated on the assumption that the growth will be zero in 2028.

Shareholder Value Index Ranking (as of November 20, 2020)

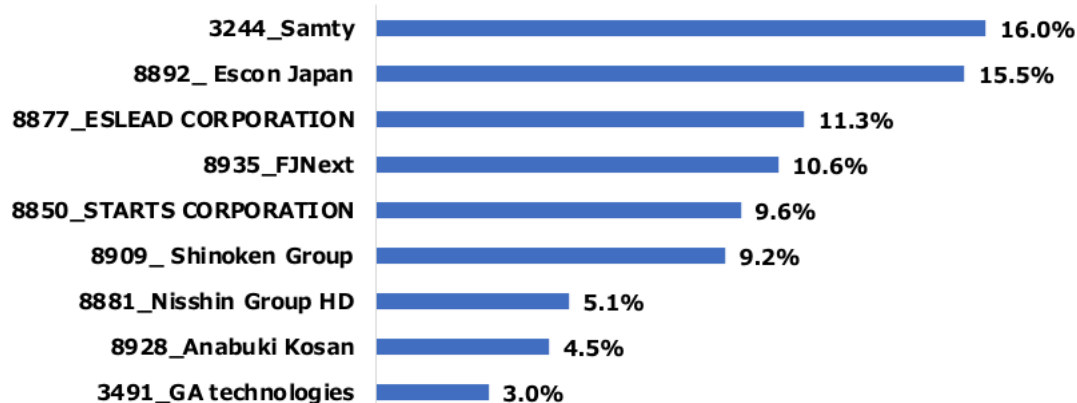
Company plan / sales for this term (million yen)



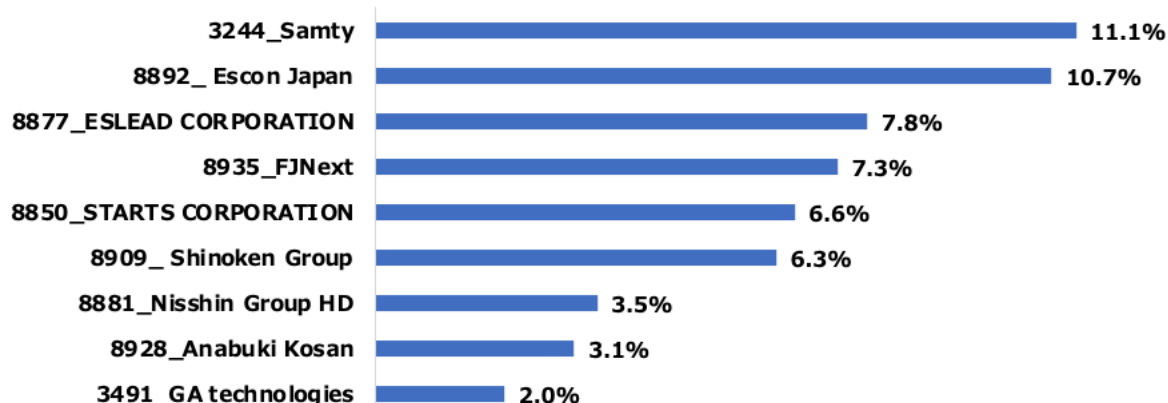
Sales growth rate (2nd term before to this term, annualized)



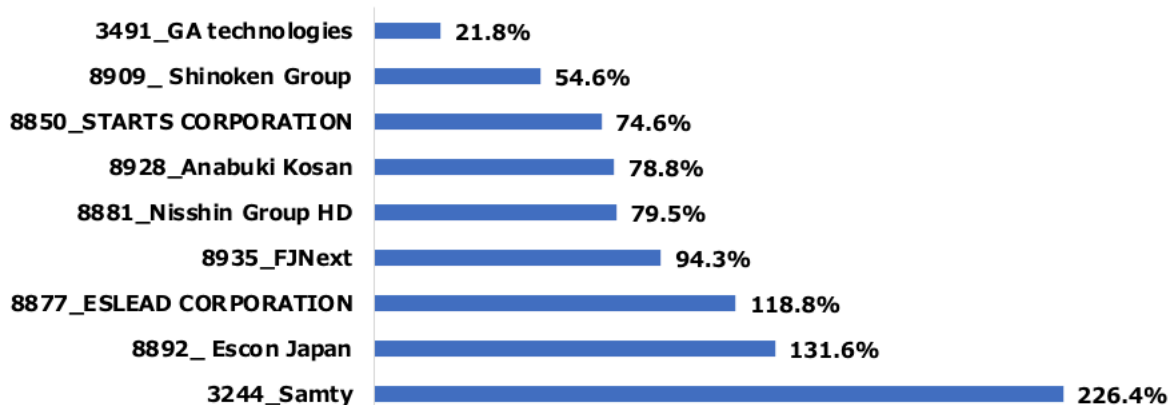
Operating income margin (company plan for this term)



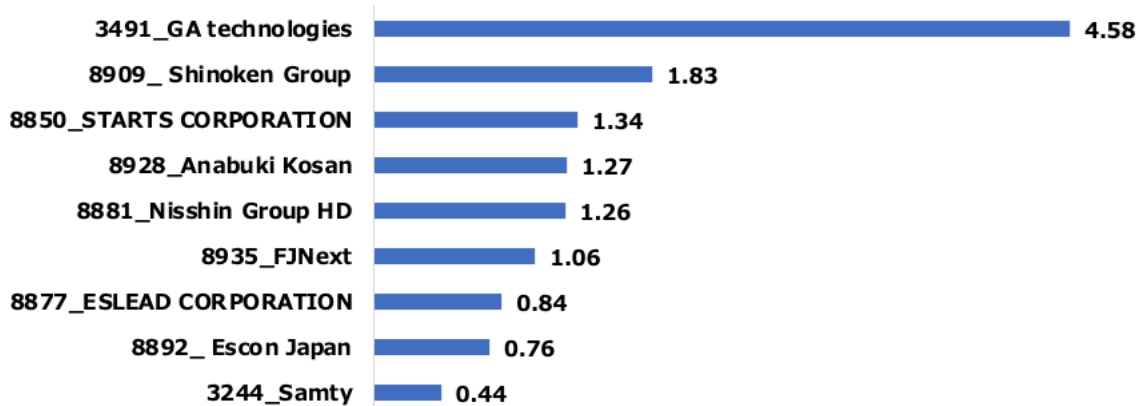
After-tax operating income margin (company plan for the current term)



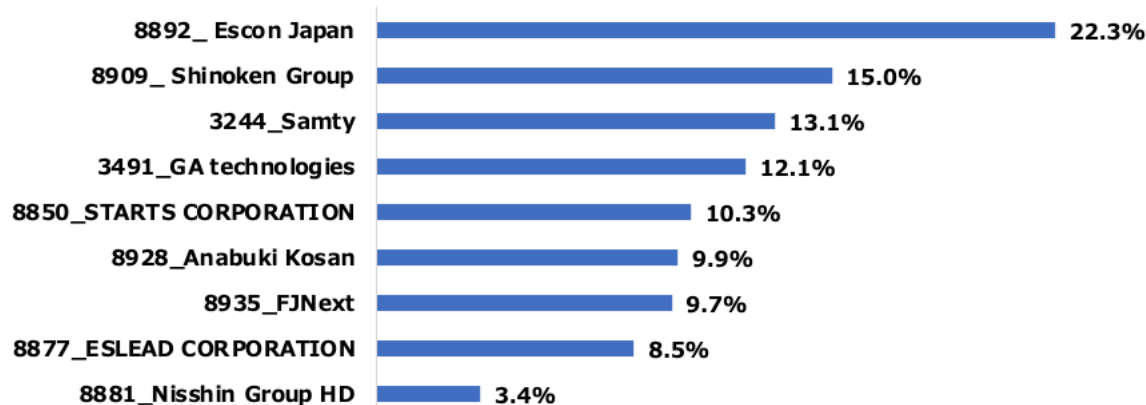
Invested capital to sales ratio (Invested capital is at the end of the last quarter, sales are based on the planned value for this term)



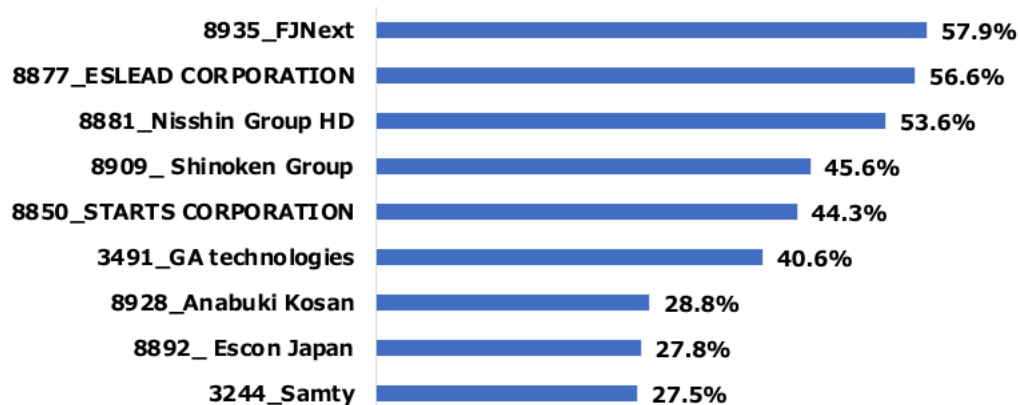
Invested capital turnover period (Invested capital at the end of the most recent quarter, sales based on this term's plan)



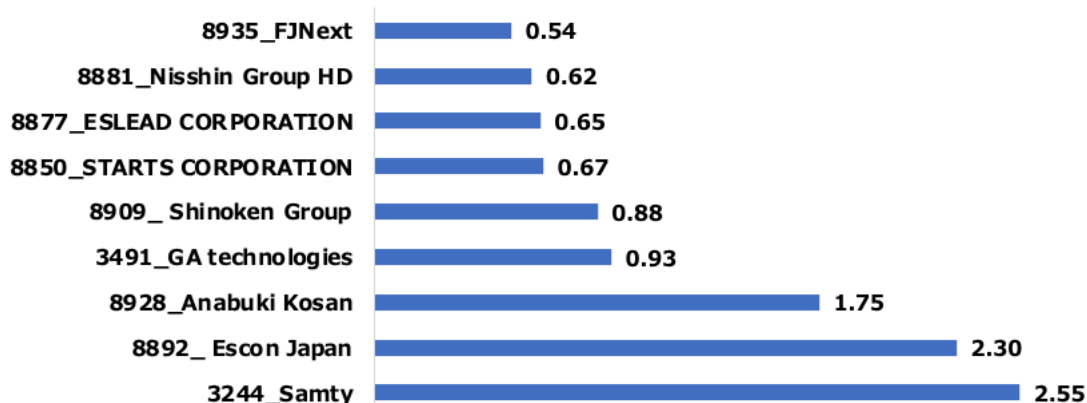
ROE (Invested capital is analyzed based at the end of the most recent quarter, and operating income after tax is analyzed based on this term's plan)



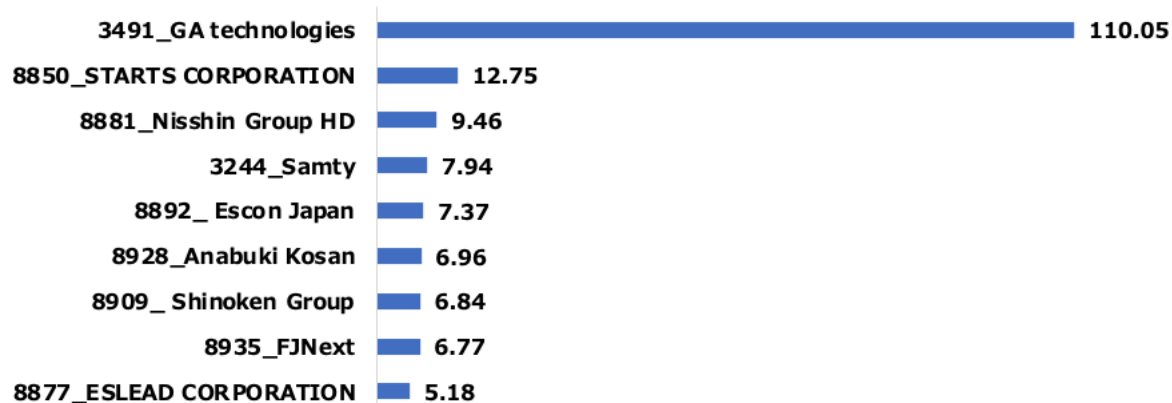
Shareholders' equity ratio (end of last quarter)



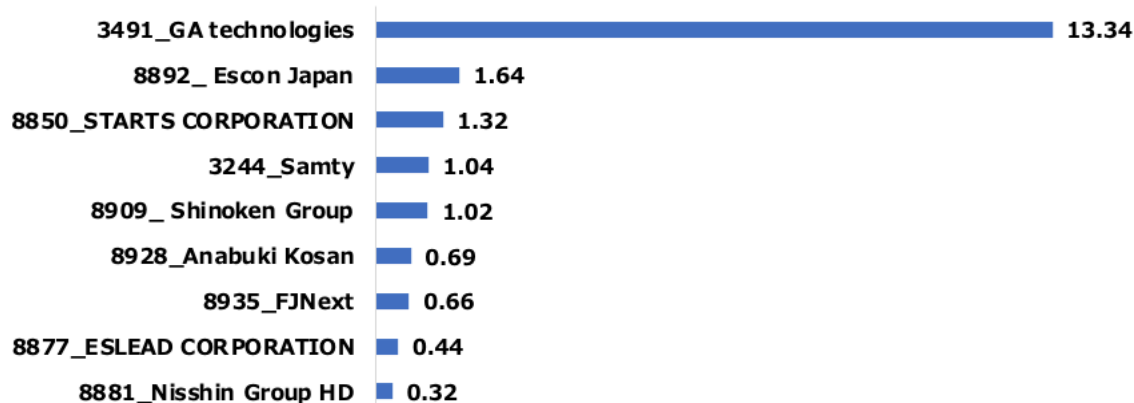
Debt to Equity ratio (double, end of last quarter)



PER (double, market capitalization closing price on October 20, 2020, net income based on company plan for this term)



PBR (double, market capitalization closing price on November 20, 2020, market capitalization ÷ market capitalization basis at the end of the previous quarter)



Appendix 1: What is the element of shareholder value?

It is useful to organize shareholder value with the following four factors.

1. Achieving high sales growth
2. Achieving high profit margins
3. Earning more sales with less capital
4. Lowering business risk

In addition, when ② and ③ are combined, it can be rephrased as obtaining higher profits with less capital. Each measurement method is as follows:

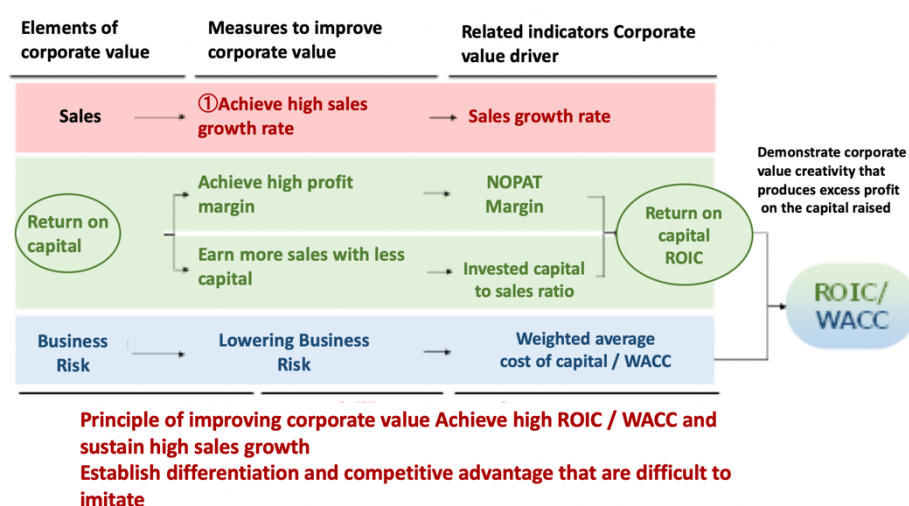
- ① = Sales growth rate
- ② = NOPAT margin (operating margin after tax)
- ③ Invested capital sales ratio
- ④ = weighted average cost of capital (WACC)

Return on invested capital (ROIC) is calculated as ②/③, which allows **the profitability of invested capital** to be determined. ROIC/WACC also shows **the creativity of corporate value** that generates excess profit for the capital raised.

In order to improve corporate value, it is necessary to achieve higher ROIC/WACC and establish a difficult-to-mimic differentiation and competitive advantage that sustains higher sales growth.

Elements of corporate value and the basic principles for improving corporate value

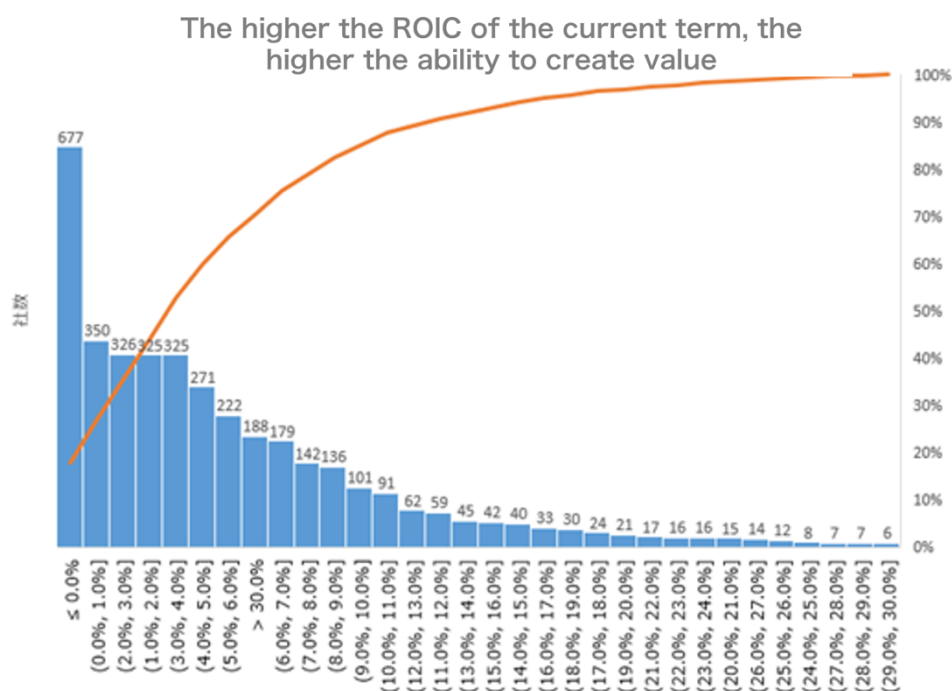
Elements of corporate value and major principles for improving corporate value



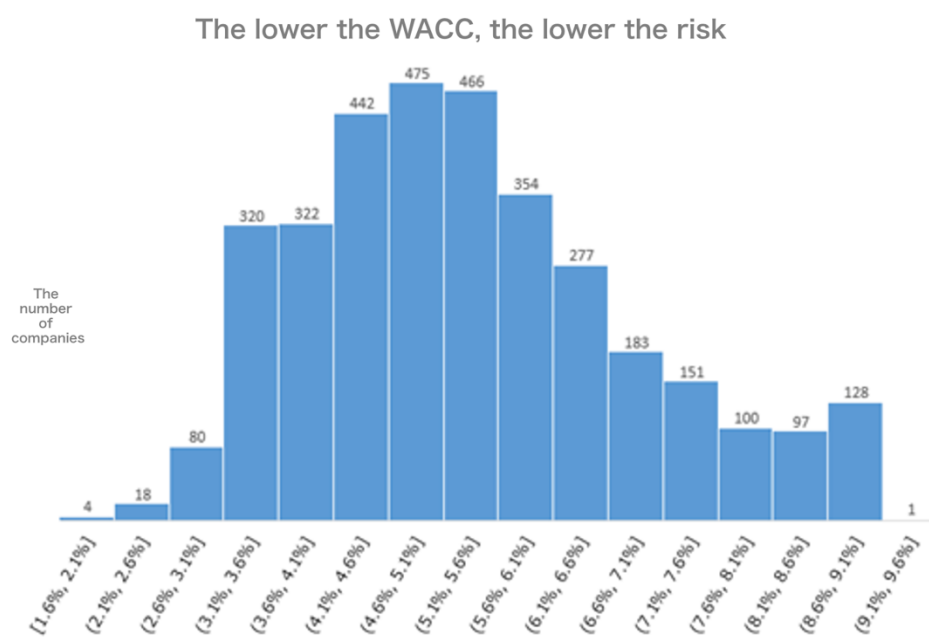
Source: JPR

Appendix 2: ROIC, WACC distribution of Japanese

ROIC distribution



WACC distribution



Target: Listed companies excluding the financial sector among companies that have announced plans in black as of October 20

Appendix 3: GCC management™

GCC
management™

Connecting the five
elements of
Maslow's desire
with the three
elements of
corporate value

What is an analytical framework of the GCC management™?

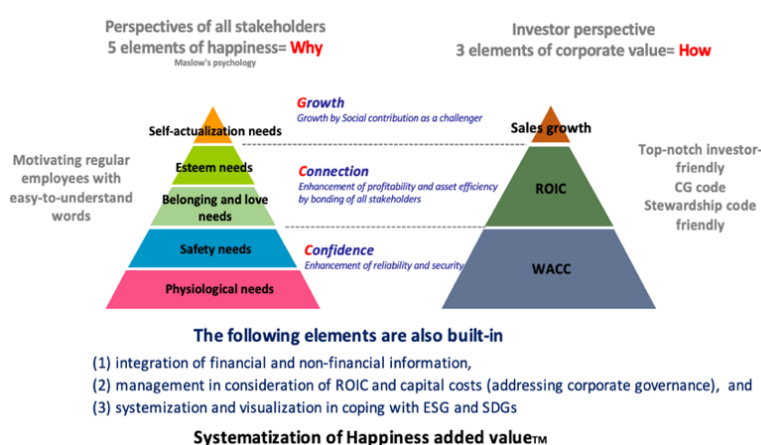
Integrating financial and non-financial information that captures the hearts and minds of all stakeholders

The GCC management® is an analytical framework developed by J-Phoenix Research in order to evaluate the sustainability of shareholder value by integrating non-financial information and financial information with a focus on the happiness of all stakeholders. The happiness of investors is measured by a framework of three elements of corporate value, while the happiness of employees is measured by the five-tier model of human needs, created by the prominent American psychologist Abraham Maslow. People typically feel happy when their five needs are satisfied. A company with a built-in framework to raise its employees' happiness can be determined to be more sustainable than a company with the same shareholder value but without such a framework.

The concepts that associate the five levels of needs with the three factors of corporate value are Growth (in sales), Connection (of people and businesses, leading to improve Return on Invested Capital), and Confidence. JPR has defined "Excess return generated from a strategy that incorporates the enhancement of happiness of all employees under the GCC concept" as Happiness Value Added®. The enhancement of happiness is "why such a company exists," the *raison d'être* of the company, while the viewpoint of corporate value is "how the enhancement of happiness is associated with its value." The use of this framework makes it easy to explain the concept of creating corporate value to its employees. Moreover, this facilitates the disclosure of non-financial information, which is required for complying with the Stewardship Code. It also facilitates (1) the integration of financial and non-financial information, (2) management in consideration of ROIC and capital costs (addressing corporate governance), and (3) systemization and visualization in coping with ESG and SDGs.

*ESG is an acronym for Environment, Social, and Governance. The idea that ESG's three perspectives are necessary for the long-term growth of a company is spreading worldwide. The SDGs were adopted at the United Nations Summit in September 2015 and are the goals set by 193 UN member states to achieve in the 15 years from 2016 to 2030. Since both are emphasized by long-term investors, it is expected that long-term investors' equity investment will increase for listed companies that are highly evaluated from these two perspectives.

Analysis of corporate value creation by GCC Management™ that attracts stakeholders



Source: JPR

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