Luckland / 9612

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Research Coverage Report by Shared Research Inc.

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- Luckland is a commercial display company that handles design and production work for stores and other commercial facilities, and also installs ancillary equipment. With annual revenues of some JPY40–50bn, Luckland is a mid-tier player in the commercial display industry. Established in 1970 as a wholesaler of commercial refrigerators and frozen-food showcases, the company started out installing refrigeration and kitchen equipment for supermarkets and restaurants, then expanded its operations to include store interiors. Luckland is a unique company that differs from its peers such as Nomura Co., Ltd. (TSE1: 9716) and Tanseisha Co., Ltd. (TSE1: 9743) in that its main scope of business encompasses not only interior design, but also the installation of commercial freezers/refrigerators, kitchen and other equipment, and the construction of entire buildings.
- At its main business, the company works directly for the owners of commercial facilities and stores. In newer business fields, such as building systems (MEP [mechanical, electrical, plumbing] and other systems), Luckland sometimes works as a subcontractor for general contractors. Revenue per project can range from as little as JPY20,000 to JPY30,000 to more than JPY2.0bn, with 80% of projects generating revenue of less than JPY3mn.
- When the current President Mochizuki took the reins of the company in 2004, Luckland changed direction in favor of growing by moving into new business areas, and since that time has pursued a proactive growth strategy. Consequently, revenue has increased at an average annual rate of 8.0% over the past five years (FY12/15–FY12/19). Luckland has grown its business by expanding both the type of customers served and the scope of work performed. First, the company extended its target market beyond its traditional base of companies in food-related industries to include all commercial facility operators; as a result, it has been able to reduce its heavy dependence on supermarkets and restaurants, bringing the proportion of consolidated revenues derived from supermarkets and restaurants down to 54.5% in FY12/19. At the same time, the company has expanded the scope of its service menu to include electrical construction and building construction. All told, these new businesses have grown from only 12.5% of consolidated revenue in FY12/08 to 56.8% of revenue in FY12/19.
- In recent years, the company has actively pursued three strategies: acquiring companies in related industries, cultivating in-house personnel, and establishing overseas subsidiaries. From 2013 through the end of 2019, Luckland acquired 14 companies in related industries. The company started creating in-house construction teams in 2013 and, as of the end of 2018, had a total 259 employees or 21.7% of its employees working on these teams. The company set up its first overseas subsidiary in 2013, and as of the end of 2019 had a total of nine overseas subsidiaries. Although these three strategies have contributed little to earnings thus far, the company anticipates greater contributions from this front in the future as the scope of work performed by the group as a whole continues to expand and profitability improves at individual construction sites.
- The company has a long-term plan extending from 2006 to 2035, targeting revenue of JPY70.0bn (1.6x the FY12/18 level). Luckland's long-term plan divides into three 10-year stages; the company is currently in the second stage. Ending in 2025, this stage targets revenue of JPY50.0bn (1.2x the FY12/18 level) and recurring profit of JPY3.0bn (7.5x). In addition to ongoing revenue increases, the company is keenly focused on meeting its target recurring profit margin: 6.0% by FY12/25 (versus 2.6% in FY12/19).

Trends and outlook

- For FY12/19, the company reported consolidated revenue of JPY40.4bn (-5.8% YoY), operating profit of JPY1.1bn (+190.9% YoY), recurring profit of JPY1.0bn (+160.8% YoY), and net income of JPY916mn (about +10.3x YoY). Revenue was largely in line with plan while operating profit and recurring profit both finished above plan as synergic efficiency gains absorbed the impact of lower sales. The company conservatively estimated taxes at the time of its forecast revision, taking into consideration the effect of shareholder benefit expenses due to the increase in the number of shareholders, but net income was 52.6% higher than forecast thanks to cost cutting and extraordinary gains booked as a result of negative goodwill on a subsidiary that was included in the scope of consolidated accounts starting in Q4.
- For FY12/20, the company is forecasting consolidated revenue of JPY43.0bn (+6.5% YoY), operating profit of JPY1.2bn (+8.4% YoY), recurring profit of JPY1.3bn (+19.6% YoY), and net income of JPY600mn (-34.5% YoY). The second year of "Change"

stage of the company's current 10-year plan is also the company's 50th anniversary, and the company plans to improve its management system for design and construction projects and increase GPM, operating under the slogan of "Year 2: Driving ultimate change."

Strengths and weaknesses

Strengths:

- Established strength in installation of freezer/refrigeration equipment linked to increased orders
- Forms in-house construction teams—a move unprecedented among industry leaders—to retain profits that would otherwise flow to subcontractors and address labor shortages
- Makes rapid decisions on M&A, increasing the number of customers, and expanding the scope of business

Weaknesses:

- Susceptible to cost competition, as brand strength is lower than that of larger rivals
- Has a high concentration of customers in cost-conscious industries
- President Mochizuki's strong leadership hampers delegation of authority

Key financial data

Income statement (JPYmn)	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	FY12/20 Est.
Revenue	**15,766**	**18,935**	**21,114**	**25,145**	**29,706**	**34,954**	**31,111**	**42,843**	**40,367**	**43,000**
YoY	15.0%	20.1%	11.5%	19.1%	18.1%	17.7%	-11.0%	37.7%	-5.8%	6.5%
Gross profit	**1,431**	**1,502**	**1,956**	**2,245**	**2,928**	**3,851**	**4,110**	**4,776**	**5,822**	
YoY	17.2%	5.0%	30.2%	14.8%	30.4%	31.5%	6.7%	16.2%	21.9%	
GPM	9.1%	7.9%	9.3%	8.9%	9.9%	11.0%	13.2%	11.1%	14.4%	
Operating profit	**223**	**304**	**521**	**599**	**715**	**1,087**	**858**	**380**	**1,107**	**1,200**
YoY	516.1%	36.5%	71.3%	15.0%	19.4%	52.0%	-21.1%	-55.7%	190.9%	8.4%
OPM	1.4%	1.6%	2.5%	2.4%	2.4%	3.1%	2.8%	0.9%	2.7%	2.8%
Recurring profit	**259**	**330**	**528**	**650**	**755**	**1,111**	**960**	**401**	**1,045**	**1,250**
YoY	313.6%	27.2%	60.3%	23.1%	16.1%	47.1%	-13.6%	-58.2%	160.8%	19.6%
RPM	1.6%	1.7%	2.5%	2.6%	2.5%	3.2%	3.1%	0.9%	2.6%	2.9%
Net income	**178**	**211**	**288**	**336**	**478**	**710**	**677**	**89**	**916**	**600**
YoY	13.2%	18.4%	36.5%	16.7%	42.2%	48.4%	-4.6%	-86.8%	925.5%	-34.5%
Net margin	1.1%	1.1%	1.4%	1.3%	1.6%	2.0%	2.2%	0.2%	2.3%	1.4%
Per share data (JPY)										
Shares issued (year-end; '000)	7,864	7,864	7,864	7,864	7,864	7,864	7,864	8,209	9,709	-
EPS	24.4	28.9	39.4	45.9	63.9	90.9	89.1	11.4	111.8	62.6
EPS (fully diluted)	-	28.6	38.8	43.4	60.8	86.3	83.1	10.7	106.7	-
Dividend per share	7.0	10.0	15.0	15.0	20.0	25.0	25.0	25.0	25.0	25.0
Book value per share	493.4	533.7	610.7	642.8	784.5	808.4	905.1	825.3	1,086.9	-
Balance sheet (JPYmn)										
Cash and cash equivalents	3,221	3,294	3,806	4,053	3,801	4,679	5,430	5,452	8,530	-
Total current assets	**6,751**	**7,108**	**9,598**	**10,374**	**14,077**	**14,816**	**18,869**	**13,781**	**23,624**	**-**
Tangible fixed assets	2,002	2,045	2,091	2,117	2,158	2,699	3,697	4,248	4,325	-
Investment and other fixed assets	916	1,155	1,694	2,039	2,975	3,077	3,905	6,701	5,243	-
Intangible fixed assets	25	76	116	239	594	630	948	1,172	1,144	-
Total assets	**9,694**	**10,383**	**13,499**	**14,769**	**19,803**	**21,222**	**27,419**	**27,953**	**34,335**	**-**
Accounts payable	4,083	4,499	6,227	6,400	8,448	8,722	10,625	7,201	9,866	-
Short-term debt	1,450	1,450	1,450	1,767	740	1,990	5,389	6,478	4,964	-
Total current liabilities	**6,051**	**6,406**	**8,839**	**9,636**	**11,790**	**13,122**	**17,502**	**18,401**	**19,432**	**-**
Long-term debt	0	0	0	10	1,410	1,462	2,248	2,078	3,891	-
Total fixed liabilities	**8**	**48**	**141**	**290**	**1,838**	**1,877**	**2,968**	**2,664**	**4,410**	**-**
Total liabilities	**6,059**	**6,454**	**8,979**	**9,926**	**13,628**	**14,998**	**20,469**	**21,064**	**23,841**	**-**
Net assets	**9,694**	**10,383**	**13,499**	**14,769**	**19,803**	**21,222**	**27,419**	**27,953**	**34,335**	**-**
Total interest-bearing debt	1,450	1,450	1,450	1,776	2,150	3,452	7,637	8,556	8,855	-
Cash flow statement (JPYmn)										
Cash flows from operating activities	773	451	817	478	-20	1,133	-1,623	184	-462	-
Cash flows from investing activities	-78	-328	-271	-438	-1,066	-1,087	-891	-1,271	452	-
Cash flows from financing activities	249	-51	-50	199	832	768	3,123	1,178	3,158	-
Financial ratios										
ROA (RP-based)	2.7%	3.3%	4.4%	4.6%	4.4%	5.4%	3.9%	1.4%	2.7%	-
ROE	5.0%	5.6%	6.9%	7.2%	8.7%	11.5%	10.3%	1.3%	10.7%	-
Equity ratio	37.2%	37.6%	33.2%	32.6%	31.1%	29.2%	25.2%	24.2%	30.3%	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Revenue by business (JPYmn)	FY12/11 Act.	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.	FY12/18 Act.	FY12/19 Act.
Revenue	**15,766**	**18,935**	**21,114**	**25,145**	**29,706**	**34,954**	**31,111**	**42,843**	**40,367**
YoY	15.0%	20.1%	11.5%	19.1%	18.1%	17.7%	-11.0%	37.7%	-5.8%
Store Facilities	11,948	14,001	15,178	17,867	17,644	20,655	17,229	19,618	17,428
YoY	24.2%	17.2%	8.4%	17.7%	-1.2%	17.1%	-16.6%	13.9%	-11.2%
% of total revenue	75.8%	73.9%	71.9%	71.1%	59.4%	59.1%	55.4%	45.8%	43.2%
Commercial Facilities	1,938	1,697	1,284	1,322	3,603	2,197	4,330	7,506	7,522
YoY	-24.5%	-12.4%	-24.3%	3.0%	172.5%	-39.0%	97.1%	73.4%	0.2%
% of total revenue	12.3%	9.0%	6.1%	5.3%	12.1%	6.3%	13.9%	17.5%	18.6%
Food Plants and Logistics Warehouses	415	499	846	2,617	2,671	4,395	2,964	5,153	3,184
YoY	40.8%	20.2%	69.5%	209.3%	2.1%	64.5%	-32.6%	73.9%	-38.2%
% of total revenue	2.6%	2.6%	4.0%	10.4%	9.0%	12.6%	9.5%	12.0%	7.9%
Store Maintenance	1,028	1,080	1,125	1,127	917	1,251	1,679	1,886	2,097
YoY	2.1%	5.0%	4.2%	0.2%	-18.6%	36.4%	34.2%	12.3%	11.2%
% of total revenue	6.5%	5.7%	5.3%	4.5%	3.1%	3.6%	5.4%	4.4%	5.2%
Energy Conservation and CO2 Reduction	337	566	709	535	558	260	432	317	179
YoY	252.4%	68.1%	25.2%	-24.5%	4.3%	-53.4%	66.1%	-26.6%	-43.6%
% of total revenue	2.1%	3.0%	3.4%	2.1%	1.9%	0.7%	1.4%	0.7%	0.4%
Construction	100	1,091	1,970	1,673	4,309	6,193	4,477	8,363	9,957
YoY	-23.4%	992.3%	80.5%	-15.1%	157.6%	43.7%	-27.7%	86.8%	19.1%
% of total revenue	0.6%	5.8%	9.3%	6.7%	14.5%	17.7%	14.4%	19.5%	24.7%

Revenue by division (JPYmn)	FY12/11 Act.	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.	FY12/18 Act.	FY12/19 Act.
Revenue	**15,766**	**18,935**	**21,114**	**25,145**	**29,706**	**34,954**	**31,111**	**42,843**	**40,367**
Supermarkets	8,017	8,388	8,778	9,320	12,620	13,850	14,115	13,301	13,139
YoY	3.0%	4.6%	4.6%	6.2%	35.4%	9.7%	1.9%	-5.8%	-1.2%
% of total revenue	50.9%	44.3%	41.6%	37.1%	42.5%	39.6%	45.4%	31.0%	32.5%
Food Systems	6,222	9,274	10,758	14,409	15,889	19,609	14,968	27,322	24,848
YoY	29.2%	49.0%	16.0%	33.9%	10.3%	23.4%	-23.7%	82.5%	-9.1%
% of total revenue	39.5%	49.0%	51.0%	57.3%	53.5%	56.1%	48.1%	63.8%	61.6%
Sales Development	341	-	-	-	-	-	-	-	-
YoY	1275.5%	-	-	-	-	-	-	-	-
% of total revenue	2.2%	-	-	-	-	-	-	-	-
Maintenance	1,186	1,273	1,578	1,416	1,197	1,495	2,028	2,220	2,379
YoY	9.0%	7.4%	24.0%	-10.3%	-15.5%	24.9%	35.6%	9.5%	7.2%
% of total revenue	7.5%	6.7%	7.5%	5.6%	4.0%	4.3%	6.5%	5.2%	5.9%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Recent updates

Highlights

On October 16, 2020, Shared Research updated the report following interviews with Luckland Co., Ltd.

On July 31, 2020, the company announced earnings results for 1H FY12/20; see the results section for details.

On the same day, the company announced a capital and business alliance between itself, company subsidiary Hybrid Lab Co., Ltd., and Yamazaki Co., Ltd.

The company announced that it and subsidiary Hybrid Lab Co., Ltd. had entered into a capital and business alliance agreement with Yamazaki Co., Ltd. (TSE JQS: 6147) by resolutions of the company's Board of Directors and Hybrid Lab's Board of Directors on the same day.

Within this business alliance, the three companies will mutually share information, including Yamazaki's knowledge of microbubble and industrial machinery technologies, the company's sales routes and knowledge related to equipment installation and refrigerators/freezers, and Hybrid Lab's knowledge related to marine product processing and sales channels with fishermen and wholesale market officials. The companies aim to conduct R&D and implement new technologies to solve the various issues facing the marine product processing industry, such as removal of shellfish poison. In the research stage, the companies plan to manufacture prototypes at Yamazaki's factories and conduct prototype testing at Hybrid Lab's factories. After implementing these technologies, the companies plan to manufacture the equipment at Yamazaki's factories, sell products to the company's and Hybrid Lab's business partners, and expand their sales routes.

The company plans to acquire 110,000 shares of Yamazaki Co., Ltd. from current shareholders in August 2020 through the Tokyo Stock Exchange Trading Network's off-hours trading (ToSTNeT-1). After this acquisition, the company will own 4.89% of Yamazaki's shares. On the other hand, Yamazaki plans to acquire shares of the company from current shareholders in August 2020 through the Tokyo Stock Exchange Trading Network's in-market off-hours trading (ToSTNeT-1). As of now, the number of shares has not been determined. However, Yamazaki plans to acquire a number of the company's shares equivalent to the total acquisition price the company will pay for Yamazaki's shares as part of this capital and business alliance plus JPY30mn.

The company expects this alliance to have little impact on the FY12/20 company forecast.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

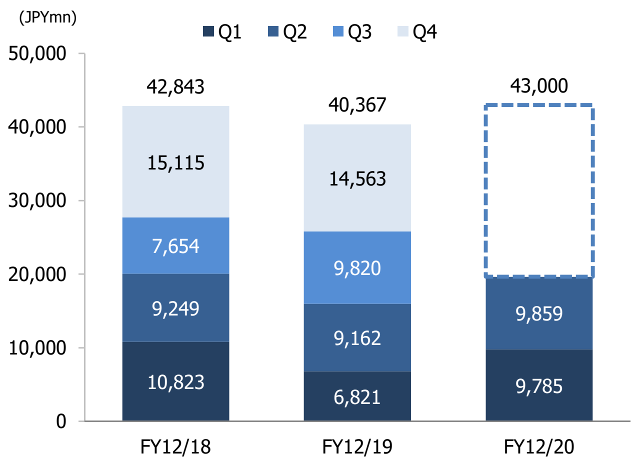
Quarterly results

Cumulative (JPYmn)	FY12/19 Q1	FY12/19 Q2	FY12/19 Q3	FY12/19 Q4	FY12/20 Q1	FY12/20 Q2	FY12/20 % of Est.	FY12/20 1H Est.	FY12/20 % of Est.	FY12/20 FY Est.
Revenue	6,821	15,983	25,804	40,367	9,785	19,644	98.2%	20,000	45.7%	43,000
YoY	-37.0%	-20.4%	-6.9%	-5.8%	43.4%	22.9%		25.1%		6.5%
Gross profit	743	2,276	3,679	5,822	1,292	3,028				
YoY	-34.1%	-10.6%	11.7%	21.9%	73.7%	33.1%				
GPM	10.9%	14.2%	14.3%	14.4%	13.2%	15.4%				
SG&A expenses	1,054	2,324	3,448	4,715	1,208	2,451				
YoY	8.9%	13.7%	9.1%	7.3%	14.7%	5.4%				
SG&A ratio	15.5%	14.5%	13.4%	11.7%	12.4%	12.5%				
Operating profit	-310	-49	231	1,107	83	578	128.4%	450	48.1%	1,200
YoY	-	-	76.2%	190.9%	-	-		-		8.4%
OPM	-	-	0.9%	2.7%	0.8%	2.9%		2.3%		2.8%
Recurring profit	-304	-99	179	1,045	43	600	127.7%	470	48.0%	1,250
YoY	-	-	24.0%	160.8%	-	-		-		19.6%
RPM	-	-	0.7%	2.6%	0.4%	3.1%		2.4%		2.9%
Net income	-209	191	309	916	1	280	112.1%	250	46.7%	600
YoY	-	-32.2%	3344.1%	925.5%	-	46.4%		30.7%		-34.5%
Net margin	-	1.2%	1.2%	2.3%	0.0%	1.4%		1.3%		1.4%

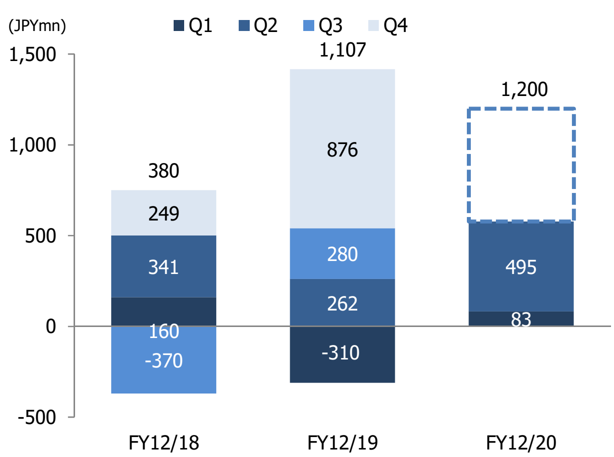
Quarterly (JPYmn)	FY12/19 Q1	FY12/19 Q2	FY12/19 Q3	FY12/19 Q4	FY12/20 Q1	FY12/20 Q2
Revenue	6,821	9,162	9,820	14,563	9,785	9,859
YoY	-37.0%	-0.9%	28.3%	-3.7%	43.4%	7.6%
Gross profit	743	1,532	1,403	2,143	1,292	1,737
YoY	-34.1%	8.1%	87.9%	44.5%	73.7%	13.4%
GPM	10.9%	16.7%	14.3%	14.7%	13.2%	17.6%
SG&A expenses	1,054	1,270	1,123	1,268	1,208	1,242
YoY	8.9%	17.9%	0.6%	2.7%	14.7%	-2.2%
SG&A ratio	15.5%	13.9%	11.4%	8.7%	12.4%	12.6%
Operating profit	-310	262	280	876	83	495
YoY	-	-23.2%	-	251.2%	-	88.9%
OPM	-	2.9%	2.8%	6.0%	0.8%	5.0%
Recurring profit	-304	205	278	866	43	557
YoY	-	-45.0%	-	237.8%	-	171.7%
RPM	-	2.2%	2.8%	5.9%	0.4%	5.6%
Net income	-209	400	118	606	1	279
YoY	-	81.9%	-	654.8%	-	-30.2%
Net margin	-	4.4%	1.2%	4.2%	0.0%	2.8%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly revenue



Quarterly operating profit



Source: Shared Research based on company data

Quarterly revenue (cumulative)

Revenue by business (cumulative)	FY12/18				FY12/19				FY12/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total revenue	10,823	20,073	27,727	42,843	6,821	15,983	25,804	40,367	9,785	19,644
YoY	107.8%	65.4%	37.2%	37.7%	-37.0%	-20.4%	-6.9%	-5.8%	43.4%	22.9%
Store Facilities	3,838	9,209	12,597	19,618	4,002	8,886	12,189	17,428	4,039	9,187
YoY	-4.3%	7.5%	11.0%	13.9%	4.3%	-3.5%	-3.2%	-11.2%	0.9%	3.4%
% of total revenue	35.5%	45.9%	45.4%	45.8%	58.7%	55.6%	47.2%	43.2%	41.3%	46.8%
Commercial Facilities	1,309	3,292	4,641	7,506	956	2,485	4,751	7,522	3,113	5,609
YoY	855.5%	318.3%	52.6%	73.4%	-27.0%	-24.5%	2.4%	0.2%	225.6%	125.7%
% of total revenue	12.1%	16.4%	16.7%	17.5%	14.0%	15.5%	18.4%	18.6%	31.8%	28.6%
Food Plants and Logistics Warehouses	1,113	1,881	3,691	5,153	744	1,337	2,273	3,184	707	1,099
YoY	155.3%	69.9%	119.7%	73.9%	-33.2%	-28.9%	-38.4%	-38.2%	-5.0%	-17.8%
% of total revenue	10.3%	9.4%	13.3%	12.0%	10.9%	8.4%	8.8%	7.9%	7.2%	5.6%
Store Maintenance	407	877	1,397	1,886	420	936	1,544	2,097	513	976
YoY	2.3%	4.5%	12.5%	12.3%	3.2%	6.7%	10.5%	11.2%	22.1%	4.3%
% of total revenue	3.8%	4.4%	5.0%	4.4%	6.2%	5.9%	6.0%	5.2%	5.2%	5.0%
Energy Conservation and CO2 Reduction	72	192	251	317	55	100	142	179	32	78
YoY	22.0%	36.2%	23.6%	-26.6%	-23.6%	-47.9%	-43.4%	-43.6%	-41.8%	-22.0%
% of total revenue	0.7%	1.0%	0.9%	0.7%	0.8%	0.6%	0.6%	0.4%	0.3%	0.4%
Construction	4,082	4,618	5,147	8,363	642	2,236	4,901	9,957	1,377	2,693
YoY	2329.8%	570.2%	91.3%	86.8%	-84.3%	-51.6%	-4.8%	19.1%	114.5%	20.4%
% of total revenue	37.7%	23.0%	18.6%	19.5%	9.4%	14.0%	19.0%	24.7%	14.1%	13.7%
Revenue by division	**FY12/18**				**FY12/19**				**FY12/20**	
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Total revenue	10,823	20,073	27,727	42,843	6,821	15,983	25,804	40,367	9,785	19,644
Supermarkets	2,605	6,606	8,223	13,301	2,132	5,769	9,480	13,139	2,581	6,325
YoY	3.0%	17.0%	0.3%	-5.8%	-18.2%	-12.7%	15.3%	-1.2%	21.1%	9.6%
% of total revenue	24.1%	32.9%	29.7%	31.0%	31.3%	36.1%	36.7%	32.5%	26.4%	32.2%
Food Systems	7,724	12,419	17,859	27,322	4,180	9,121	14,561	24,848	6,630	12,216
YoY	247.1%	124.9%	70.1%	82.5%	-45.9%	-26.6%	-18.5%	-9.1%	58.6%	33.9%
% of total revenue	71.4%	61.9%	64.4%	63.8%	61.3%	57.1%	56.4%	61.6%	67.8%	62.2%
Maintenance	493	1,046	1,645	2,220	507	1,092	1,761	2,379	572	1,102
YoY	9.1%	8.7%	9.3%	9.5%	2.8%	4.4%	7.1%	7.2%	12.8%	0.9%
% of total revenue	4.6%	5.2%	5.9%	5.2%	7.4%	6.8%	6.8%	5.9%	5.8%	5.6%

Quarterly revenue (three months)

Revenue by business (quarterly)	FY12/18				FY12/19				FY12/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	10,823	9,249	7,654	15,115	6,821	9,162	9,820	14,563	9,785	9,859
YoY	107.8%	33.6%	-5.2%	38.6%	-37.0%	-0.9%	28.3%	-3.7%	43.4%	7.6%
Store Facilities	3,838	5,371	3,388	7,021	4,002	4,884	3,303	5,239	4,039	5,148
YoY	-4.3%	17.8%	22.0%	19.3%	4.3%	-9.1%	-2.5%	-25.4%	0.9%	5.4%
% of total revenue	35.5%	58.1%	44.3%	46.4%	58.7%	53.3%	33.6%	36.0%	41.3%	52.2%
Commercial Facilities	1,309	1,983	1,349	2,865	956	1,529	2,266	2,771	3,113	2,496
YoY	855.5%	205.1%	-40.2%	122.3%	-27.0%	-22.9%	68.0%	-3.3%	225.6%	63.2%
% of total revenue	12.1%	21.4%	17.6%	19.0%	14.0%	16.7%	23.1%	19.0%	31.8%	25.3%
Food Plants and Logistics Warehouses	1,113	768	1,810	1,462	744	593	936	911	707	392
YoY	155.3%	14.5%	215.9%	13.9%	-33.2%	-22.8%	-48.3%	-37.7%	-5.0%	-33.9%
% of total revenue	10.3%	8.3%	23.6%	9.7%	10.9%	6.5%	9.5%	6.3%	7.2%	4.0%
Store Maintenance	407	470	520	489	420	516	608	553	513	463
YoY	2.3%	6.6%	29.0%	11.9%	3.2%	9.8%	16.9%	13.1%	22.1%	-10.3%
% of total revenue	3.8%	5.1%	6.8%	3.2%	6.2%	5.6%	6.2%	3.8%	5.2%	4.7%
Energy Conservation and CO2 Reduction	72	120	59	66	55	45	42	37	32	46
YoY	22.0%	46.3%	-4.8%	-71.1%	-23.6%	-62.5%	-28.8%	-44.4%	-41.8%	2.2%
% of total revenue	0.7%	1.3%	0.8%	0.4%	0.8%	0.5%	0.4%	0.3%	0.3%	0.5%
Construction	4,082	536	529	3,216	642	1,594	2,665	5,056	1,377	1,316
YoY	2329.8%	2.9%	-73.6%	80.0%	-84.3%	197.4%	403.8%	57.2%	114.5%	-17.4%
% of total revenue	37.7%	5.8%	6.9%	21.3%	9.4%	17.4%	27.1%	34.7%	14.1%	13.3%
Revenue by division	**FY12/18**				**FY12/19**				**FY12/20**	
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Revenue	10,823	9,249	7,654	15,115	6,821	9,162	9,820	14,563	9,785	9,859
Supermarkets	2,605	4,001	1,617	5,078	2,132	3,637	3,711	3,659	2,581	3,744
YoY	3.0%	28.4%	-36.6%	-14.2%	-18.2%	-9.1%	129.5%	-27.9%	21.1%	2.9%
% of total revenue	24.1%	43.3%	21.1%	33.6%	31.3%	39.7%	37.8%	25.1%	26.4%	38.0%
Food Systems	7,724	4,695	5,440	9,463	4,180	4,941	5,440	10,287	6,630	5,586
YoY	247.1%	42.4%	9.3%	111.8%	-45.9%	5.2%	0.0%	8.7%	58.6%	13.1%
% of total revenue	71.4%	50.8%	71.1%	62.6%	61.3%	53.9%	55.4%	70.6%	67.8%	56.7%
Maintenance	493	553	599	575	507	585	669	618	572	530
YoY	9.1%	8.4%	10.3%	9.9%	2.8%	5.8%	11.7%	7.5%	12.8%	-9.4%
% of total revenue	4.6%	6.0%	7.8%	3.8%	7.4%	6.4%	6.8%	4.2%	5.8%	5.4%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

1H FY12/20 results (out July 31, 2020)

Overview

Results for 1H FY12/20 (January–June 2020)

- Revenue JPY19.6bn (+22.9% YoY)
- Operating profit JPY578mn (versus an operating loss of JPY48mn in 1H FY12/19)
- Recurring profit JPY600mn (versus a recurring loss of JPY98mn in 1H FY12/19)
- Net income* JPY280mn (+46.4% YoY)

*Net income attributable to owners of the parent

- Business environment: The company is carefully watching trends in the economy watchers survey diffusion index (Cabinet Office), the tertiary industry activity index (Ministry of Economy, Trade and Industry), and the monetary base average balance (Bank of Japan). According to these indices, the economy watchers survey diffusion index dropped under 50 from 2018 and dipped to new lows from March 2020 on due to the COVID-19 outbreak. In addition to worsening labor shortages and labor cost increases, the restaurant and retail industries, key clients for the company, are suffering an unprecedented downturn in sales due to stay at home warnings and requests to close non-essential businesses. The monetary base average balance growth rate recently dropped to around 0% and the economic boost effect is fading. The economic environment in which the company operates has been especially weak since March.
- Recent results: Orders in 1H (January–June 2020) FY12/20 were not significantly impacted by the effects from the COVID-19 outbreak, despite some plan changes and postponements. Revenue in 1H, at JPY19.6bn, fell slightly short of the company's initial forecast (JPY20.0bn), but operating profit, at JPY578mn, exceeded the initial forecast (JPY450mn) and was up JPY128mn YoY. Gross profit rose JPY752mn YoY due primarily to higher revenue in the Commercial Facility Planning and Production business and the Construction business. GPM was 15.4% (+1.2pp YoY). SG&A expenses rose JPY127mn YoY, mostly due to personnel expenses and expenses associated with COVID-19 countermeasures. Despite the increase in SG&A expenses, the company generated operating profit (as opposed to operating loss in 1H FY12/19) as it curtailed external expenses by utilizing internal workers and group companies and promoted in-house production within the group. Moreover, the company's focus over the past few years on making use of mobile equipment and IT technology, establishing satellite offices, and flexibly implementing workstyle reforms, has allowed employees to switch to telework with no significant disruptions to the company's operations despite ongoing impact from the COVID-19 pandemic.

Results by business

Store Facilities

- 1H FY12/20 revenue (January–June 2020): JPY9.2bn (+3.4% YoY)
- Store Facilities is the Luckland group's core business
- Factors behind sales remaining generally flat: In addition to traditional customers such as supermarkets, restaurants, and retail stores, the company promoted the development of store facilities for a variety of other business types. Moreover, by advancing an in-house shift of on-site engineer functions, including planning, design, and construction, and internal material procurement, the company was able to offer proposals with added value, not just construction.

Commercial Facilities

- 1H FY12/20 revenue: JPY5.6bn (+125.7% YoY)

- Luckland positions the commercial facilities of multiple tenants (including tenant and common-area construction) and the construction facilities (such as air conditioning and plumbing equipment) businesses as a core field. In 1H FY12/20, revenue increased significantly due primarily to the booking of multiple projects associated with relatively large commercial facilities. At present, the company is apparently also receiving inquiries from sources such as major supermarkets. Order count is trending up as the company continued to tap into clients in the railway and large developer fields.

Food-Processing Plants and Logistics Warehouses

- 1H FY12/20 revenue: JPY1.1bn (-17.8% YoY)
- In freezer and refrigeration technology, which has been a core technology since its founding, Luckland has been working to bolster sales activities in recent years with the aim of attracting orders from general contractors and engineering firms. Demand associated with this business develops in accordance with the annual capital investment plans of customers, and 1H FY12/20 results were in line with its initial forecast. The core business of Hybrid Lab Co., Ltd., which became a group company in March 2020, specializes in food-processing technology R&D and food-processing. Luckland expects that the technologies developed by Hybrid Lab will enable it to accept a wider range of projects associated with anticipated changes in food distribution.

Store Maintenance

- 1H FY12/20 revenue: JPY976mn (+4.3% YoY)
- Factors behind higher revenue: The number of stores covered by maintenance contracts grew by about 1,600 from end-2019, pushing the total to above 16,200. Despite adding about 1,500 stores covered in Q1, the company only added approximately 100 during Q2 due in part to restrictions on sales activities caused by the spread of the COVID-19. The company opened the Aomori sales office as a base of operations for the northern Tohoku area in January 2020. As a new business, the company is also operating an on-site facility maintenance service business for food manufacturing factories. The building maintenance business operated by group company Ace-Center Co., Ltd. is one of the core fields.

Energy Conservation and CO_2 Reduction

- 1H FY12/20 revenue: JPY78mn (-22.0% YoY)
- Revenue declined due to seasonal factors and a temporary suspension of sales on preparations to revamp mainstay LED products, but the company anticipates that major customers will begin utilizing these products to light their showcases moving forward. Meanwhile, non-air conditioning installations are increasing in the rental business as the company continues to focus its sales activity in non-construction fields as well.

Construction

- 1H FY12/20 revenue: JPY2.7bn (+20.4% YoY)
- Business expansion: Rather than focusing just on diagnosis of earthquake resistance and reinforcement work, Luckland has built a framework to handle everything from skeleton structures to interior finishing, all within the group. As a result, the company is seeing an increase in inquires related to new construction and renovations involving an expansion in floorspace. Since many of the projects the company handles are large and construction periods are becoming longer, revenue and profit tend to fluctuate significantly from quarter to quarter in this business. At the same time, the company also considers this business relatively resistant to the impact of short-term economic trends. Overall, results in the Construction business recorded through end-Q2 were mostly in line with the company's initial forecast, despite impact from the COVID-19 pandemic on progress at Kankyosoubi N.S.E. Co., Ltd., which was added to the company's scope of consolidation in FY12/20.

For details on previous quarterly and annual results, see the Historical performance and financial statements section.

Company forecast for FY12/20

Overview

Company forecast for full-year consolidated results in FY12/20

- Revenue: JPY43.0bn (+6.5% YoY)
- Operating profit: JPY1.2bn (+8.4% YoY)
- Recurring profit: JPY1.3bn (+19.6% YoY)
- Net income*: JPY600mn (-34.5% YoY)
- EPS: JPY62.59

*Net income attributable to owners of the parent

- The company made no change to its full-year forecast at the time of 1H results announcement. According to the company, 1H results proceeded largely in line with the forecast, despite profit that exceeded expectations, and there is no reason to revise the 2H forecast as of this time.
- The company's forecast for FY12/20 sees full-year consolidated revenue coming in JPY3.0bn ahead of FY12/19. The company has not publicly disclosed its revenue estimates for individual businesses but has said it expects top-line revenues at almost all businesses to be basically flat YoY. The exception is its Construction business, where on top of orders received and booked to sales in FY12/20, it expects to work down the order backlog of roughly JPY2.0bn carried over from FY12/19. Another JPY1.0bn is expected to be added to sales as a result of the inclusion of Kankyosoubi N.S.E. Co., Ltd. (sales of JPY1.1bn in FY12/18) in the scope of the company's consolidated accounts, bringing the total addition to consolidated revenue from these two sources to JPY3.0bn. The company anticipates that Kankyosoubi N.S.E. will contribute to consolidated results on an expanded scale heading into 2H. The company sees its operating profit margin rising by 0.1pp as it continues to implement measures aimed at improving the efficiency of operations associated with construction projects in 2H.
- Under its second 10-year plan, entitled "Change: Becoming a company trusted globally," Luckland focused on developing human resources from 2016 to 2018 (the first segment of the second 10-year plan [the "Progress" segment]), with the stated objective of "building a profit foundation." Although construction management costs increased over 2H FY12/18 from an increase in orders, the development of human resources proceeded as planned. The company's objective from 2019 to 2021 (the second segment of the second 10-year plan [the "Change" segment] is "becoming a company the age demands." It aims to achieve consolidated revenue of JPY50.0bn by 2022.
- The second year of the "Change" segment is also Luckland's 50th anniversary, and the company plans to increase GPM by strengthening management systems associated with design and construction projects while operating under the slogan of "Year 2: Driving ultimate change."

Long-term management plan

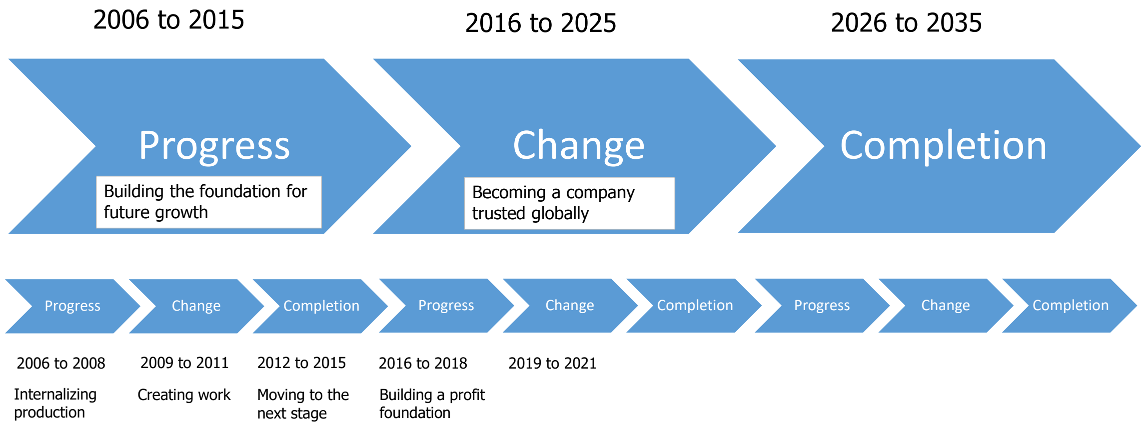
In 2006, the company embarked on a long-term plan spanning 30 years. Shared Research assumes one reason for deciding on this particularly long period (most companies expect management to change four or five times during such a period) is the fact that 28-year-old President Mochizuki, a member of the founding family, took over the management reins in 2004.

By 2035, the long-term plan's endpoint, the company targets revenue of JPY70bn (JPY50bn in Japan and JPY20bn overseas). The plan emphasizes "continuing growth over a 30-year period;" the target values themselves may change. The company has divided the overall plan into 10-year segments. Each of these sub-plans contains short-term targets.

The company is in the middle of its second 10-year plan, entitled "Change: Becoming a company the world recognizes." By 2025, the final year of the second 10-year plan, the company aims for revenue of JPY50bn and recurring profit of JPY3bn. Given that in 2015, revenue was JPY29.7bn and recurring profit was JPY755mn, the target levels assume a CAGR of 5.3% for revenue and 14.8% for recurring profit.

Luckland has further broken down each of the 10-year plans into three- or four-year stages, dubbed "Progress," "Change," and "Completion." Each of these stages has revenue and profit targets and a guiding theme or slogan. The company is currently in the middle of the "Change" stage (2019–2021) of its second 10-year plan, as shown in the figure below.

Long-term plan



Source: Shared Research based on company data

First 10-year plan

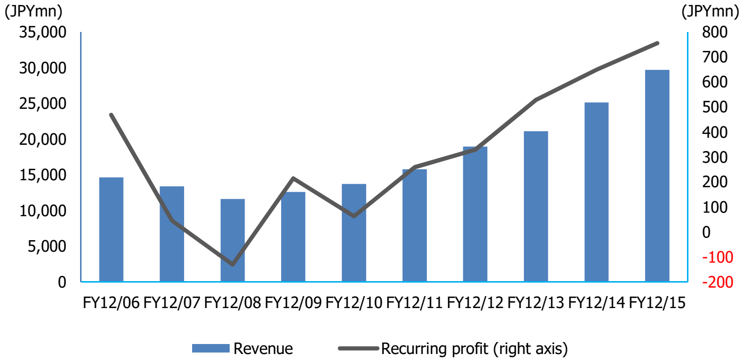
The slogan of the first 10-year plan, running from 2006 to 2015 and called "Progress," was "building the foundations for future growth." The theme of the initial segment of this plan, the "Progress" segment (2006 to 2008) was "internalizing production." The theme of the second segment, "Change" (2009 to 2011) was "creating work." The theme of the third segment (2012 to 2015), called "Completion," was "moving to the next stage." The company set each of the themes to define what needed to be done to move forward.

Focus on consistently moving forward

The second segment of the first 10-year plan, which commenced in 2009, coincided with an extremely difficult operating climate surrounding the global financial crisis. As projects the company had counted on to generate revenue were being delayed or cancelled, Luckland generated a recurring loss of JPY131mn in FY12/08. Shared Research sees the "creating work" slogan the company adopted at that time as an indication that it was doing everything necessary to survive. Management was focused on building up its business with an eye on the future at a time when most other Japanese companies were shrinking their businesses and trying to improve profitability by cutting costs.

The first 10-year plan saw revenue rise from JPY16.1bn (parent-only) in FY12/05 to JPY29.7bn (consolidated) in FY12/15. The company thus met its target of JPY25.0bn in domestic revenue through steady growth at a CAGR of 6.3%. Meanwhile, recurring profit at the start of the 10-year period was down 51% YoY in FY12/06. During this period, which spanned the global financial crisis of 2008, recurring profit fell from JPY959mn in FY12/05 to JPY755 in FY12/15. Nevertheless, in addition to growing consistently from FY12/10, the company met its goal of listing on the First Section of the Tokyo Stock Exchange in October 2015. Looking back, management says it succeeded in meeting its minimum target.

Performance during first 10-year plan



Source: Shared Research based on company data
Note: Figures for 2006 and 2007 are parent-only.

Second 10-year plan

The slogan for "Change," the second 10-year plan (2016 to 2025) is "becoming a company trusted globally." This plan marks a major turning point from the first 10-year plan, in that it emphasizes the company's shift toward an overseas focus. The company established its first overseas base in January 2013, in Singapore. Whereas overseas revenue amounted to only JPY1bn in FY12/15, the company aims for this figure to hit JPY5bn by 2025.

Targeting higher domestic revenue

At present, the company's targets for the end of the second 10-year plan, in 2025, are revenue of JPY50bn and recurring profit of JPY3bn. Of the revenue figure, Luckland aims for domestic revenue of JPY45bn and overseas revenue of JPY5bn. By contrast, the first 10-year plan had no overseas revenue target. Company materials dated March 2015 state a revenue target of JPY35bn for the second 10-year plan (domestic revenue of JPY30bn and overseas revenue of JPY5bn). Shared Research thinks the company raised the domestic revenue target substantially as a result of its steady cultivation of the domestic market, including acquisitions.

The company is currently in the second stage of its second 10-year plan. Dubbed "Change", this stage runs from 2019 through 2021. During the two years corresponding to the first stage ("Progress"), the company used acquisitions to increase the number of its consolidated subsidiaries in Japan from five to 12 and, with the establishment of a base in Taiwan, increased the number of its overseas subsidiaries from six to eight (seven operating bases but one additional subsidiary due to the establishment of a holding company in Thailand in FY12/17). With this, the company increased the number of domestic and overseas companies in the group by nine.

During 2018 and 2019, the company made a number of relatively large acquisitions. It started off in January 2018 with the acquisition of Japan PI (unlisted), which has a long track record in the commercial lighting field. This was followed in May by the acquisition of Bokuto Kenzai Kogyo (unlisted), which has a solid reputation for installations of finishing hardware in high-rise buildings and large commercial facilities, and then in December 2018 by the acquisition of Viet Bokuto, the Vietnam manufacturing subsidiary of Bokuto Kenzai Kogyo (the following year brought another Vietnamese subsidiary, BK Metal Co., Ltd., into the group). In October 2019, the company added Kankyosoubi N.S.E. Co., Ltd. to its list of consolidated subsidiaries, bringing the number of group companies to 27 as of end-FY12/19.

In "Progress" phase, working to build a strong business foundation

The theme of the three-year "Progress" phase (2016 to 2018) is "building a profit foundation" that will allow the company to continue growing regardless of the business environment. The company is concerned that domestic construction demand, including for commercial facilities, will decline after the demand surge leading up to the 2020 Tokyo Olympic Games. It is also mindful of an inevitable decline in the number of domestic construction workers. For these reasons, during this three-year phase of the plan, the company aims to build the foundations of a business that can weather such strong headwinds from the operating environment.

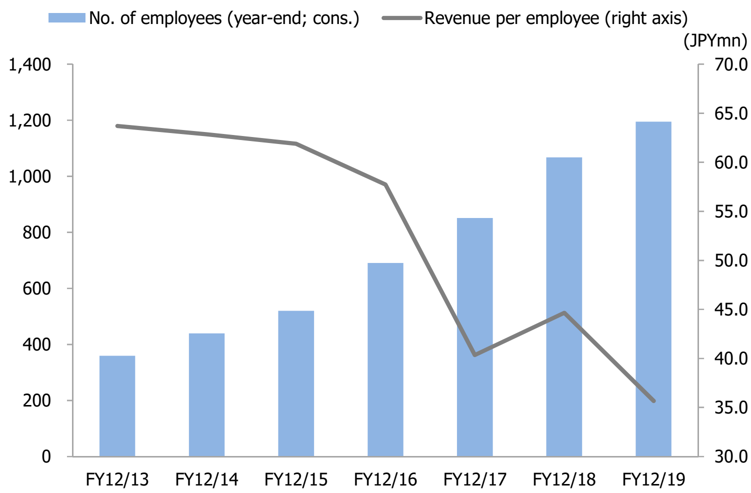
For the "Change" phase (2019–2021), the company has adopted the slogan "becoming a company that meets the needs of the times" to describe its efforts aimed at achieving steady growth by adapting its business to changing demands. More specifically, these efforts resulted in the company expanding into new business areas such as building systems, engineering, and construction, all of which are less exposed to cyclical swings in the economy.

Investing in human resources

The company's businesses do not require substantial fixed assets such as production facilities. (The turnover rate on tangible fixed assets was 942% in FY12/19.) Instead, the company focuses on investments in human resources, and has continued investing in people during the current "Change" phase. As of end-FY12/19, consolidated group companies reported a combined total of 1,195 employees, an increase of 127 over the headcount of 1,068 at end-FY12/18. At the parent company level, the company reported a total of 808 employees, an increase of 82 over the headcount of 726 at end-FY12/18.

This policy of rapid expansion has caused revenue per employee to decline from JPY61.9mn in FY12/15 to JPY44.7mn in FY12/18. The rate of decline temporarily increased in FY12/17 owing to the booking of revenue on large-scale projects being postponed. As for the future trend, with the rise in personnel from M&A having eased off during the "Progress" phase, and with business growth keeping pace with medium-term targets, Shared Research sees revenue per employee gradually rising from FY12/19.

Revenue per employee



Source: Shared Research based on the company's annual securities report.
Note: Stated revenue is the average for the year.

The main reason for the downtrend in revenue per employee up until FY12/17 was the company's active M&A program and the resulting additions to the number of people on in-house construction teams. Looking first at the impact from M&A, Shared Research understands revenue per employee was lower at acquired subsidiaries than at Luckland itself. In FY12/15, the consolidated/parent-only differences in revenue and employee numbers were JPY1.5bn and 77 people. In FY12/18, the figures were JPY7.5bn and 342 people, and in FY12/19 were JPY9.0bn and 387 people. Assuming the increase over the two years of the "Progress" phase was due to newly consolidated subsidiaries that Luckland acquired, we calculate the revenue per employee at these subsidiaries at JPY22.1mn, which would have brought down the average at the consolidated level.

Looking next at the increase in people on in-house construction teams, this number (including workers at companies Luckland made into subsidiaries) was 250 as of end-FY12/18. In-house construction teams handle some on-site construction themselves, internalizing some of the costs that would otherwise have been incurred as subcontracting costs. In general, the expansion of in-house construction teams does not link directly to a rise in revenue. The company's M&A activities are aimed primarily at generating synergies that will lead to earnings growth for the group as a whole. Once in-house construction teams are functioning effectively, the company sees operational efficiency improving and this in turn leading to higher profit margins.

Promoting an M&A strategy aimed at expanding customers

Luckland has been proactively conducting M&A, while systematizing in-house construction teams since the start of the second 10-year plan. Although the company has already conducted much of the M&A activity it considered crucial for growth since the start of the "Change" phase, it will continue looking for opportunities related to customer relationships, such as M&A that increases business with general contractors and specific regions.

Characteristics of Luckland's M&A activities

Luckland's M&A activities have three chief characteristics. The first is that the companies it acquires are Japan-based and in fields close to Luckland's business boundaries. In addition to designing and building structures, interior furnishings, and equipment for customers' commercial spaces, the company has expanded operations to include facility operation support services. That said, M&A activities have focused on companies involved in creating the commercial spaces, allowing customers to be shared across the group.

The second characteristic is that the company does not invest large amounts in each acquisition. Looking into the acquisitions the company conducted between 2015 (Mach Electric Cooker Co., Ltd.) and 2017 (OAtechno Co., Ltd.), the most it paid for shares was JPY550mn, for Mach Electric Cooker. At the other end of the scale, Luckland actually made money on its acquisitions of Osaka Air Con Co., Ltd. and OAtechno, as the acquired companies' cash and deposits exceeded their acquisition costs. The company has not disclosed the amount it paid to acquire shares of Niikura Denkoh Co., Ltd. in 2013 and Hikari Electric Industry Corporation in 2014, but the cash flow statements suggest that acquisition costs were less than JPY200 million. The total cost of the eight acquisitions Luckland made from 2013 to 2017 was JPY1.3bn. The reported cost of the 2018 acquisition of Bokuto Kenzai Kogyo Co., Ltd., was JPY400mn. The company therefore has JPY819mn in goodwill on its balance sheet that is, in principle, amortized over 20 years using the straight-line method.

The third characteristic is that the acquired companies tend to have employees with highly specialized skills. Luckland is building in-house construction teams, but it could be said that the company is also acquiring personnel with the ability to teach hired personnel skills in various specialty areas through M&A. As of end-FY12/19, the company had 259 people on its in-house construction and maintenance teams. Of this number, 126 worked at the companies it acquired.

Synergy targets

Luckland is looking increase consolidated group revenues by leveraging the customer relationships of the companies it has acquired and involve more group companies on a given project for a commercial facility, regardless of which group company is the principal contractor.

By sharing customer and project information and relationships among companies in the group, Luckland aims to raise selling efficiency and obtain more orders: subsidiaries have their own customers, which might also be potential customers for other subsidiaries when those customers create commercial spaces. Because each subsidiary's customers are also potential customers for other subsidiaries, business opportunities expand exponentially as the number of subsidiaries increases. For instance, if two subsidiaries each have projects from 10 clients, rather than a simple sum of 20 projects, the two subsidiaries have a potential of 40 projects ((10 projects + 10 projects) x 2 companies). By this same logic, three subsidiaries would have a potential of 90 projects.

The company is already seeing benefits from synergies at its Commercial Facilities business and other relatively new businesses in which it had limited expertise, and believes these areas have more potential to benefit from synergies than its traditional Store Facilities business. Shared Research believes it may take another two or three years for the bulk of the synergies to come to the fore, however, because there remains much work to do in terms of equipping the operating bases of each of the recently acquired subsidiaries.

The company presented a number of case studies illustrating the synergies and noted that its track record of solid construction work is what has helped it increase its competitive advantage. For example, the company highlighted the April 2018 start of on-site facility maintenance services at a factory that prepares side dishes for an upscale supermarket chain Kinokuniya Co., Ltd. (unlisted) as an example of synergies between Luckland (expertise in equipment repair) and ace-center co., ltd. (expertise in on-site maintenance) acquired in 2016. Taking the expertise acquired during this process, in FY12/19 it started marketing maintenance services for food processing plants.

M&A synergy targets

Facility	Group company participating	Details of construction work
Shimachu (Sagamihara store)	Luckland	Interior
	Niikura Denkoh	Cubicle, trunk line
	Hikari Electric Industry	Other electrical
Michi no Eki Megumi Hakusan (Scheduled to open in FY2018)	Luckland	Prefab cold and frozen storage facilities
	Kido Setsubi	Water supply, plumbing, and air conditioning
Sucrey Yokohama Factory	Luckland	Interior and equipment
	Kyouwa	Fire alarm system

Source: Shared Research based on company briefing materials

Acquired subsidiaries

In July 2013, the company acquired a stake in **Niikura Denkoh Co., Ltd.**, headquartered in the city of Ayase, Kanagawa Prefecture. Niikura Denkoh, which has been involved in electrical construction for the past 40 years, has around 400 customers. A news release at the time of the acquisition read "The acquisition will enable Luckland to increase the percentage of electrical construction work it undertakes directly, boosting customer satisfaction and enabling the company to make further progress as an engineering group."

In September 2014, Luckland made Ota-ku, Tokyo-based **Hikari Electric Industry Corporation** into a subsidiary. In addition to electrical construction and plumbing, this company has a division that sells various types of electrical equipment. Luckland notes that Hikari Electric Industry operates throughout Japan and has excellent customers, including general contractors, sub-general contractors and other plant engineering companies. Luckland was attracted to the company for its expertise in electrical construction and ability to inexpensively procure materials for the electrical equipment wholesaling business.

Companies acquired

Year	Company name	Stake	Total assets (immediately before acquisition; JPYmn)	Revenue	Acquisition price (JPYmn)	Business description
July 2013	Niikura Denkoh	100.0%	137	187	n.a.	Established in 1974, handles electrical work for 400 clients
September 2014	Hikari Electric Industry	100.0%	384	961	n.a.	Electrical and plumbing work, wholesaling of electrical equipment
August 2015	Mach Electric Cooker	100.0%	1,097	1,558	550	Development, manufacture, construction, and sales of electrical friers and other kitchen equipment
August 2016	ace-center	100.0%	318	n.a.	282	Comprehensive maintenance services, including equipment maintenance and cleaning, for airports, hotels, and other large facilities
October 2016	Kido Setsubi	100.0%	233	263	85	Water supply and plumbing work in the Hokuriku region; possesses pipe-joining equipment and technologies
January 2017	Kyouwa	100.0%	193	113	176	Construction and maintenance of fire-fighting facilities, centered on the Kansai region
May 2017	Seishin Soubi	100.0%	37	88	20	Interior finishing work, mainly with wood, and joinery work
July 2017	Kouritsu	100.0%	216	236	170	Construction and maintenance of commercial gas air conditioning equipment
October 2017	Osaka Air Con	100.0%	1,466	1,701	12	Sales, construction, and management of maintenance on ventilation and air conditioning equipment and plumbing systems
October 2017	OAtechno	74.0%	114	197	7	A subsidiary of Osaka Aircon that handles commercial air conditioner construction and maintenance
January 2018	Nippon PI	87.8%	324	705	n.a.	Sale of lighting control systems and equipment to hospitals, aquariums, and other facilities
May 2018	Bokuto Kenzai Kogyo	100.0%	1,374	n.a.	n.a.	Construction of large hardware items for large-scale facilities; has subsidiary in Vietnam that makes metal products
October 2019	Kankyosoubi N.S.E. Co., Ltd	100.0%	1,324	1,132	n.a.	Track record in ventilation and air conditioning equipment and plumbing systems for commercial buildings and medical facilities; has close tie with general constructors

Note: The company is sponsoring Hikari Electric Industry in civil rehabilitation proceedings. Total assets assume an acquisition date at the end of 2013.
Note: ace-center's total assets are as of the time of consolidation.
Note: Mach Electric Cooker's business was acquired during civil rehabilitation proceedings.
Note: Seishin Soubi is a business transfer.
Note: The company provided support to Bokuto Kenzai Kogyo during civil rehabilitation proceedings.
Source: Shared Research based on company releases and other materials

In August 2015, Luckland signed a sponsorship agreement with **Mach Electric Cooker Co., Ltd.**, which had filed an application under Japan's Civil Rehabilitation Law, acquiring the company for JPY550mn. Mach develops, manufactures, and sells kitchen equipment, and is known for its electrical fryers, which are widely deployed in large supermarkets and convenience stores. In 2017, Mach developed an electrical fryer to overseas specifications that went into service at the AEON Queensbay Store in Malaysia.

Ace-center co., ltd., located in Chuo-ku, Tokyo, became a subsidiary in August 2016. ace-center handles building maintenance and has a track record of comprehensive maintenance (combining equipment maintenance and cleaning) of large buildings, including airports, hotels, and universities. In addition to the maintenance business, the company expects to benefit from synergies at the construction and building systems businesses, where the Luckland group has seen business increase in recent years. ace-center's revenue was JPY466mn in FY12/17.

Kido Setsubi Co., Ltd., which became a subsidiary in October 2016, is based in Ishikawa Prefecture and focuses on construction involving water supply and plumbing equipment. Having pipe-joining equipment and expertise, this subsidiary handles a wide range of projects in the public and private sectors. Through this company, Luckland acquired water supply and plumbing construction technology and customers in the Hokuriku area. To pursue sales synergies, Luckland opened a Kanazawa sales office in November 2016.

Kyouwa Co., Ltd., which became a subsidiary in January 2017, installs fire-protection systems and performs maintenance, mainly in the Kansai region, and derives 95% of revenue from orders from West Japan Railway Company (JR-West) and affiliated companies. Luckland's aims in acquiring Kyouwa were to bring expertise in installing fire-protection equipment into the group and gain points of contact with the JR-West Group, which owns commercial facilities.
Seishin Soubi Co., Ltd., located in Shizuoka Prefecture, became a subsidiary in May 2017. Handling interior finish construction centering on carpentry, and joinery work, this company has experience with interior construction and furnishings for food and beverage establishments and homes. In addition to gaining a foothold in these fields, Luckland acquired Seishin Soubi to strengthen its customer base in the Shizuoka region.

Luckland acquired **Kouritsu Co., Ltd.**, based in Matsudo, Chiba Prefecture, in July 2017. Kouritsu mainly installs and maintains commercial gas air conditioning equipment (gas heat pumps) in factories, commercial buildings, and hospitals. Large gas companies are its main customers.

In October 2017, Luckland acquired two Osaka-based companies, **Osaka Air Con Co., Ltd.** and **OAtechno Co., Ltd**. Until this acquisition, OAtechno had been an Osaka Air Con affiliate. Osaka Air Con designs, installs, and maintains air conditioning and ventilation systems, as well as water supply and plumbing equipment. As well as for general companies, OAtechno installs and maintains commercial air conditioners for numerous medical institutions and nursing homes. Acquiring these companies allowed Luckland to expand its sales and service network in the Kansai region.

Nippon PI Co., Ltd., which became a subsidiary in January 2018, proposes lighting designs and sells lighting control systems and lighting fixtures. Nippon PI is an authorized reseller for Philips Lighting Japan (Japanese subsidiary of Philips Lighting N.V.) and has an extensive track record in providing lighting services for stores, hospitals, aquariums, and showrooms. Nippon PI also has extensive experience with specialized lighting, such as for magnetic resonance imaging (MRI) facilities, and has a number of customers in the medical sector.

Luckland signed a sponsorship agreement in February 2018 with **Bokuto Kenzai Kogyo Co., Ltd.,** which installs finishing hardware in large buildings, subcontracting for general contractors in the Kansai region. The acquisition included Bokuto Kenzai's subsidiary in Vietnam, which manufactures hardware. Bokuto Kenzai has strong ties with Kajima Corporation and Obayashi Corporation, two large general contractors, and by acquiring Bokuto Kenzai, Luckland gained access to their information on large-scale projects and points of contact (and thus sales opportunities) with general contractors for other companies in the group. Another aim in acquiring the subsidiary was to develop the overseas business by making the Vietnamese subsidiary a subcontractor for overseas construction projects handled by Japanese general contractors. As approval was needed from the local authority to consolidate the Vietnam manufacturing subsidiary, Luckland announced it was to first consolidate Bokuto Kenzai Kogyo in May 2018, before consolidating the Vietnam subsidiary in December 2018, following the approval of the local authorities.

In August 2019, the company's Board of Directors voted to acquire Kankyousoubi N.S.E. Co., Ltd., finally completing the acquisition and making it a wholly owned subsidiary in October 2019. Since its founding, Kankyousoubi has been providing reliable construction services in the areas of air conditioning and plumbing systems for commercial buildings, medical facilities, and public buildings, and is well regarded for its work in these fields among large general contractors. Subsidiary Osaka Air Con also works in the field of air conditioning, and subsidiary Kido Setsubi in the field of plumbing systems. However, bringing Kankyousoubi into the group will help Luckland strengthen its presence in the Kanto area. In terms of synergies, the company is looking for efficiency gains and cost savings on the sales and purchasing fronts, especially in the Kanto area.

Benefits of having in-house construction teams

Luckland began putting together in-house construction teams comprised of expert tradesmen in 2013 with the aim of training tradesmen in the multiple specialty areas in which it works today. When companies become the size of Luckland, the typical practice is to focus on supervising on-site teams, outsourcing the actual construction work to subcontractors. Having in-house teams as well as on-site supervisors is unusual.

By having in-house construction teams, the company takes on fixed costs rather than having variable outsourcing costs. The company explains, however, that it has little risk of having excess capacity because it intends to limit the size of in-house teams to around 20% to 30% of on-site construction needs.

The benefits of in-house construction teams appear in the order listed below:

- The company can retain profit that would otherwise flow to subcontractors;
- Having in-house teams keeps the company in touch with on-site conditions, so it can negotiate appropriately priced subcontractor agreements;
- The company can send in-house construction teams to sites where expertise is in short supply to prevent cost overruns stemming from construction delays
- The company can learn on-site processes and ideas, rather than having all such expertise centralized at subcontractors.

Retaining profit that would otherwise flow to subcontractors

According to Luckland, subcontractors typically quote based on a gross profit margin of 35% or more against revenue when making project estimates. In FY12/19, for example, parent-only subcontracting costs (including total production expenses and total maintenance expenses) were JPY19.9bn. Multiplying this figure by 20% yields JPY4.0bn. Assuming a gross profit margin of 35%, internalizing this portion of services would therefore improve gross profit by JPY1.4bn. The actual benefit of in-sourcing is likely to vary from this figure owing to differences in unit labor costs between in-house construction teams and subcontractors, and because employing in-house construction teams causes indirect expenses to rise. That said, there are benefits from employing in-house construction teams as opposed to subcontractors as long as they can be steadily utilized.

Maintaining appropriate prices with subcontractors

Involving in-house teams in construction also helps the company to understand subcontractors' cost structures. The company expects subcontracting to remain one of its highest expense items, as it plans to continue outsourcing 70% to 80% of construction work. Although subcontractor costs are broken down into labor costs and material costs, it is difficult to know what costs were actually incurred where, and very often companies will pay subcontractors the quoted fees without question. However, by having in-house construction teams capable of accurately assessing costs, the company can expect to avoid paying excessive margins.

Addressing shortages of construction workers

Shortages of construction workers cause unit labor costs to rise and increase the company's risk of missing its hiring targets for skilled tradesmen. Construction lead times also tend to lengthen when the ability to allocate skilled workers becomes uncertain. Longer-than-expected construction periods also lead to higher costs for rented equipment and materials. To some extent, the company aims to avoid unexpected cost overruns of this kind by augmenting the workers on a given construction site with personnel from its in-house construction teams as the need arises.

Amassing construction expertise

Putting its own employees on construction sites has the added benefit of allowing the company to gain additional expertise. Knowledge and expertise gained on-site typically accrues in the workers themselves and subcontractors, and subcontractors who lack successors may fail to pass on such knowledge. In-house teams can share the knowledge they gain at all construction sites across the company, potentially leading to more stable construction quality and other improvements. Kaizen efforts at Toyota Motor Corporation (TSE1: 7203) and other Japanese manufacturers have led to profitability increases; the company thinks on-site proposals by in-house teams may also boost its own profitability and provide it with a competitive advantage if those proposals can be put to use across the group as a whole.

Human resource development

The company's cost of sales ratio was 85.6% in FY12/19. Construction sites generated most of these expenses, which include procurement of materials and equipment. If everything goes according to plan, a company can determine profits on individual construction projects once the contract amount is fixed. However, projects can fail to proceed on plan for a number of reasons including a lack of skills among laborers, foremen, and design engineers.

In the display industry, often renovations must be conducted within existing buildings, where conditions are more difficult to control than for newly built structures. For example, a building's tenants need to continue their businesses while construction work is underway; electrical wiring may not align with existing design drawings; and workers must respond flexibly to unexpected circumstances. This ability to respond quickly is learned through experience; this learning can be passed on, becoming a corporate asset.

Luckland involves the personnel from companies that it acquires in its training program for people hired to work on in-house construction teams. A key reason for acquiring companies is to bring skills in-house. To take advantage of these skills, Luckland sends new recruits to subsidiaries and creates other opportunities for subsidiary personnel to transfer their knowledge to in-house teams.

When hiring people for in-house construction teams, the company makes a practice of encouraging personnel to learn skills that are closely linked with their own—wallpaper hanging and electrical construction, for example—increasing their future value as on-site foremen. By exposing employees to numerous construction sites, the company aims to imbue flexibility that applies to all construction sites.

In-house teams: Construction and maintenance teams

Type of work	Company	Headcount
Cold and frozen storage facilities	Luckland	19
Electrical	Luckland	10
	Hikari Electric Industry	13
	Niikura Denkoh	13
Architectural and interior construction	Luckland	53
Water supply and plumbing, air conditioning equipment	Kido Setsubi	14
	Kouritsu	6
	Osaka Air Con	15
	OAtechno	10
Wooden construction	Seishin Soubi	3
Maintenance	Luckland	64
	ace-center	29
	MACH Electric Cooker	5
Fire-prevention equipment	Kyouwa	5
Total		259

Type of work	Company	Headcount
Cold and frozen storage facilities	Luckland	14
Electrical	Luckland	11
	Hikari Electric Industry	15
	Niikura Denkoh	13
Architectural and interior construction	Luckland	46
Water supply and plumbing, air conditioning equipment	Kido Setsubi	10
	Kouritsu	6
	Osaka Air Con	15
	OAtechno	10
Wooden construction	Seishin Soubi	3
Maintenance	Luckland	62
	ace-center	34
	MACH Electric Cooker	6
Fire-prevention equipment	Kyouwa	5
Total		250

Source: Shared Research based on company data (as of end-FY12/19)

The company has introduced various benefits to retain the personnel it trains: providing childcare leave, offering generous health checkup benefits, and extending the retirement age from 65 to 85.

The company also hosts overseas trainees from Indonesia and Vietnam. Overseas business is a key focus of the next 10-year segment of the company's long-term plan. Taking the long view, trainees can help alleviate worker shortages in Japan, as well as passing on knowledge when they return to their own countries.

Third 10-year plan

The third 10-year plan, "Completion" (2026 to 2035) currently has a revenue target of JPY70bn, with JPY50bn from Japan and JPY20bn from overseas. The company expects expansion of overseas business to drive long-term growth, given that the overseas market is growing at 14.9% annually, whereas the mature Japanese market is expanding at 1.1%. The company does not yet have a clear idea of how to achieve this overseas growth but thinks the JPY20bn target will require joint ventures with local companies, as well as new frameworks.

Business

Business model: Designing and building commercial spaces

Expertise in construction for food-related industries

Luckland handles design and construction for stores and commercial facilities. Over the past five years (FY12/15 to FY12/19) consolidated revenues have grown at an average annual rate of 8.0% and the operating profit margin has averaged 2.4%. In FY12/18, the food and beverage retail combined with the restaurant industries accounted for 54.5% of revenue.

The company handles around 5,000 projects every year. Revenue per project varies greatly, from tens of thousands of yen to more than JPY2.0bn. Revenue per project has risen as the scope of business expanded, but the company believes in taking on even maintenance and small construction projects and has said that it is not focused on raising average revenue generated per project. According to Luckland, some 80% of projects generate revenue of less than JPY3mn.

Providing value beyond design

Luckland's business belongs to the so-called display industry, and its business model involves designing, producing, and delivering commercial spaces. Whereas two large companies in this industry—Nomura (TSE1: 9716) and Tanseisha (TSE1: 9743)—concentrate on the intangible side of the business (planning, design, and supervision), Luckland shows strength in installing kitchen and freezer/refrigeration equipment and also focuses on providing a full range of added value from design to offering solutions for running costs.

Historical reasons exist for the company's area of specialty; it was established in 1970 to wholesale commercial refrigerator/freezers and showcases. Many large companies in the display industry, such as Nomura and Tanseisha, started by producing exhibits for commercial facilities. In contrast, Luckland evolved from freezers/refrigerators to kitchen equipment, and then on to store interiors.

Although Luckland is expanding its business domain to fields outside its traditional area of concentration, freezer/refrigeration equipment installation remains a strength. While uncertain about the exact market share, the company considers itself the industry leader in installing freezer/refrigeration equipment for the supermarket and restaurant industries (excluding construction companies affiliated with manufacturers). The company has business relationships with nearly all large general merchandisers.

Accepts construction-only orders

The company explains that its emphasis on construction is unique within the display industry; in many cases, the company undertakes construction-only projects that it has not been in charge of designing. Looking at production examples that other companies in the display industry show on their websites, most include design and construction as a set. For example, Luckland's project list for stores and commercial facilities as of January 2019 showed 42 of the 99 projects for stores, with six of the 16 projects for commercial facilities being construction-only.

Value chain

Sales

The company has around 200 sales personnel (non-consolidated basis). Most projects involve competitive bidding, and obtaining project information and details of customers' investment plans before competitors is important. The company has around 23,000 customers, and according to Luckland, repeat business accounts for 80–90% of the total.

Proactive M&A has helped the company broaden its network of sales information. Luckland acquires companies in neighboring fields, so when a subsidiary works on a project, that project becomes potential sales information for companies across the group. For example, in January 2018 Luckland acquired Nippon PI Co., Ltd. This subsidiary concentrates on lighting control systems and specializes in sales to hospitals, leveraging its LED lighting for MRI rooms. In May 2018, the company acquired Bokuto Kenzai Kogyo Co., Ltd., a finishing hardware installer that subcontracts to major general contractors such as Obayashi Corporation

(TSE1: 1802) and Kajima Corporation (TSE1: 1812). This connection provides the group with early access to general contractors' information on redevelopment projects.

Design

Once the sales team obtains information about a project, the company starts making a basic design so it can participate in a project competition. The parent company has around 110 design personnel, including 14 class-1 architects. This team is small, compared with leading companies in the display industry. (As of February 28, 2019, Nomura had 560 planners and designers and 103 class-1 architects. As of January 31, 2020, Tanseisha had 258 planners and designers and 61 class-1 architects.)

However, the company's design division is distinctive for having architectural design and building systems* design departments (as well as planning and estimate departments). The department dedicated to designing building systems has some 40 people; this concentration of resources is unusual within the display industry.

*Building systems include MEP (mechanical, electrical, and plumbing) and other specialty systems.

Building systems design is one of Luckland's strengths. The company can integrate its architectural and building systems designs to propose all-encompassing solutions not only on the interior front but covering other elements like ease of work for employees and running costs. Building systems tends to account for a higher share of initial and running costs for food-and-beverage establishments than for stores that sell merchandise. Luckland's expertise in this area is one reason for its competitiveness with food-and-beverage establishments, and it is leveraging this strength to position the store maintenance business as a source of recurring revenue and increase contract numbers.

Procurement

Once the company receives an order, it purchases the necessary construction materials and equipment. Luckland holds few materials and little equipment in inventory; as of end-FY12/19, merchandise, raw materials, and supplies accounted for only JPY571mn of JPY3.7bn in inventories. Raw material costs typically account for around 10–15% of total production expenses on a parent-only basis for any given year (raw material costs were JPY3.2bn in FY12/19, 11.9% of total production expenses).

Luckland purchases freezers/refrigerators and kitchen equipment from various manufacturers rather than making such items itself. Fundamentally, it is establishing a system where it can cater to the equipment of any manufacturer. Its subsidiaries also have a similar arrangement. For example, Mach Electric Cooker, a subsidiary that sells electric fryers and other kitchen equipment, handles processes up to equipment design, but procures products from OEM subcontractors; it does not have full-scale production facilities itself.

With regard to procurement, volume discounts lead to cost advantages over competitors. Although it does not necessarily always maintain superiority against construction teams attached to manufacturers, the company has a solid track record in the construction of freezer/refrigeration and other equipment, and is well aware of the benefits of volume discounts. As volume discounts are widespread in materials for construction equipment, such as electrical work, the company is aiming for quantitative expansion in the Construction Facilities business—an area it plans to strengthen—in its pursuit of cost superiority.

The company has been experimenting with various means of optimizing purchasing across the group as a whole, focusing especially on purchases of equipment such as air conditioning equipment, sanitary fixtures, emergency lighting, and fire extinguishers. Once it changes its purchasing practices, the company believes that it can ultimately add as much as 2.0%–2.5% to its gross profit margin.

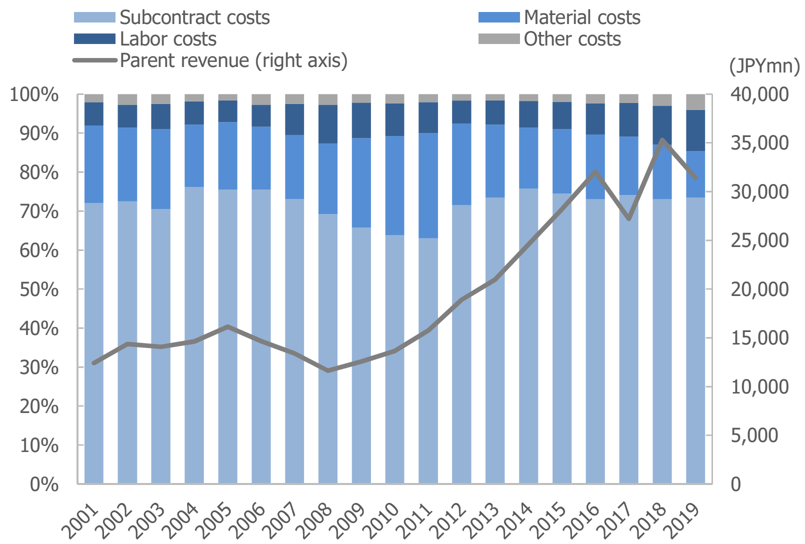
Construction

The company's main approach is to operate as principal contractor, overseeing on-site construction performed by some 200 subcontractors. In 2013, Luckland began training in-house construction teams that could handle on-site construction themselves.

At present, these teams handle a few percent of construction volume, and ultimately the company aims to raise this level to 20–30%. Hence, the company's focus on using subcontractors remains unchanged.

In FY12/19, subcontracting costs accounted for 73.5% of total production expenses on a parent-only basis. Subcontracting costs trended downward from FY12/06, when revenue was in decline. Shared Research believes this decrease illustrates the tendency to pay subcontractors lower rates in times of economic difficulty.

Breakdown of production costs (parent-only)



Source: Shared Research based on company data

The majority of the company's costs are for subcontracting, but as these mainly comprise labor costs on construction sites and the costs of materials subcontractors bring on-site, subcontracting costs can vary according to on-site skills. Subcontractors typically estimate costs by multiplying the number of workers by unit labor price by number of days worked, and then add cost of materials. If construction takes more days than scheduled, additional labor will be needed for the extra days, or to help get the project back on schedule, and the cost of rented equipment and supplies will also increase. Reasons for schedule delays vary, but delays caused by inexperienced construction managers and poor coordination of construction personnel drive up costs for Luckland, and are areas where the company has room to make some improvements before construction work on individual projects gets underway.

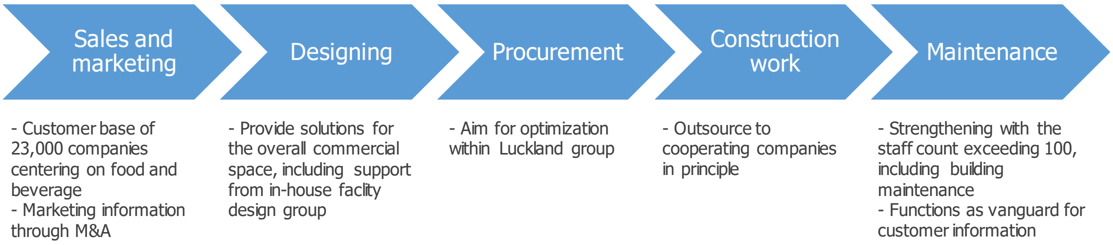
Within its industry, Luckland's efforts to develop in-house construction teams is atypical. Although the company does not intend to build enough capacity to handle all construction projects, it believes this approach will have four cost-related benefits: (1) retaining profit that would otherwise flow to subcontractors; (2) a stronger position when negotiating prices with subcontractors; (3) the ability to address cost rises stemming from a shortage of construction workers; and (4) accumulating on-site expertise.

Maintenance

In FY12/19, the Store Maintenance business generated revenue of JPY2.1bn, accounting for 5.2% of the company total. A team of roughly 100 employees, including those at building maintenance subsidiary ace-center co., ltd., handles this business. Luckland intends to strengthen the maintenance business, which provides recurring revenue and is relatively unaffected by economic fluctuations. Providing on-site maintenance at commercial facilities also helps the company quickly gain access to refurbishment plans and other useful sales-related information, so it is an important element of the company's business model.

As of end-FY12/19, the company had maintenance agreements in place at 14,580 locations (versus 10,838 at end-FY12/18). This rise was attributable to the acquisition of ace-center and the creation of a team specializing in sales of maintenance services. At restaurants, Luckland also has an advantage over manufacturer-affiliated maintenance services because it has the expertise to handle refrigerator/freezers from a variety of manufacturers. Leveraging this expertise, Luckland started an equipment maintenance service for food processing plants and warehouses in FY12/19.

Value chain



Source: Shared Research based on company data

Food product sector a stable source of earnings; new fields driving growth

The company discloses its revenue breakdown by company divisions (reflecting types of client) and businesses.

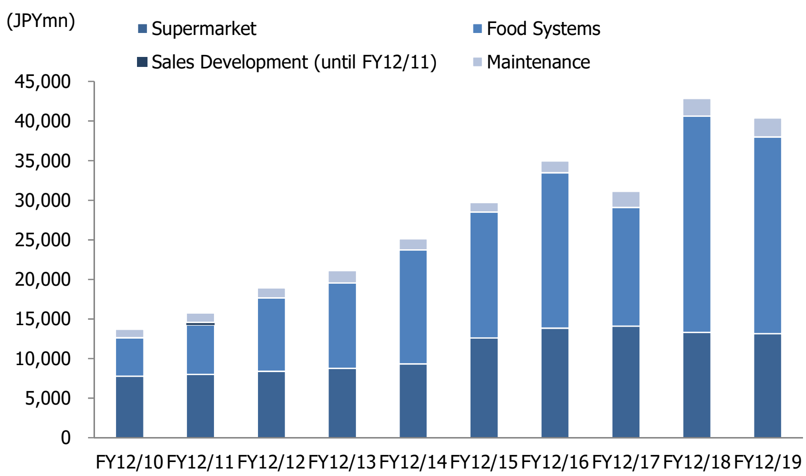
Revenue by division

In FY12/19, the Supermarket Division accounted for 32.5% of the revenue, the Food Systems Division for 61.6%, and the Maintenance Division for 5.9%.

The Supermarket Division, which concentrates on medium-sized supermarkets, accounts for the largest number of customers. In this division, the company focuses on food and beverage retailers that need freezer/refrigeration equipment. The food and beverage retail industry has accounted for 30–40% of company revenue in each of the five years since FY12/14. This division's customer focus is gradually shifting to large supermarkets.

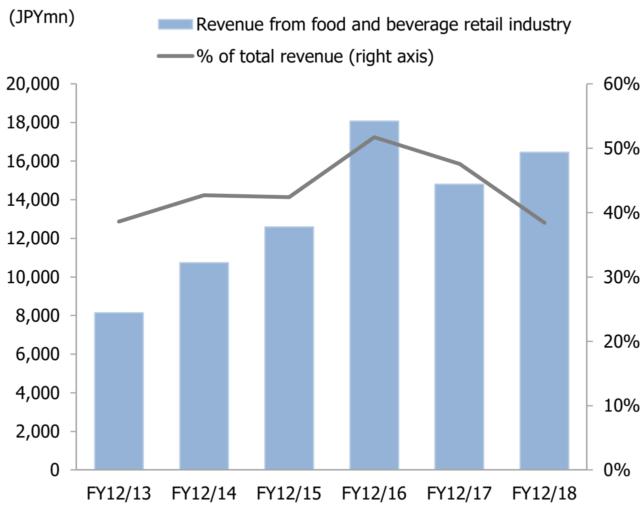
In the Food Systems Division, the company generates revenue from food-related customers that fall outside the scope of the Supermarket Division. This division's customers include restaurants, a category in which Luckland has been historically strong, as well as relatively new customer bases such as hotels and logistics warehouses. Revenue in this division has grown rapidly since 2011, with average annual growth rate of 18.9% over the nine years from FY12/11 to FY12/19. The company attributes this rapid growth to customers outside the restaurant industry, such as large hotels, food processing factories, and distribution warehouses. The percentage of revenue from the restaurant industry has fallen significantly since FY12/13.

Revenue by division

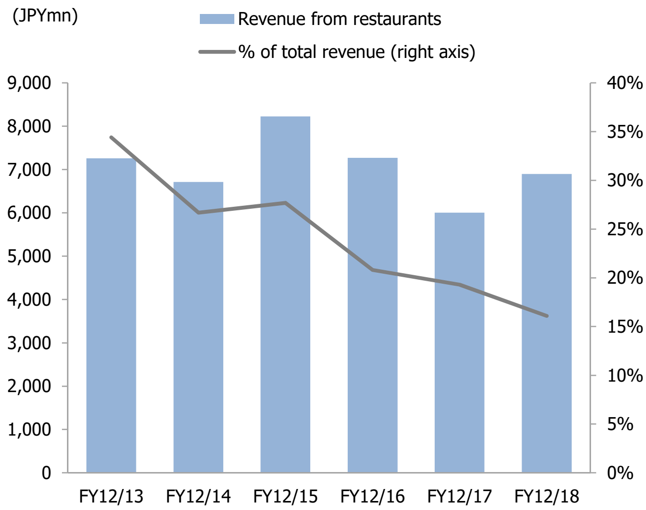


Source: Shared Research based on company data

Revenue from the food and beverage retail industry



Revenue from restaurants



Source: Shared Research based on company data

Revenue by business

The company divides revenue among six businesses: Store Facilities, Commercial Facilities, Food Processing Plants and Logistics Warehouses, Store Maintenance, Energy Conservation and CO_2 Reduction, and Construction. The business categories describe the type of business the company conducts.

Store Facilities

The company's customers in this business comprise operators of commercial stores, regardless of whether they are in the retail or restaurant industry. In FY12/19, this business accounted for 43.2% of consolidated revenue versus 87.5% of revenue in FY12/98 (when the company started reporting on a consolidated basis). The decreasing relative of this business in the company's consolidated results points to the company's efforts to grow other business lines.

Commercial Facilities

The main customers for this business are developers and building owners. In this business, the company refurbishes common spaces of commercial facilities, installs building systems such as MEP (mechanical, electrical, and plumbing), and refurbishes building spaces when tenants change. This business accounted for 18.6% of revenue in FY12/19, and the company says it plans to turn this into a core business. To this end, Luckland has purchased subsidiaries specializing in electrical systems, HVAC (heating, ventilation, and air conditioning), and fire-prevention equipment, as well as lighting design.

Food-Processing Plants/Logistics Warehouses

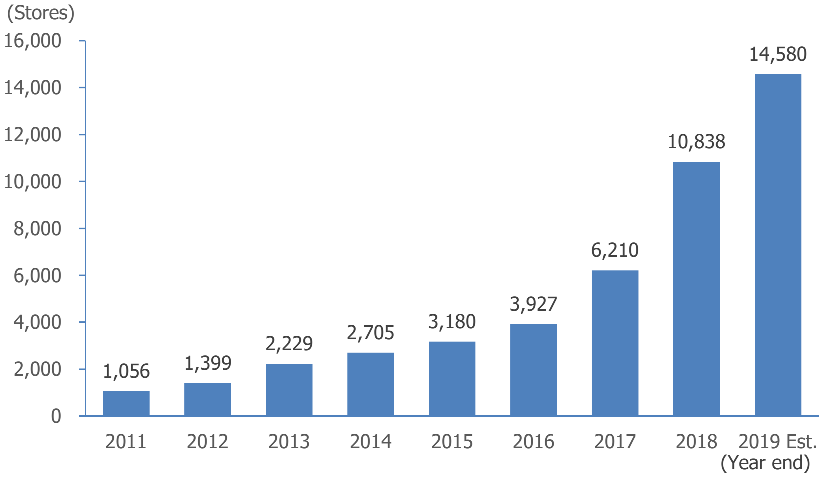
In this business, the company's main customers are food-processing plants and logistics warehouses. Installation of freezer/refrigeration equipment is also the focus of this business, but differs from Store Facilities in installing large-scale equipment purchased from Hitachi, Ltd. (TSE1: 6501), Mitsubishi Heavy Industries, Ltd. (TSE1: 7011), and other manufacturers. In this category, the company competes with Mayekawa Manufacturing Co., Ltd. (unlisted). Rather than end customers, in recent years the company has received orders mainly from general contractors and engineering companies. Lacking any large-scale projects, this business accounted for only 7.9% of consolidated revenue in FY12/19.

Store Maintenance

This business accounted for 5.2% of revenue in FY12/19. Originally, in this business Luckland focused on stores where it was installing equipment. The August 2016 acquisition of ace-center co., ltd., which manages buildings and other facilities, broadened this focus. Also, in June 2017 the company set up a specialized sales team to cultivate customers for maintenance services. This team has been instrumental in the rapid increase in maintenance agreements, to 14,580 stores as of end-FY12/19 (+3,742 stores versus end-FY12/18). When they require renovation work, these new customers become potential customers for the Store Facilities and Commercial Facilities businesses as well. Building on this, in FY12/19 Luckland started an equipment maintenance service for food processing plants and warehouses.

Sales growth has been slower than the rise in the number of stores under maintenance agreements. The reason is that the company books revenue as maintenance is provided, rather than receiving fixed annual fee income.

Stores under maintenance agreements



Source: Shared Research based on company data

Energy Conservation and CO2 Reduction

This business, which accounted for 0.4% of FY12/19 revenue, conducts three main activities:

- ▷ Selling LED lighting (Tanako-chan and Ultra Tanako) for refrigerated and other showcases;
- ▷ Renting out air conditioners and commercial refrigerator/freezers; and
- ▷ Selling electrical fryers and other kitchen equipment provided by acquired subsidiary Mach Electric Cooker.

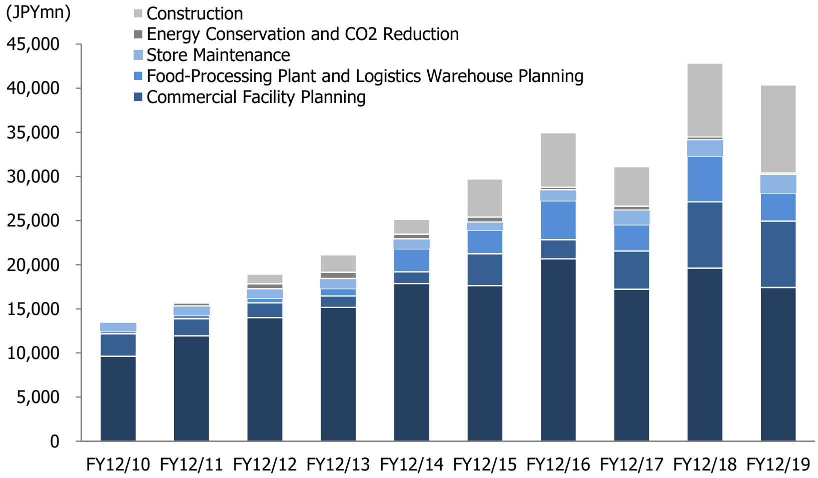
Together, these activities generated revenue of JPY179mn in FY12/19. Although not a mainstay, the company considers this business important because it provides equipment, fixtures, and services that make stores and other facilities more convenient for customers.

With the exception of Mach, most customers for this business are the existing customers of other businesses. Mach provided electrical fryers to the AEON Queensbay Store, a commercial facility on the island of Penang, Indonesia, that reopened in 2017 following refurbishment. The company is providing maintenance there through a local distributor; Shared Research thinks this approach could lead to planning, design, and production assignments for the company when the facility decides on another refurbishment in the future.

Construction

This business generated 24.7% of revenue in FY12/19. Since October 2008, the focus in this business had been diagnosis of earthquake resistance and reinforcement work. However, as the company accumulated various experience in subcontracted framework construction, it has seen a gradual increase in the number of inquiries on new construction and renovation/expansion work. To date, construction has tended to be of small and medium-sized low-rise structures, such as convenience stores and roadside stores, but the company has begun to land larger orders, including a hotel renovation project with an order value of more than JPY4.0bn, and these are serving to drive business expansion.

Revenue by business



Source: Shared Research based on company data

Growth businesses

Finally, we explain the various stages of growth from the company's inception and the business areas that have driven this growth, specifically looking at food stores (mainly supermarkets and restaurants), non-food stores, and overseas markets.

Food stores supported growth from the company's inception to the early 2000s, and this business area is expected to continue steadily contributing to earnings in the future. Driving revenue growth from 2005 onwards has been facilities other than food-related stores. Looking at profit margin over this time, GPM appears to have risen in new business areas to a level comparable with traditional freezer/refrigeration equipment projects (OPM has deteriorated, though, and Shared Research believes this is because growth in revenue has been unable to absorb rising costs, such as SG&A). The company is looking to overseas markets to help drive growth in the years ahead.

Food-related stores

Food stores (supermarkets and restaurants) underpinned the company's growth from establishment in 1970 until 2005, and still made up a majority of revenue at that point. This period coincided with high rates of nominal GDP growth in Japan (more than 4% from FY1974 to FY2005), albeit lower than during the country's period of high economic growth (1954–1973). Despite some differences in degree, in general the company's performance grew in tandem with Japan's food markets and the macroeconomic growth.

This period was marked by demand for commercial refrigeration and kitchen equipment. Growth accelerated as the company responded by offering water supply and plumbing services and then expanding into store refurbishment. Although not always able to secure orders in all these areas, the company steadily built up a track record in individual categories. By its 30th anniversary in FY12/03, revenue (parent-only) had increased to JPY14.1bn.

At that point, the company had already begun to develop a business style that it would continue in later years, concentrating on business development across a broad range of industries and the willingness to take on partial orders rather than insisting on entire construction projects for commercial spaces.

Non-food facilities

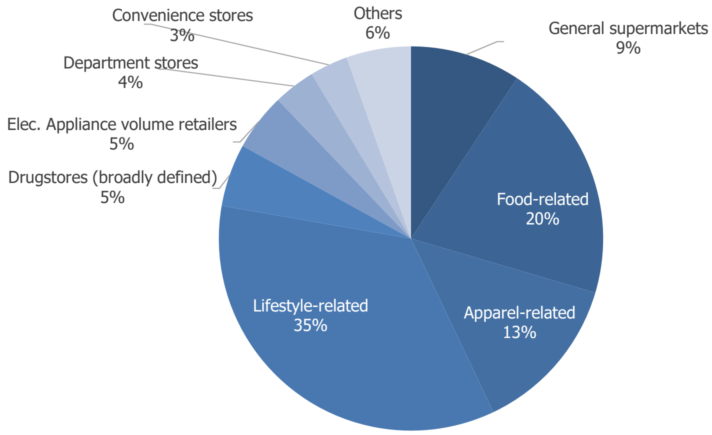
After President Mochizuki took over the company's management in 2004, in anticipation that the Japanese economy would mature the company began shifting its customer focus beyond the food sector. Luckland unveiled a new corporate logo and medium-term management policy on July 14, 2008, positioning this day as the start of the company's second stage.

The medium-term management policy introduced four targets:

- ▷ Work proactively to become involved in commercial facilities from the planning stages, and enter the building systems and interiors supervision businesses;
- ▷ Strengthen store maintenance services and reduce life-cycle costs;
- ▷ Increase the ability to propose plans and reinforce the brand; and
- ▷ Offer planning and proposal, design, construction, and maintenance services to help reduce greenhouse gases and conserve energy.

The company fully recognized that it was in a very difficult operating environment and could not depend on market growth alone after the December 2019 report from the government that annualized growth in nominal GDP was down to a mere 0.582%. By changing its direction with the help of new businesses and approaches, the company appears to be expanding its target market within Japan. According to the Ministry of Economy, Trade and Industry's Commerce Statistics (2014), sales floor area by commercial category in the food and beverage retail sector was 39.9mn sqm, even including general supermarkets. For overall retail, the figure was 134.8mn sqm, based on which the target market is calculated to grow 3.4-fold.

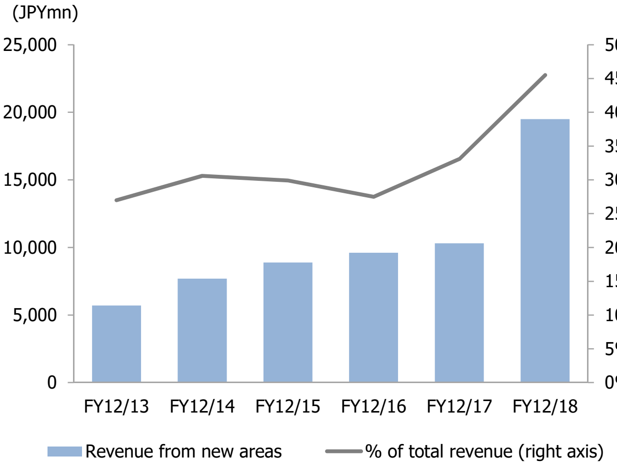
Sales floor areas by commercial category



Source: Shared Research based on "Commercial Statistics," Ministry of Economy, Trade and Industry

To expand revenue and profit, the company concentrated on building up a wide range of experience outside its traditional strength of installing freezer/refrigeration equipment for food stores, branching out into and cultivating customers for a range of other facilities and interior work. The change in direction is starting to have a benefit: revenue from non-food stores (a new area) grew from about JPY1.0bn around 2005 to about JPY10.0bn at end FY12/15, and it continues to grow (in FY12/18, it reached the JPY20.0bn mark).

Revenue in new business categories



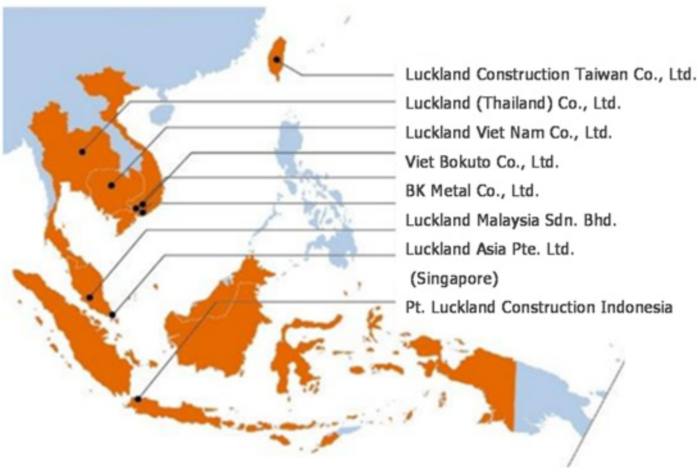
Source: Shared Research based on company data
Note: Revenue from new business categories and total revenue excludes the restaurant industry and the retail food industry.

Overseas markets to drive long-term growth

Luckland expects overseas markets to drive growth; it aims for overseas revenue to reach JPY5.0bn in 2025 and JPY20.0bn in 2035. With these increases, the percentage of overseas revenue would rise to 29% in FY12/35, the final year of the third 10-year plan. The overseas business recorded a loss in FY12/17 (revenue was about JPY1.0bn), but overseas revenue appears to have grown to some JPY1.5bn in FY12/19. The company's overseas business continues to grow and appears to be on track to achieve the final year targets set out in the second ten-year plan (overseas revenue of JPY5.0bn, recurring profit of JPY200mn in FY12/25).

Most of the company's overseas operations are in seven Asian countries other than China, namely Singapore, Cambodia, Malaysia, Thailand, Vietnam, Indonesia, and Taiwan. While the company plans to cultivate growth under the current structure for the time being, it is also considering future offices in Myanmar and the Philippines. Luckland plans to prioritize development in Asian markets other than China because of difficulties in obtaining regulatory approval in China and out of concern for geopolitical risks there.

Overseas locations



Source: Shared Research based on company data

Overseas subsidiaries are currently pursuing business development independently, as the company believes they should give priority to honing their individual strengths in local markets. Consequently, the revenue structure differs from that in Japan, and the company expects this situation to continue for the foreseeable future. The company targets overseas revenue of JPY5.0bn by 2025. Of this amount, Luckland expects store design and construction (a strength in Japan) to account for around JPY1.0–1.5bn. Outside this field, the company anticipates JPY1.5bn in revenue from the freezer/refrigeration engineering business the company has launched in Thailand and JPY1.5bn from finishing hardware through the Vietnamese factory of Bokuto Kenzai, which the company acquired in 2018.

The company's overseas business differs from the domestic business in several ways. For one, overseas the company does not have in place the same network of trusted subcontractors. For that reason, the company does not plan to expand the store design and construction business, which means taking on the risk of on-site construction. The engineering business the company has launched in Thailand involves designing and installing refrigeration/freezing equipment for refrigerated warehouses being built by Japanese general contractors. In finishing hardware, the company undertakes the production of finishing hardware (railings and protective fences) as a subcontractor on projects Japanese general contractors are handling in Southeast Asia.

However, as it is aiming for revenue of JPY20.0bn over the long term, the company recognizes the need to increase the number of projects it undertakes itself, which would involve strengthening its construction capabilities. To this end, the company says it will consider joint ventures with local companies but will give priority to building up experience at local subsidiaries, so that it could eventually join hands with a good partner.

Over the medium to long term, Luckland plans to focus on the Asian market, which it believes has potential. One reason is that many companies in the Japanese restaurant industry are keen to move into the Asian market. With the Japanese restaurant market maturing, they view Asia ex-Japan as a source of growth. Also, Mitsui Fudosan Co., Ltd. (TSE1: 8801) and other large Japanese developers have begun concentrating on overseas development projects, many of which seek Japanese restaurants as tenants.

Overseas subsidiaries

Luckland Asia Pte. Ltd.

Established in Singapore in January 2013, this company oversees Luckland's operations in Asia. Luckland Asia plans, designs, constructs, and supervises construction of stores and commercial facilities. Much of its projects involve design and construction of restaurant interiors and facilities.

Luckland (Cambodia) Co., Ltd.

Established in September 2013, this subsidiary plans, designs, constructs, and supervises construction of stores and commercial facilities in Cambodia. Concentrating on kitchen-related items, Luckland (Cambodia) is building a multinational procurement network and establishing a local production route for sheet metal products.

Luckland Malaysia Sdn. Bhd.

Established in April 2014, this subsidiary plans, designs, constructs, and supervises construction of stores and commercial facilities in Malaysia. The subsidiary provides inexpensive fixtures through a tie-up with a local home furnishings company. In January 2018, Luckland Malaysia was named the designated construction company for a Japanese restaurant complex operated by a wholly owned subsidiary of Sojitz Corporation. Through this arrangement, Luckland Malaysia took charge of the design and construction, including surrounding areas, for nine tenants at the complex. The company has also invested in a local special-purpose company subleasing some of the tenant areas on this project.

Luckland (Thailand) Co., Ltd.

This subsidiary, established in November 2014, plans, designs, constructs, and supervises construction of stores and commercial facilities in Thailand. It also manufactures and sells shower units. In 2016, this company began conducting engineering for refrigeration/freezer facilities as well, as Luckland expects demand in Asia for this business to expand. The subsidiary, which has six or seven local employees, handled relocation, expansion, and new shop openings for three MUJI stores in 2017. Despite a 49% ownership stake, Luckland effectively controls the subsidiary.

Luckland Viet Nam Co., Ltd.

This subsidiary, established in December 2014, plans, designs, constructs, and supervises construction of stores and commercial facilities in Vietnam. This company is also involved in the freezer/refrigeration equipment business. In 2017, the subsidiary provided design support for a traditional arts and crafts shop built in Vietnam's Hoi An tourist region as part of the Grassroots

Technical Cooperation Project, a joint project between the city of Minamiboso in Chiba Prefecture and the Japan International Cooperation Agency (JICA).

Pt. Luckland Construction Indonesia

This subsidiary, established in February 2015, plans, designs, constructs, and supervises construction of stores and commercial facilities in Vietnam; this company is also involved in the maintenance and freezer/refrigeration equipment businesses. Different from Luckland's other subsidiaries, this company offers maintenance services, beginning with a contract signed with general supermarket operator AEON Co., Ltd. (TSE1: 8267) in 2015.

Luckland Construction Taiwan Co., Ltd.

This Taiwanese subsidiary was established in August 2017 to expand Sugu Deru, a new service to help Japanese companies move into the market and strengthen the company's business in the region. The subsidiary plans, designs, constructs, and supervises construction of stores and commercial facilities. Luckland Construction Taiwan provides Sugu Deru based on a July 2017 alliance with Japanese company Pronexus. This one-stop support service helps companies moving into the Asian market with administrative procedures, store production, and maintenance.

Viet Bokuto Co., Ltd./BK Metal Co., Ltd.

Viet Bokuto Co., Ltd. and BK Metal Co., Ltd. are overseas subsidiaries of Bokuto Kenzai Kogyo, which Luckland acquired in 2018. The delay in acquiring the Vietnam-based subsidiaries of Bokuto Kenzai Kogyo was due to the necessity of receiving permission to make the acquisition from the local authorities. Viet Bokuto is involved in construction, ornamental metal design/production/installation, and the manufacturing of metal fittings and sheet metal fixtures. BK Metal sells metal fitting/fixtures and also does exterior construction work.

Management targets

Luckland does not disclose specific numerical targets as key performance indicators (KPIs). However, at the FY12/19 results presentation, the company provided seven categories with which it evaluates management objectives as of end-FY12/19: growth in revenue, improvement in recurring profit margin, improvement in ROE, improvement in economic value added, growth in new areas, increase in number of customer stores, and expansion of branches and sales offices. As categories like "increase in number of customer stores" are similar to KPIs, although the company does not report on these categories each period, Shared Research thinks they at least highlight management's areas of focus.

Self-assessment of management targets

	FY12/19
Increase revenue	Missed
Raise the recurring profit margin	Missed
Increase ROE	Missed
Boost economic value added (EVA)	Missed
Grow in new areas	Missed
Increase number of customer stores	**Achieved**
Expand branches and sales offices (incl. expansion of regional offices and acquisitions)	**Achieved**

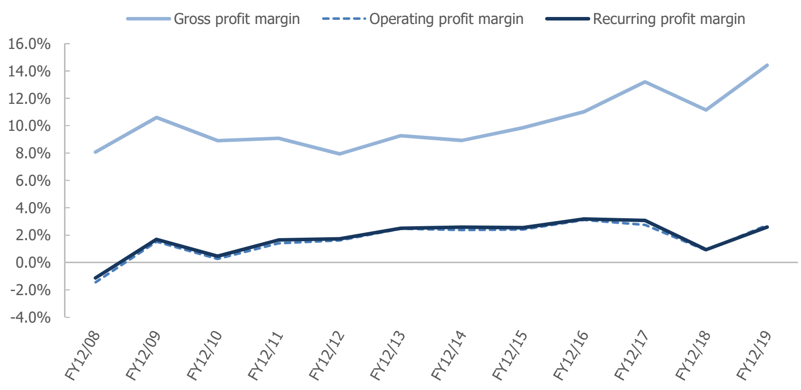
Source: Shared Research based on company earnings data
Note: "A" denotes satisfactory results, "B" denotes somewhat unsatisfactory results, "C" denotes unsatisfactory results

Improving profitability is a management priority

The company has consistently marked itself low for RPM and ROE since FY12/14. The company had a recurring profit margin of 2.6% in FY12/19, lower than Nomura's 7.4% (FY02/19) and Tanseisha's 7.2% (FY01/20).

Over the five years from FY12/14 to FY12/19, GPM has improved by 5.5pp, but OPM rose only 0.3pp as the rise in SG&A expenses appears to have outstripped revenue growth.

Profitability

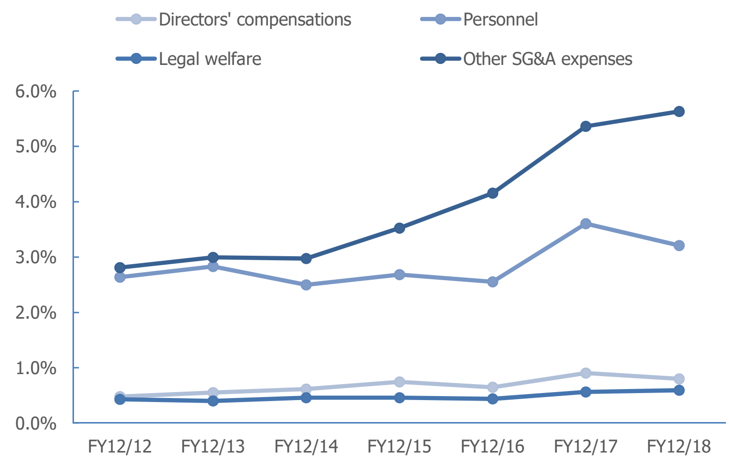


Source: Shared Research based on company data

Key SG&A expense categories have been generally increasing as a percentage of sales since FY12/12. In particularly, the "other" category has risen 2.8pp, from 2.8% to 5.6%. This rise has been attributable to acquisitions, the establishment of overseas subsidiaries, and the proactive expansion of sales office and service stations. As a result, rent and other expenditures have risen sharply, and the company has incurred M&A expenses. During this period, the company acquired 10 companies and set up seven overseas subsidiaries and five domestic sales offices.

These aggressive management moves have also prompted an increase in personnel costs and executive compensation, with personnel-related costs (the total of employee salaries and outsourcing expenses) growing 1.0pp, from 2.6% to 3.6%. Shared Research assumes the increase in subsidiaries has also led to a rise in the number of group personnel involved in management.

Breakdown of SG&A expenses as a percentage of revenue (consolidated)



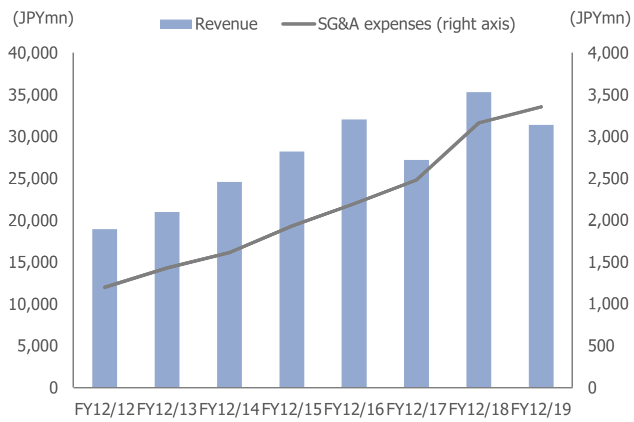
Source: Shared Research based on the company data
Note: Personnel expenses are the sum of employee salaries and outsourcing expenses.

The effect of rising SG&A expenses on profitability has been more pronounced at subsidiaries than the parent company. Although the numbers are not precise because intra-company transactions are eliminated, Shared Research has calculated the difference between consolidated and parent-only accounts by looking at subsidiaries' figures. The difference between consolidated and parent-only revenue expanded from JPY2.1bn in FY12/13 to JPY9.0bn in FY12/19 (+JPY6.9bn). Over the same timeframe, the difference between SG&A expenses went from JPY1.357bn to JPY1.362bn, pushing up the SG&A expense ratio by 0.2pp, to 15.2%.

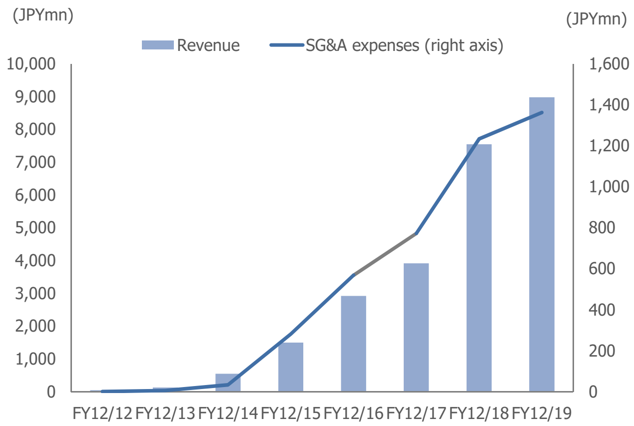
To lower SG&A expenses as a percentage of revenue, it is important that the company focuses on raising subsidiaries' revenue and curtailing administrative costs for the group as a whole. We believe the company will evaluate orders received and new customers obtained per subsidiary as internal KPIs for revenue growth, based on the anticipated synergies from companies it has acquired.

While reducing purchasing and other costs are effective ways to improve profitability, because the companies Luckland acquired are not yet generating sufficient revenue growth, one of Luckland's top priorities is improving profitability by generating synergies between the companies it acquires and other group companies.

Parent-only revenue and SG&A expenses



Difference in revenue and SG&A expenses (consolidated vs. parent-only)



Source: Shared Research based on company data

Strengths and weaknesses

Strengths

- **Established strength in installation of freezer/refrigeration equipment is linked to increased orders:** The display industry has a market value of around JPY1.5tn by revenue, and the company's market share is only around 2–3%. However, the company has an extensive track record in the construction and installation of freezer/refrigeration and kitchen systems, and employs some 40 people specializing in building systems design. For this reason, the company is capable of providing customers with total solutions that cover all aspects from interior design and store operation to managing running costs. If focusing just on supermarkets and restaurants, the Luckland group is a leader.
  This strength has helped the company expand the customer base and enlarge its business domain. Developers that manage facilities are the company's customers in the mainstay Commercial Facilities business, while connections with the tenants (restaurants) in these facilities help the company obtain orders. These orders have grown from JPY830mn in FY12/09, when the company began disclosing standalone figures for the business, to JPY7.5bn in FY12/18.
- **Breaking with industry tradition, formed in-house construction teams to retain profits that would otherwise flow to subcontractors and to address labor shortages:** The company is forming in-house teams comprised of skilled tradesmen to work on construction sites. This approach is unusual; companies operating as principal contractors generally avoid turning the cost of labor into a fixed cost because of the difficulty of managing labor, and to retain flexibility in responding to fluctuations in the business climate. As of end-FY12/19, the company's in-house construction teams had 259 members. Eventually, the company plans to expand the teams to handle 20–30% of the group's total construction demand. Luckland believes in-house construction teams can deliver a number of benefits: 1) the company can retain profit that would otherwise flow to subcontractors; 2) having in-house teams keeps the company in touch with on-site conditions, so it can negotiate appropriately priced subcontractor agreements (which account for more than 70% of production expenses); 3) in-house teams can provide the operational flexibility to stabilize construction schedules, to address a shortage of construction workers in Japan over the medium term, as well as to prevent losses, thus maintaining profitability; and 4) the company can accumulate loss prevention methods and other expertise from construction sites.
- **Makes rapid decisions on M&A, increasing the number of customers and expanding the scope of business:** The company has proactively acquired companies since 2013, and by FY12/19 the difference between consolidated and parent-only revenue had expanded to JPY9.0bn (from JPY47mn in FY12/12). The company aims to grow revenue further through synergies among the acquired companies. The company has acquired companies with specific technical skills in related industries, giving it access to customer bases it can share with other group companies. Through repeated M&A, the company has expanded the number of sales opportunities exponentially. Benefits from these synergies began to appear gradually in FY12/17.

Weaknesses

- **Susceptible to cost competition, as brand strength is lower than that of larger rivals:** Companies in the facility design and construction industries are numerous. Luckland has less brand strength than the largest companies, which can make landing larger clients difficult. Also, Luckland does not have in place a sufficient framework to stave off competition and take on projects on its own, making it susceptible to price competition. The company's GPM is improving, and earnings are not suffering from low-priced orders. However, strategies for raising order prices or preventing them from declining are unclear. GPM was 14.4% in FY12/19, lower than Nomura's 20.7% (FY02/19) and Tanseisha's 18.9% (FY01/20). Differences in type of business, such as the company offering construction, are one reason for this discrepancy. However, Shared Research assumes the company has relatively fewer highly profitable projects. Although the overall contribution is still small, the company has made a number of moves to stave off competition. Firstly, it has begun offering on-site maintenance and property management services so as to maintain communication with customers and capture orders for special assignments, such as refurbishments. Secondly, it has made a full-fledged start in the subleasing business (the first project being a commercial facility that opened in the city of Tsurugashima, Saitama Prefecture, in February 2018) and invested in a special-purpose company (J's Gate Dining, in Malaysia, which opened in January 2018), allowing it to take orders for construction work.

- **High concentration of customers in cost-conscious industries:** A majority of the company's customer base is in very cost-conscious industries such as the food and restaurant industries (accounting for 67% of FY12/18 revenue). Shared Research thinks this concentration is one of the reasons for the company's lower profit margins compared with its large peers. Even in their investment phase, companies in these industries have to be unsparing with price negotiations so that they can secure their own profits in an extremely competitive environment. Further, general contractors and developers, who are clients in the Construction facilities business—an area the company is attempting to grow—are also expected to be unsparing with price negotiations as they have considerable experience.
- **President Mochizuki's strong leadership hampers delegation of authority:** Authority centers around President Mochizuki, whether it is overseas business, domestic sales, or IR activities. The company plans to use its overseas subsidiaries to train and foster the next-generation management team, but President Mochizuki is still the representative director of most of the group's overseas subsidiaries. As such, we believe much of the company's management decisions is in the hands of President Mochizuki. Luckland's blueprint for achieving JPY5.0bn in overseas revenue by 2025 calls for JPY1.5bn from the existing Store Facilities business, which currently has a value of around JPY1.0bn. This business is growing at 5% annually, and the company does not expect a high rate of growth. At present, we do not see the company cultivating the personnel it could rely on to control risks and develop the business. The company has expressed its intentions of cultivating the management team over the long term. However, Luckland's customers are showing a keen interest in expanding their operations into Asia now, and Shared Research thinks the company faces the risk of losing business opportunities.

Market and value chain

Industry characteristics and market scale

The display industry's scope is difficult to define. Under the Ministry of Internal Affairs and Communications' Japan Standard Industrial Classification, the display industry's classification is as follows:

- Broad classification: Service industry
- Intermediate classification: Other services
- Detailed classification: Business involving outsourced field survey, planning, design, display, configuration, production, and construction management of stores, exposition venues, special events or other exhibitions, focusing on the overall structural direction of interior or exterior construction, exhibition facilities, or equipment, including sound and visuals, and conducted mainly for the purposes of sales promotion, education and awareness, or the transmission of information.

Companies in the display industry seek to differentiate themselves by their planning and design offerings, and for this reason the business falls under the service industry category. However, the definition of the display business includes "undertaking complete production and construction management," which involves on-site construction. In this sense, the flow in the display category is similar to construction, which includes receiving orders from customers, handling on-site construction and production, and delivering projects to customers. The industry structure is also similar: larger companies generally act as principal contractors, which outsource actual construction and production activities to subcontractors.

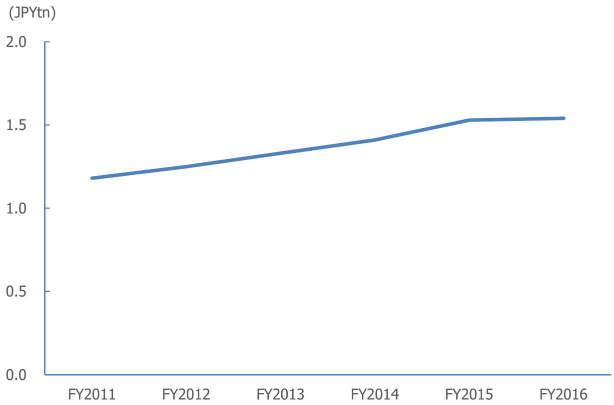
Companies in the display business must obtain various permits. However, companies can specialize in certain types of business, allowing them to begin on a small scale and start new businesses through corporate spinoffs. Hence, the barriers to entry are low. According to the Ministry of Economy, Trade and Industry's 2003 "Survey of Specific Services," 647 establishments were engaged in the display business, generating annual revenue of JPY4.2bn. Revenue per establishment was JPY644mn, and revenue per employee was JPY38mn. (The display business is excluded from surveys from 2004 onward.)

To receive large comprehensive orders, companies must concentrate on delivering construction results, and new entrants work steadily to raise their ranking within the industry. (At least, no game-changing innovations have occurred to date.) In this sense, the display industry is similar to the construction industry.

According to material from leading firms in the display industry, such as Nomura and Tanseisha, the display industry has a market scale of around JPY1.5–1.6tn. The industry breaks down into three major categories according to the types of spaces handled: commercial facilities and offices; events and expositions; and museums. The majority of Luckland's business is in commercial facilities and offices. This category is also largest in market scale. Revenue breakdown of the industry's largest company Nomura indicated that the second and third categories combined accounted for around 25–30% of revenue.

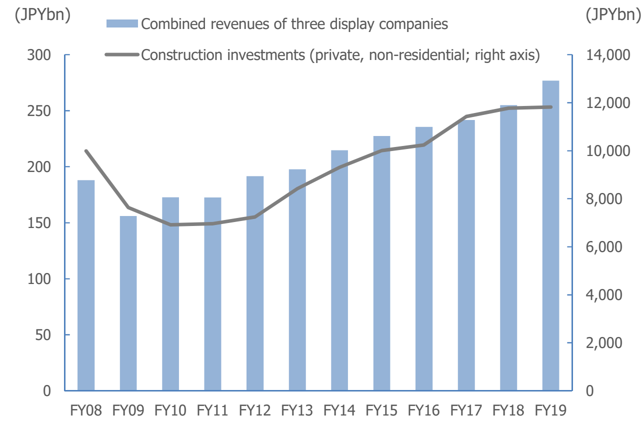
The display industry includes businesses such as renovations at customer stores, exhibitions, expositions, and events, which do not involve new construction or refurbishment of buildings. However, the industry is affected by customers' sales promotion measures and willingness to make capital investments, and is susceptible to macroeconomic fluctuations. In this sense, demand trends correlate closely to the construction industry.

Size of the display market



Source: Shared Research based on IR material of Nomura Co., Ltd.

Revenue of three display companies and construction investments (private, nonresidential)

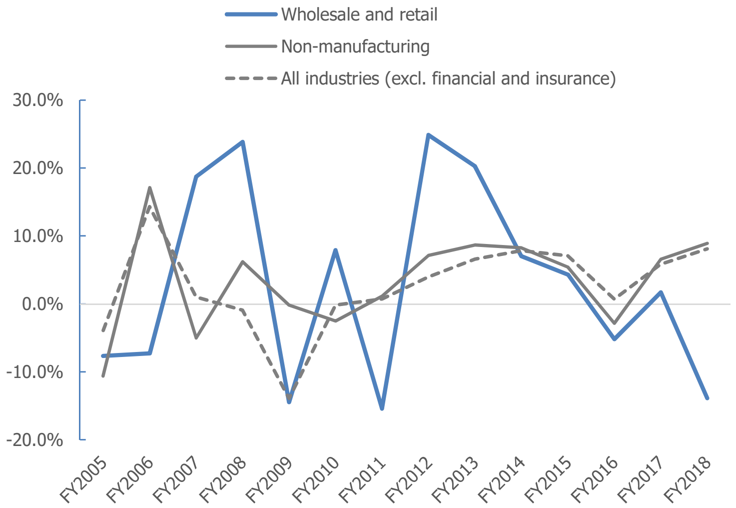


Source: Shared Research based on financial announcements by Nomura Co., Ltd.; Tanseisha Co., Ltd.; and Space Co., Ltd., as well as materials from the Ministry of Land, Infrastructure, Transport and Tourism.

The company focuses on building systems*, which correlates closely to overall construction demand. As such, Shared Research believes that the Japanese construction market and Luckland's typical client industries, supermarkets and restaurants, serve as useful lenses for understanding the company's business environment.

*Building systems include MEP (mechanical, electrical, and plumbing) and other specialty systems.

Percentage changes in wholesale and retail capital investment



Source: Shared Research based on "Survey of Corporate Statistics," Ministry of Finance. Wholesale and retail figures exclude food and beverage.

Market outlook

Estimates of market scale in Japan's display industry vary greatly, owing to categorization spanning a broad range of industries. According to materials from the largest companies in the industry, Nomura and Tanseisha, the market scale is estimated at around JPY1.5–1.6tn (with Tanseisha's target market around JPY0.8tn.) Numerous companies operate in the market but most of these are small or mid-sized companies that specialize in a specific area, and even the largest player in the industry has a market share of only about 10%.

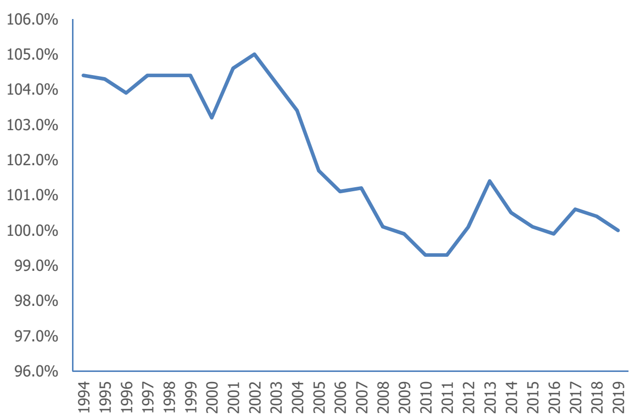
The display market has been growing at around 5–6% per year. As the number of foreign visitors to Japan has increased, refurbishment and new construction demand from hotels and commercial facilities has increased. In addition, the momentum of redevelopment projects in urban areas has pushed up demand in the display industry at commercial stores, offices, and shared spaces. The company expects such demand to remain robust through 2020, when the Tokyo Olympics will be held, but has a divided opinion about the outlook beyond.

According to a long-term forecast of construction investment by the Research Institute of Construction and Economy, investment in private non-residential construction (nominal) will rise from JPY9.8tn in FY2016 to JPY15.1tn (CAGR of +3.1%) in FY2030 assuming economic recovery, and JPY11.5tn (+1.1%) if assuming a baseline case. Within this estimate, growth in investment in offices is high. Growth in stores is around +1.0% even using economic recovery as the base assumption; in the baseline case, growth is negative.

As this information suggests, even looking only at demand within the company's traditional customer segment—supermarkets and the food and beverage industry—high rates of growth appear unlikely over the medium term. According to statistics by the Japan Food Service Association, the number of stores in Japan's restaurant industry continued to grow at around 4% annually until the early 2000s. With some fluctuations, growth has been generally flat since then. Meanwhile, according to the Japan Chain Stores Association, food and beverage sales from its member companies have grown modestly since 2013, and have just returned to levels last seen before the global financial crisis.

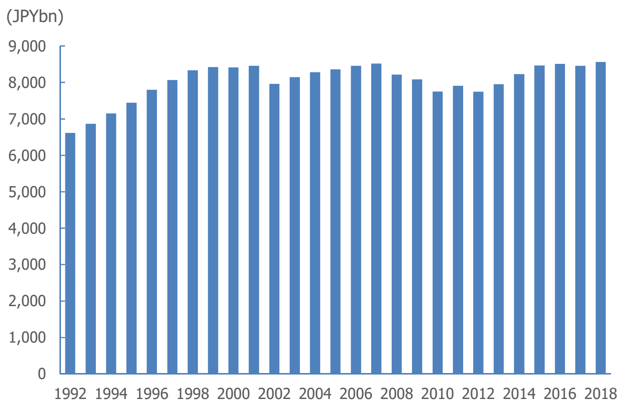
Medium-term forecasts by the Japan Refrigeration and Air Conditioning Industry Association project shipments of commercial refrigerator/freezers to fall 1.7% during the four years from FY2017 to FY2020 despite the demand leading up to the 2020 Tokyo Olympic Games, as other demands appear somewhat limited to replacement needs at integrated convenience stores, supermarkets, and drug stores. Shipments of frozen and refrigerated showcases are expected to drop 4.6%.

YoY change in number of restaurants



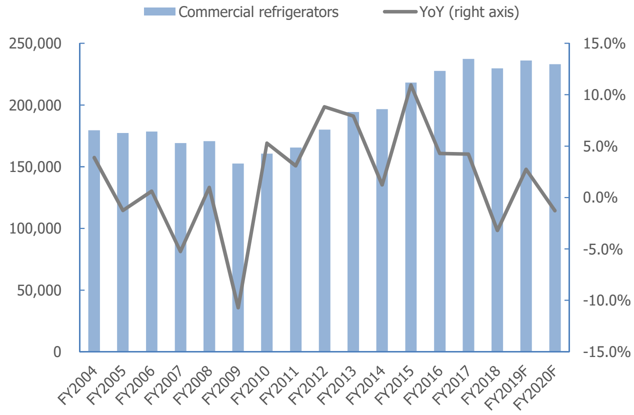
Source: Shared Research based on "Survey of Restaurant Industry Trends," Japan Food Service Association

Chain store food sales



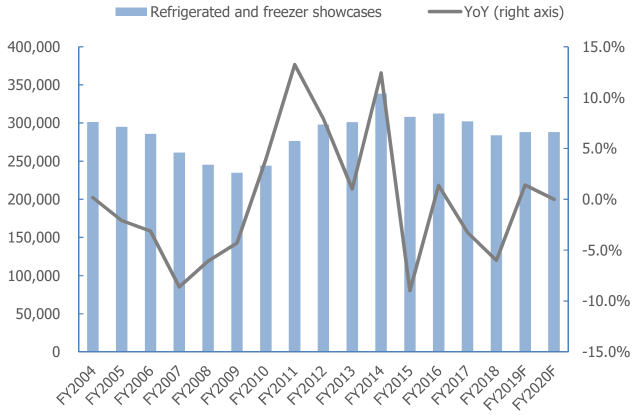
Source: Shared Research based on "Chain Store Sales Statistics," Japan Chain Stores Association

Shipments of commercial refrigerators in Japan



Source: Shared Research based on materials form the Japan Refrigeration and Air Conditioning Industry Association
Note: Figure for FY2018 is an estimate

Shipments of frozen and refrigerated showcases in Japan



Source: Shared Research based on materials form the Japan Refrigeration and Air Conditioning Industry Association
Note: Figure for FY2018 is an estimate

Competition and market issues

Peer companies in the display industry include Nomura Co., Ltd., Tanseisha Co., Ltd., Space Co., Ltd. (TSE1: 9622), and Semba Corporation (TSE1: 6540), as well as Aim Create Co., Ltd., an unlisted subsidiary of the Marui Group Co., Ltd. (TSE1: 8252). The company's business also overlaps to some degree with Hakuten Corporation (JASDAQ: 2173), which concentrates on event promotion. The largest company in the industry, Nomura, had FY02/18 revenue of JPY115.8bn and an industry share of less than 10%.

The revenue growth rate over the past five years has been higher at Luckland than at competing firms in the display industry. The average growth rate for the past five years was 8.0% at Luckland (from FY12/15 to FY12/19), which was higher than at Nomura (5.1% over FY2/15 to FY2/19) and Tanseisha (4.8% over FY1/16 to FY1/20). It is believed that group expansion through M&A has been a dominant factor in this high rate of growth.

Peer companies

Ticker	Company	Latest full-year results					Business description
		Fiscal year	Revenue (JPYmn)	OPM	ROA (RP-based)	ROE	
1418	Interlife Holdings	FY02/19	19,387	1.0%	1.5%	-1.9%	Started with interior production business, expanded to cover services such as store staffing, cleaning, and maintenance
2173	Hakuten	FY03/19	12,873	4.1%	11.0%	7.5%	Aiming to become a partner for corporate marketing. Mainly covers planning, designing, and production of events, exhibitions, and showrooms
4767	TOW	FY06/19	16,279	12.3%	15.1%	14.9%	Mainly covers planning and production of events, having large customers such as Hakuhodo and Dentsu
6540	Senba	FY12/19	28,363	4.5%	7.3%	9.5%	Started out covering glasswork for showcases. Has a factory for store fixtures. Aeon Retail is a large customer
9612	Luckland	FY12/19	40,367	2.7%	3.4%	10.7%	Has expertise in frozen and cold storage equipment as well as facility construction work including kitchen and air-conditioning
9622	Space	FY12/19	50,151	6.3%	9.4%	7.0%	Started out trading glasses. 65% of revenue comes from facilities related to shopping centers
9716	Nomura	FY02/19	125,859	7.3%	11.3%	16.3%	Leader in the display industry, having strength in events and large facilities. 40% of revenue comes from interior production
9743	Tanseisha	FY01/20	81,679	7.0%	13.0%	15.1%	Initially covered interior designs and construction for department stores. Focuses on designing

Source: Shared Research based on individual companies' briefing materials

Looking at OPM and ROA, profitability is less favorable. No simple comparison is possible because of differences in the types of businesses handled, such as building systems construction and architectural work, but the below table shows that the OPM in FY03/19 generally exceeds 5% at major electrical work and air conditioning equipment firms, which is higher than at Luckland.

Profitability among large companies in building systems construction

Ticker	Company	Latest full-year results Fiscal year	Revenue (JPYmn)	OPM	ROA (RP-based)	ROE
1941	Chudenko	FY03/19	153,322	4.2%	3.3%	2.8%
1942	Kandenko	FY03/19	563,550	5.3%	6.8%	8.5%
1944	Kinden	FY03/19	521,283	7.7%	6.9%	6.5%
1959	Kyudenko	FY03/19	408,143	9.0%	11.7%	15.6%
1961	Sanki Engineering	FY03/19	212,314	5.0%	6.0%	10.3%
1969	Takasago Thermal Engineering	FY03/19	319,834	5.4%	6.8%	10.4%
1979	Taikisha	FY03/19	225,402	6.2%	6.9%	8.3%
1980	Daidan	FY03/19	155,565	4.9%	6.4%	8.4%

Source: Shared Research based on individual companies' briefing materials

In building systems, competitors include the construction divisions of companies that manufacture store freezer/ refrigeration equipment. Competitors for large refrigerated warehouses include Fukushima Galilei (TSE1: 6420; changed name from Fukushima Industries in December 2019), Fuji Electric Co., Ltd. (TSE1: 6504), and Mayekawa Manufacturing Co., Ltd. (unlisted). Competitors in MEP (mechanical, electrical, and plumbing) systems include large specialist companies such as Kandenko Co., Ltd. (TSE1: 1942) for electrical construction, and Takasago Thermal Engineering Co., Ltd. (TSE1: 1969) for HVAC. However, such companies rarely compete directly, as the scale of construction they undertake differs. Realistically, Luckland's most direct competitors would be small and medium-sized specialist contractors.

Performance of peer companies

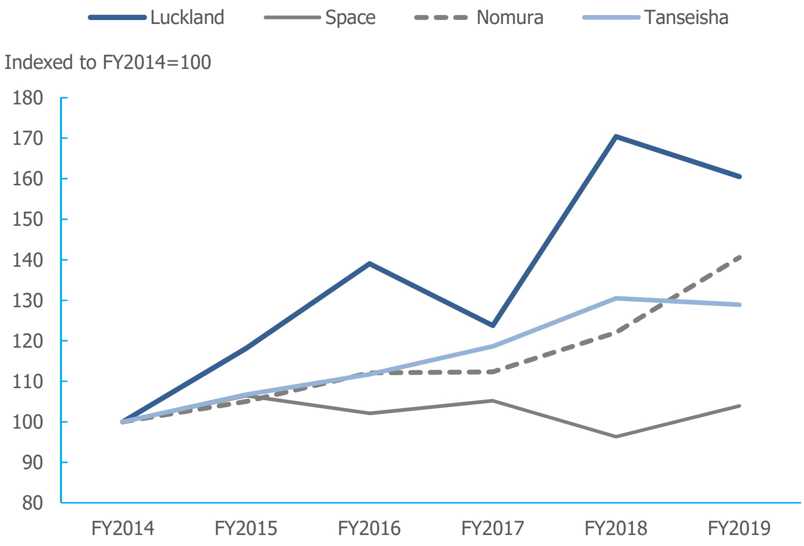
(JPYmn)	Luckland (9612) FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	Interlife Holdings (1418) FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	Hakuten (2173) FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.
Revenue	31,111	42,843	40,367	19,083	20,738	19,387	9,268	11,778	12,873
Gross profit	4,110	4,776	5,822	3,784	3,761	3,971	2,104	2,947	3,220
SG&A expenses	3,252	4,395	4,715	3,527	3,647	3,786	2,357	2,492	2,697
Operating profit	858	380	1,107	257	115	185	-253	455	524
Recurring profit	960	401	1,045	222	64	152	-262	452	513
Net income	677	89	916	72	-231	-74	-369	238	77
ROE	9.8%	1.3%	8.8%	1.6%	-5.7%	-1.9%	-41.8%	22.3%	7.5%
ROA (RP-based)	3.5%	1.4%	3.0%	1.8%	0.6%	1.5%	-5.0%	8.6%	11.0%
OPM	2.8%	0.9%	2.7%	1.3%	0.6%	1.0%	-2.7%	3.9%	4.1%
Total assets	27,419	27,953	34,335	12,228	10,109	10,600	5,258	5,270	4,068
Net assets	6,950	6,889	10,494	4,447	4,029	3,955	899	1,068	1,010
Equity ratio	25.2%	24.2%	30.3%	36.4%	39.8%	37.3%	16.8%	20.2%	24.7%
Operating CF	-1,623	184	-462	844	1,437	134	-252	780	892
Investing CF	-891	-1,271	452	-654	65	333	-691	-256	-190
Financing CF	3,123	1,178	3,158	-291	-1,575	-425	880	-782	-1,152
Cash and deposits	5,430	5,452	8,530	3,085	3,013	3,056	1,399	1,141	628
Interest-bearing debt	7,637	8,556	8,855	4,387	2,953	2,586	2,868	2,179	1,133
Net debt	2,207	3,105	325	1,302	-60	-470	1,469	1,038	505

	TOW (4767) FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	Senba (6540) FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.	Space (9622) FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Revenue	16,251	16,689	16,279	29,540	28,473	28,363	50,747	46,459	50,151
Gross profit	2,617	2,692	2,825	4,555	4,294	4,234	5,997	5,699	6,015
SG&A expenses	805	866	829	3,133	3,024	2,962	2,325	2,369	2,870
Operating profit	1,812	1,826	1,996	1,423	1,270	1,272	3,672	3,330	3,145
Recurring profit	1,823	1,873	2,017	1,472	1,339	1,327	3,677	3,265	3,155
Net income	1,207	1,208	1,345	991	955	964	2,491	2,107	1,947
ROE	15.8%	14.4%	14.9%	11.1%	9.9%	9.5%	9.6%	7.8%	6.8%
ROA (RP-based)	16.1%	15.1%	15.1%	8.3%	7.6%	7.3%	11.4%	9.8%	9.3%
OPM	11.2%	10.9%	12.3%	4.8%	4.5%	4.5%	7.2%	7.2%	6.3%
Total assets	11,807	13,055	13,680	17,582	17,667	18,662	33,257	33,303	33,870
Net assets	8,133	8,832	9,416	9,360	9,694	10,589	26,571	27,543	28,261
Equity ratio	68.2%	66.9%	68.2%	53.2%	54.9%	56.7%	79.9%	82.7%	83.4%
Operating CF	872	1,241	1,310	1,446	626	635	2,534	2,227	836
Investing CF	-6	-54	-34	8	-702	588	-83	-1,382	-789
Financing CF	-556	-585	-620	-294	-353	-338	-1,097	-1,567	-1,360
Cash and deposits	3,497	4,099	4,758	8,314	7,185	7,979	12,338	11,616	10,256
Interest-bearing debt	840	840	840	23	3	0	305	3	5
Net debt	-2,657	-3,259	-3,918	-8,313	-7,182	-7,979	-12,038	-11,613	-10,251

	Nomura (9716) FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	Tanseisha (9743) FY01/18 Cons.	FY01/19 Cons.	FY01/20 Cons.
Revenue	115,561	115,841	125,859	75,157	82,677	81,679
Gross profit	22,722	23,129	26,062	13,365	14,164	15,407
SG&A expenses	15,113	14,957	16,908	8,777	9,139	9,729
Operating profit	7,608	8,171	9,154	4,588	5,025	5,678
Recurring profit	7,809	8,373	9,341	4,741	5,219	5,870
Net income	5,056	5,638	6,745	3,221	4,206	4,075
ROE	14.3%	14.3%	16.3%	13.3%	16.0%	14.8%
ROA (RP-based)	10.8%	11.0%	11.3%	11.1%	11.9%	13.0%
OPM	6.6%	7.1%	7.3%	6.1%	6.1%	7.0%
Total assets	72,361	76,443	88,846	43,969	43,622	46,761
Net assets	35,268	39,344	43,311	25,511	26,923	28,276
Equity ratio	48.7%	51.4%	48.7%	58.0%	61.7%	60.5%
Operating CF	10,643	2,117	7,683	791	4,812	-906
Investing CF	-484	-1,010	1,137	-527	118	405
Financing CF	-1,807	-2,278	-2,257	-2,030	-2,346	-2,543
Cash and deposits	26,858	25,741	31,941	11,785	13,440	9,895
Interest-bearing debt	0	0	121	500	307	146
Net debt	-26,858	-25,741	-31,820	-11,285	-13,133	-9,749

Source: Shared Research based on individual companies' materials

Five-year revenue growth of companies in the display industry



Source: Shared Research based on individual companies' materials (as of March 2020)
*Accounting periods ending December for Space, February for Nomura, and January for Tanseisha.
**The FY2019 figure for Nomura (accounting period ending February) is the company's forecast.

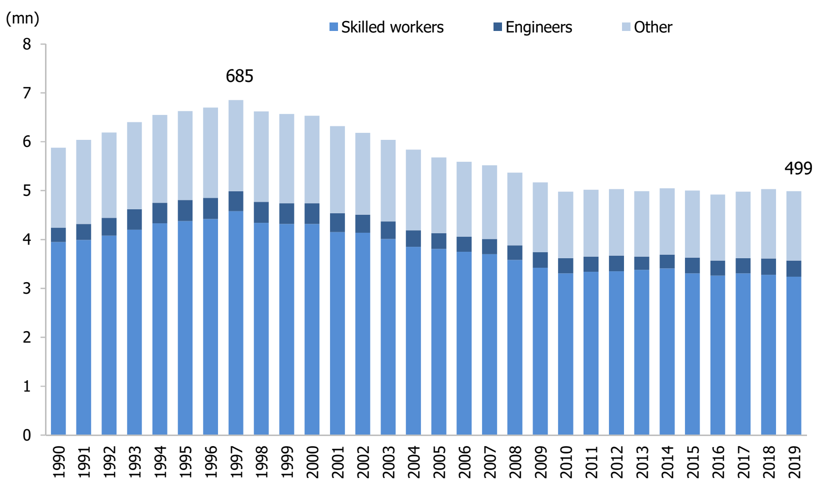
Display industry also experiencing shortages of skilled tradesmen

Japan's working-age population (15–64) is slated to fall from 76.8mn in 2015 to 44.2mn by 2060. This shrinking of the labor force is an issue across all industries. Labor shortages are a particular issue for the construction industry, which depends directly on manual labor. Accordingly, corporate management needs to have a long-term vision for addressing this issue.

The number of construction workers in Japan peaked at 6.9mn in 1997, before falling to 5.0mn in 2010. Business in the construction industry then picked up, due to disaster recovery efforts and redevelopment projects, but the number of workers has remained flat. A point of particular concern is the rising age of workers. As of 2015, 34% of construction workers were 55 or older (29% across all industries), whereas only 11% of workers were 29 or younger (16%).

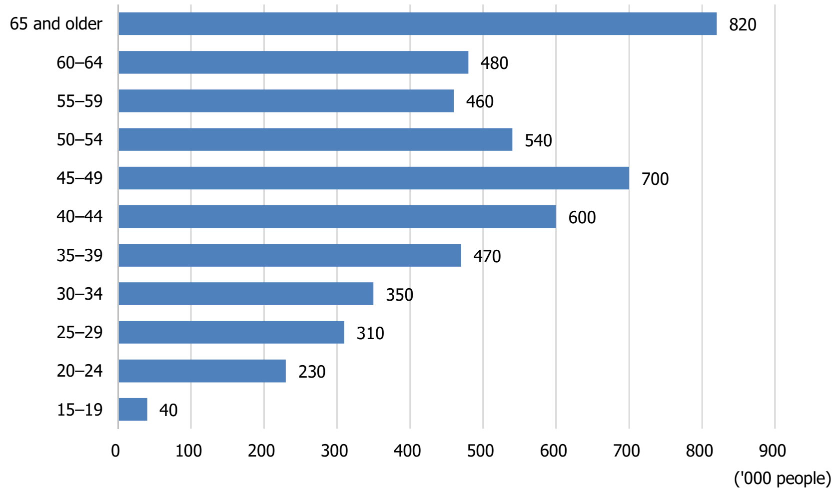
The display industry also faces this problem of a shrinking labor force. One of the industry's largest companies, Nomura, established the Nomura Training Center in 2016 with a view to foster resources, and has been bolstering business partnerships.

Workers in the construction industry



Source: Shared Research based on the "Labor Force Survey," of the Ministry of Land, Infrastructure, Transport and Tourism

Workers in the construction industry by age group



Source: Shared Research based on “Conditions, Changes, and Reference Materials Related to the Construction Industry,” Ministry of Land, Infrastructure, Transport and Tourism

Historical performance and financial statements

Income statement

Income statement (JPYmn)	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Revenue	**13,714**	**15,766**	**18,935**	**21,114**	**25,145**	**29,706**	**34,954**	**31,111**	**42,843**	**40,367**
YoY	8.7%	15.0%	20.1%	11.5%	19.1%	18.1%	17.7%	-11.0%	37.7%	-5.8%
Cost of revenue	12,493	14,335	17,433	19,158	22,899	26,779	31,103	27,001	38,067	34,544
Gross profit	**1,221**	**1,431**	**1,502**	**1,956**	**2,245**	**2,928**	**3,851**	**4,110**	**4,776**	**5,822**
YoY	-8.7%	17.2%	5.0%	30.2%	14.8%	30.4%	31.5%	6.7%	16.2%	21.9%
GPM	8.9%	9.1%	7.9%	9.3%	8.9%	9.9%	11.0%	13.2%	11.1%	14.4%
SG&A expenses	1,185	1,208	1,198	1,435	1,646	2,212	2,764	3,252	4,395	4,715
SG&A ratio	8.6%	7.7%	6.3%	6.8%	6.5%	7.4%	7.9%	10.5%	10.3%	11.7%
Operating profit	**36**	**223**	**304**	**521**	**599**	**715**	**1,087**	**858**	**380**	**1,107**
YoY	-81.3%	516.1%	36.5%	71.3%	15.0%	19.4%	52.0%	-21.1%	-55.7%	190.9%
OPM	0.3%	1.4%	1.6%	2.5%	2.4%	2.4%	3.1%	2.8%	0.9%	2.7%
Non-operating income	55	62	56	58	97	91	84	157	218	212
Non-operating expenses	28	26	30	51	46	52	60	55	198	273
Recurring profit	**63**	**259**	**330**	**528**	**650**	**755**	**1,111**	**960**	**401**	**1,045**
YoY	-70.7%	313.6%	27.2%	60.3%	23.1%	16.1%	47.1%	-13.6%	-58.2%	160.8%
RPM	0.5%	1.6%	1.7%	2.5%	2.6%	2.5%	3.2%	3.1%	0.9%	2.6%
Extraordinary gains	136	18	1	11	78	49	94	118	110	658
Extraordinary losses	45	13	81	1	79	1	6	4	94	93
Income taxes	-4	86	38	250	313	332	490	398	327	696
Implied tax rate	-2.5%	32.5%	15.4%	46.5%	48.2%	41.4%	40.9%	37.1%	78.5%	43.2%
Net income attrib. to non-controlling interests	0	0	0	0	0	-8	-2	-2	0	0
Net income	**158**	**178**	**211**	**288**	**336**	**478**	**710**	**677**	**89**	**916**
YoY	-883.0%	13.2%	18.4%	36.5%	16.7%	42.2%	48.4%	-4.6%	-86.8%	925.5%
Net margin	1.1%	1.1%	1.1%	1.4%	1.3%	1.6%	2.0%	2.2%	0.2%	2.3%

Source: Shared Research based on company data

Breakdown of SG&A expenses

SG&A expenses (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.
Directors' compensations	76	94	98	91	116	155	222	227	282	343
Salaries and allowances	462	535	552	429	426	420	785	872	1,101	1,329
Provision for bonuses	2	2	2	1	0	1	6	19	3	9
Legal welfare expenses	80	85	94	82	85	115	136	153	176	254
Outsourcing expenses				71	172	208	12	21	21	47
Provision for doubtful accounts	64			-7	3	-1	4	20	1	1
Other	461	469	462	532	633	748	1,047	1,452	1,668	2,412
Total	1,145	1,185	1,208	1,198	1,435	1,646	2,212	2,764	3,252	4,395

Source: Shared Research based on company data

Financial indicators

Profit margins (JPYmn)	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Gross profit	1,221	1,431	1,502	1,956	2,245	2,928	3,851	4,110	4,776	5,822
GPM	8.9%	9.1%	7.9%	9.3%	8.9%	9.9%	11.0%	13.2%	11.1%	14.4%
Operating profit	36	223	304	521	599	715	1,087	858	380	1,107
OPM	0.3%	1.4%	1.6%	2.5%	2.4%	2.4%	3.1%	2.8%	0.9%	2.7%
EBITDA	103	284	364	591	684	831	1,279	1,106	692	1,433
EBITDA margin	0.8%	1.8%	1.9%	2.8%	2.7%	2.8%	3.7%	3.6%	1.6%	3.5%
Net margin	1.1%	1.1%	1.1%	1.4%	1.3%	1.6%	2.0%	2.2%	0.2%	2.3%
Financial indicators	**FY12/10 Cons.**	**FY12/11 Cons.**	**FY12/12 Cons.**	**FY12/13 Cons.**	**FY12/14 Cons.**	**FY12/15 Cons.**	**FY12/16 Cons.**	**FY12/17 Cons.**	**FY12/18 Cons.**	**FY12/19 Cons.**
ROA (RP-based)	0.7%	2.7%	3.3%	4.4%	4.6%	4.4%	5.4%	3.9%	1.4%	2.7%
ROE	4.6%	5.0%	5.6%	6.9%	7.2%	8.7%	11.5%	10.3%	1.3%	10.7%
Total asset turnover	1.56	1.66	1.89	1.77	1.78	1.72	1.70	1.28	1.55	1.30
Inventory turnover	30.3	26.4	31.5	23.6	17.4	9.3	10.4	6.9	9.2	11.4
Days in inventory	12.1	13.8	11.6	15.5	21.0	39.1	35.0	52.9	39.5	31.9
Working capital	-332	-734	-982	-786	-678	1,106	741	1,771	2,441	4,389
Current ratio	110.5%	111.6%	110.9%	108.6%	107.7%	119.4%	112.9%	107.8%	74.9%	121.6%
Quick ratio	97.1%	101.1%	96.1%	93.6%	84.2%	78.8%	93.3%	68.0%	69.5%	98.0%
Equity ratio	37.7%	37.2%	37.6%	33.2%	32.6%	31.1%	29.2%	25.2%	24.2%	30.3%
Debt / Equity ratio	163.3%	166.7%	164.3%	198.7%	204.9%	220.7%	241.0%	294.5%	45.1%	3.1%
Change in working capital	41	-402	-248	196	108	1,784	-366	1,030	671	1,947

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash conversion cycle	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Accounts receivable turnover	4.4	5.1	6.6	5.8	5.9	6.2	5.4	4.4	6.2	4.5
Days in accounts receivable	**82.6**	**71.5**	**55.5**	**63.4**	**61.9**	**58.7**	**68.1**	**82.3**	**58.8**	**80.7**
Inventory turnover	30.3	26.4	31.5	23.6	17.4	9.3	10.4	6.9	9.2	11.4
Days in inventory	**12.1**	**13.8**	**11.6**	**15.5**	**21.0**	**39.1**	**35.0**	**52.9**	**39.5**	**31.9**
Accounts payable turnover	3.2	3.4	4.1	3.6	3.6	3.6	3.6	2.8	4.3	4.0
Days in accounts payable	**113.0**	**106.1**	**89.8**	**102.2**	**100.6**	**101.2**	**100.7**	**130.8**	**85.5**	**90.2**
Cash conversion cycle (days)	**-18.36**	**-20.71**	**-22.74**	**-23.31**	**-17.73**	**-3.49**	**2.40**	**4.45**	**12.82**	**22.47**

Source: Shared Research based on company data

Gross profit margin

The GPM has improved for the three years since FY12/15, reaching 13.2% in FY12/17, a record high, after the introduction of consolidated accounting. (On a parent-only basis, in FY12/02 the GPM exceeded 13.0% in FY12/02, which had been the highest level since 2000.) GPM was lower in FY12/18 than in FY12/17 because of higher costs from construction management. The GPM rose by 3.3pp YoY in FY12/19, aided by efficiency gains and cost reductions as group companies saw increasing synergies following the addition of new group members.

SG&A expenses

SG&A expenses have risen considerably since the company began acquiring companies in Japan and establishing overseas locations in FY12/13, rising from JPY1.2bn in FY12/12 to JPY4.4bn in FY12/18 (+JPY3.2bn). Major factors in the rise were increases in employee salaries (+JPY900mn) and other expenses (+JPY1.9bn).

Non-operating income/expenses

Non-operating income is gradually increasing, though not to the extent that it impacts recurring profit. One cause of this is an uptrend in dividend income. Rather than from dividends being raised on owned shares, the increase in income appears to have come from increasing strategic shareholdings targeting closer relationships with clients. The book value of shares held for other than pure investment purposes rose from JPY649mn in FY12/10 to JPY2.1bn in FY12/18.

Interest expenses have also increased gradually, reflecting the rise in the amount of interest-bearing debt from JPY1.5bn as of end-FY12/10 to JPY8.9bn as of end-FY12/19. (The effective interest rate on average interest-bearing debt fell from 1.26% in FY12/10 to 0.75% in FY12/19.)

Extraordinary gains/losses

The company has not booked extraordinary gains or losses for the past 10 years. In FY12/08, the company posted a JPY365mn provision for doubtful accounts as an extraordinary loss. The company has posted no extraordinary losses since that time, however, and in FY12/10 it recorded a JPY136mn reversal of provision for doubtful accounts as an extraordinary gain.

Tax rate

The company's effective tax rate has been higher than the statutory tax rate since FY12/13, as it has continued to operate in the black. In FY12/17, the tax rate fell 3.8pp, to 37.1%. Due to a reduction in the statutory tax rate from 33.1% to 30.9%, the real decrease was 1.6pp. We note that the company's effective tax rate rose even as its earnings were coming down in FY12/18, and that its effective tax rate returned to the pre-FY12/16 level when earnings bounced back in FY12/19. The change in the company's effective tax rate appears to be due in part to the high level of spending on entertainment expenses and other items that are not deductible for tax purposes.

Balance sheet

Balance sheet (JPYmn)	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
ASSETS										
Cash and deposits	2,278	3,221	3,294	3,806	4,053	3,801	4,679	5,430	5,452	8,530
Notes and accounts receivable	3,287	2,893	2,865	4,467	4,061	5,485	7,565	6,466	7,334	10,527
Inventories	629	456	652	974	1,661	4,069	1,897	5,929	2,309	3,728
Other	152	184	300	351	599	725	699	1,068	-1,311	846
Allowance for doubtful accounts	-13	-4	-3	0	0	-4	-24	-24	-2	-7
Total current assets	**6,332**	**6,751**	**7,108**	**9,598**	**10,374**	**14,077**	**14,816**	**18,869**	**13,781**	**23,624**
Buildings and structures	198	189	218	234	243	231	570	749	989	969
Equipment, machinery, and vehicles	1	0	0	1	4	20	70	100	134	156
Land	1,694	1,694	1,694	1,694	1,697	1,695	1,806	2,567	2,666	2,666
Construction in progress	0	0	0	1	0	15	0	0	23	11
Other fixed assets	94	118	132	161	174	197	252	281	436	522
Total tangible fixed assets	**1,987**	**2,002**	**2,045**	**2,091**	**2,117**	**2,158**	**2,699**	**3,697**	**4,248**	**4,325**
Total intangible fixed assets	**23**	**25**	**76**	**116**	**239**	**594**	**630**	**948**	**1,172**	**1,144**
Investment securities	655	662	979	1,415	1,689	2,343	2,337	2,866	2,372	1,934
Deferred tax assets	0	6	2	10	11	1	11	142	115	107
Other	437	380	195	297	357	648	730	897	4,343	3,337
Allowance for doubtful accounts	-186	-132	-21	-28	-18	-18	0	0	-14	-28
Investments and other assets	**906**	**916**	**1,155**	**1,694**	**2,039**	**2,975**	**3,077**	**3,905**	**6,701**	**5,243**
Total fixed assets	**2,916**	**2,943**	**3,276**	**3,901**	**4,395**	**5,726**	**6,406**	**8,551**	**12,121**	**10,711**
Total assets	**9,248**	**9,694**	**10,383**	**13,499**	**14,769**	**19,803**	**21,222**	**27,419**	**27,953**	**34,335**
LIABILITIES										
Notes and accounts payable	4,247	4,083	4,499	6,227	6,400	8,448	8,722	10,625	7,201	9,866
Short-term debt	1,150	1,450	1,450	1,450	1,767	740	1,990	5,389	6,478	4,964
Income taxes payable	20	78	0	273	219	190	304	227	108	684
Provision for bonuses	8	9	4	2	4	17	11	13	16	16
Other	305	431	454	887	1,247	2,395	2,095	1,248	4,613	3,918
Total current liabilities	**5,730**	**6,051**	**6,406**	**8,839**	**9,636**	**11,790**	**13,122**	**17,502**	**18,401**	**19,432**
Long-term debt	0	0	0	0	10	1,410	1,462	2,248	2,078	3,891
Deferred tax liabilities	0	2	40	107	244	406	360	534	367	242
Provision for directors' bonuses	0	0	0	20	20	0	0	63	75	128
Other	5	7	8	13	16	23	55	122	219	277
Total fixed liabilities	**5**	**8**	**48**	**141**	**290**	**1,838**	**1,877**	**2,968**	**2,664**	**4,410**
Total liabilities	**5,736**	**6,059**	**6,454**	**8,979**	**9,926**	**13,628**	**14,998**	**20,469**	**21,064**	**23,841**
Net assets										
Capital stock	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,628	3,341
Capital surplus	1,716	1,716	1,716	1,716	1,716	2,029	2,035	1,973	1,833	3,543
Retained earnings	684	811	971	1,174	1,301	1,629	2,143	2,629	2,526	3,237
Treasury stock	-474	-474	-474	-447	-322	-12	-380	-435	-11	-263
Shareholders' equity	3,451	3,578	3,738	3,967	4,219	5,170	5,322	5,691	5,976	9,858
Share subscription rights	29	28	28	36	20	11	35	31	21,945	24,449
Non-controlling interests	0	0	0	0	3	3	2	9	32	28
Total net assets	**3,512**	**3,635**	**3,929**	**4,519**	**4,843**	**6,174**	**6,223**	**6,950**	**6,889**	**10,494**
Total liabilities and net assets	**9,248**	**9,694**	**10,383**	**13,499**	**14,769**	**19,803**	**21,222**	**27,419**	**27,953**	**34,335**

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Current assets

Current assets increased JPY10.3bn over the nine years from FY12/09 to FY12/18, with the rate of growth particularly accelerating from FY12/13. Over the same period, notes and accounts receivable increased JPY4.4bn. The turnover period for notes and accounts receivable has largely trended at around 60 days since FY12/13 (although turnover was 82 days in FY12/17, when earnings substantially deteriorated). Meanwhile, inventories grew JPY2.1bn over the nine-year period, with the average turnover period increasing from 10.9 days over FY12/09–12/12 to 33.8 days over FY12/13–FY12/18. Notes and accounts payable also trended upwards over the period, and the cash conversions cycle, which expresses the time taken to recover cash used for purchases, turned positive (2.8 days) in FY12/16 and reached 22.4 days in FY12/19. Shared Research attributes this increase in working capital to growth in the construction business and the impact of larger projects undertaken.

Tangible and intangible fixed assets

The company has followed a proactive growth strategy, but as the group does not own manufacturing bases, including at acquired subsidiaries, the rise in tangible fixed assets was limited to JPY2.3bn (6.8% of total assets in FY12/19), going from JPY2.0bn at end-FY12/09 to JPY4.3bn at end-FY12/19. Over the same period, intangible fixed assets increased, from JPY39mn to JPY1.1bn, of which goodwill comprised JPY969mn.

Investments and other assets

Investments and other assets grew by JPY4.5bn in the nine years from end-FY12/09 to end-FY12/18. Of this figure, investment securities increased JPY1.3bn to JPY2.4bn at end FY12/18. At that point, Luckland owned JPY2.1bn worth of shares in 24 companies for purposes other than pure investment, such as to strengthen relationships with business partners. As it owned JPY649mn worth of shares in 28 companies at end FY12/10, it appears to be gradually scaling up purchases.

The company continuously holds shares in business partners and client companies. For business partners, it holds shares in Fukushima Galilei (formerly Fukushima Industries), Mitsubishi Electric Corporation (TSE1: 6503), and others. For client companies, it holds shares in Kyoritsu Maintenance Co., Ltd. (TSE1: 9616), Ootoya Holdings Co., Ltd. (TSE1: 2705), Olympic Group Corporation (TSE1: 8289), Space Value Holdings (TSE1: 1448, became the holding company of Nissei Build Kogyo Co., Ltd.), Air Water Inc. (TSE1: 4088), Nippon Ski Resort Development Co., Ltd. (TSE Mothers: 6040), Fujita Kanko Inc. (TSE1: 9722), and others. It continuously holds shares in all of the above and has increased its holdings in some cases.

Cash flow statement

Cash flow statement (JPYmn)	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
Cash flows from operating activities (1)	17	773	451	817	478	-20	1,133	-1,623	184	-462
Pre-tax profit	154	264	250	538	649	803	1,199	1,074	417	1,611
Depreciation	67	61	55	64	78	99	162	213	257	326
Increase (decrease) in accounts receivable	-300	451	14	-1,660	419	-1,320	-1,967	1,405	-3,975	-2,007
Increase (decrease) in inventories	-432	163	-201	-336	-465	-2,265	2,208	-3,852	3,782	-1,438
Increase (decrease) in accounts payable	759	-164	416	1,724	164	2,080	242	1,388	-1,749	2,839
Cash flows from investing activities (2)	14	-78	-328	-271	-438	-1,066	-1,087	-891	-1,271	452
Purchase of tangible fixed assets	-33	-50	-83	-68	-85	-76	-538	-1,024	-614	-301
Purchase of intangible fixed assets	-3	-12	-4	-18	-31	-42	-41	-57	-57	-82
Purchase, sale, and redemption of investment securities	-5	-11	-149	-8	-44	-71	-106	75	-43	616
Change in investments affecting scope of consolidation	0	0	0	-75	1	0	-159	140	-292	235
Change in loans receivable (short- and long-term; net)	-1	-8	-36	-71	-213	-46	-161	15	14	-5
Free cash flow (1+2)	**31**	**694**	**123**	**546**	**40**	**-1,086**	**46**	**-2,514**	**-1,087**	**-10**
Cash flows from financing activities	-36	249	-51	-50	199	832	768	3,123	1,178	3,158
Change in short-term borrowings	0	300	0	0	300	-1,164	1,200	2,900	1,063	-2,900
Change in long-term borrowings	0	0	0	0	0	687	102	529	-147	3,012
Acquisition of treasury stock	0	0	0	0	-83	-195	-368	-286	0	-262
Dividends paid	-36	-51	-51	-73	-110	-149	-195	-190	-193	-203
(JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.
Depreciation and amortization (A)	80	67	61	60	70	85	116	192	248	312
Capital expenditures (B)	-51	-33	-50	-83	-68	-85	-76	-538	-1,024	-614
Change in working capital (C)	-673	27	451	229	-273	117	-1,505	482	-1,059	-1,942
Simple FCF (NI + A + B - C)	**682**	**165**	**-261**	**-41**	**564**	**219**	**2,023**	**-119**	**960**	**1,729**

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

Cumulative cash inflow from operating activities over the 10 years from FY12/09 to FY12/18 amounts to JPY2.1bn. Owing to difficult finances following the global financial crisis, which led to an operating loss in FY12/08, and the fact that the company has no major production facilities, depreciation and amortization has been low, contributing to cumulative cash inflow finally surpassing the JPY100mn mark in FY12/16. The impact of fluctuations in notes and accounts receivable/payable and inventories from business expansion on cash flows from operating activities has been increasing since FY12/15 and is now a major factor behind changes in cash flow from operations.

Cash flows from investing activities

Cumulative cash outflow from investing activities over the 10 years from FY12/09 to FY12/18 amounts to more than JPY5.6bn. This is owing to continued M&A-related investments, as investments into tangible fixed assets tend not to be high. Since its acquisition of Niikura Denkoh in July 2013, Luckland has acquired a total of 12 firms as at 2018. Although the investment on an individual acquisition basis are not particularly high, Shared Research thinks the continuation of M&A must have been a serious management decision for the company from the viewpoint of total costs involved. Cumulative cash flow for the past 10 years (through FY12/19), when combining cash flows from operating activities and investing activities, results in an outflow of JPY3.2bn.

Cash flows from financing activities

Net cash provided by financing activities over the past 10 years from FY12/10 to FY12/19 has been JPY9.4bn. Although it continued to pay dividends over this period, the company did not raise any funds through public stock offerings. Instead, it increased borrowing and issued bonds to meet demands for working capital and cash to fund M&A activities. To help pay down this debt, the company came to the market with a new share issue during FY12/19 (this was accompanied by a secondary share issue).

Historical results

Q1 FY12/20 results (out April 30, 2020)

Overview

Results for Q1 FY12/20 (January–March 2020)

- Revenue JPY9.8bn (+43.4% YoY)
- Operating profit JPY83mn (versus an operating loss of JPY310mn in Q1 FY12/19)
- Recurring profit JPY43mn (versus a recurring loss of JPY303mn in Q1 FY12/19)
- Net income* JPY1mn (versus a net loss of JPY208mn in Q1 FY12/19)

*Net income attributable to owners of the parent

- Business environment: The company is carefully watching trends in the economy watchers survey diffusion index (Cabinet Office), the tertiary industry activity index (Ministry of Economy, Trade and Industry), and the monetary base average balance (Bank of Japan). According to these indices, the economy watchers survey diffusion index dropped under 50 from 2018 and dipped to a new low in March 2020 due to the effects stemming from the COVID-19 outbreak. In addition to worsening labor shortages and labor cost increases, it appears the restaurant and retail industries, key clients for the company, are likely to continue to suffer the adverse effects from an increase in COVID-19 infections from March. The monetary base average balance growth rate recently dropped to around 0% and the economic boost effect is fading. The economic environment in which the company operates has been especially weak since March. With no sign on the horizon that the spread of COVID-19 is slowing and the potential for the company's earnings to be further impacted in 2H and later should the pandemic become prolonged, the company has indicated that it is following a policy based on rational and careful assessments of the situation.
- Recent results: With the effects from the COVID-19 outbreak relatively limited, orders in Q1 (January–March 2020) FY12/20 were largely in line with the company's expectations. According to management, Q1 earnings were generally in line with its expectations. The company also appears to be having almost no problems procuring materials. With regard to internal systems, the company's focus over the past few years on flexibly implementing workstyle reforms, establishing satellite offices, and making use of mobile equipment and IT technology has allowed employees to work remotely with no operational disruptions.

Results by business

Store Facilities

- Q1 FY12/20 revenue (January–March 2020): JPY4.0bn (+0.9% YoY)
- Store Facilities is the Luckland group's core business
- Revenue remaining generally flat: Despite moderate growth in supermarket revenue, revenue as a whole from traditional customers such as supermarkets, restaurants, and retail stores was generally flat YoY. Revenue in the Supermarket Division, as disclosed in revenue by division, improved JPYT449mn YoY to JPY2.6bn. Alongside sales activities promoting the development of store facilities for a variety of other business types, the company by advancing an in-house shift of on-site engineer functions, including planning, design, and construction, was able to offer proposals with added value, not just construction.

Commercial Facilities

- Q1 FY12/20 revenue: JPY3.1bn (+225.6% YoY)

- The company strengthened the construction facilities and the commercial facilities of multiple tenants (including tenant and common-area construction) businesses. Revenue from a large commercial facility project contributed to the strong growth seen in Q1. Order count increased as the company continued to tap into clients in the railway and large developer fields.

Food-Processing Plants and Logistics Warehouses

- Q1 FY12/20 revenue: JPY707mnn (-5.0% YoY)
- Characteristic of this business, the company can generally predict food plant and logistics warehouse demand based on the medium- to long-term plans of the company's customers, and it appears that management expects demand to remain generally flat YoY, even on an annual basis. This is an important field that makes use of freezer and refrigeration technology, which has been a core technology since its founding, and Luckland has been working to bolster sales activities in recent years to increase orders not only from food manufacturers, but also from general contractors and engineering firms.

Store Maintenance

- Q1 FY12/20 revenue: JPY513mn (+22.1% YoY)
- Factors behind higher revenue: The number of stores covered by maintenance contracts grew by about 1,500 from end-2019, pushing the total to above 16,000. The number of contracts rose by about 10%, but revenue growth increased by over 20%; the company attributes this disparity to larger scales of projects accepted. Revenue also benefitted from instances in which customers moved to Luckland from another company, with management noting that its ability to respond rapidly to maintenance needs, including in air-conditioning, has been highly valued by its customers in the foods industry. Amid ongoing expansion in the maintenance business and the drive to expand its maintenance network, the company opened the Aomori sales office as a base of operations for the northern Tohoku area in January 2020. As a new business, the company is also operating an on-site facility maintenance service business for food manufacturing factories. Revenue from the Maintenance Division (as shown in the "Revenue by division section of this report") is included in this business.

Energy Conservation and CO_2 Reduction

- Q1 FY12/20 revenue: JPY32mn (-41.8% YoY)
- Revenue declined on seasonal factors and a temporary suspension of sales on preparations to revamp mainstay LED products, but mainly due to the fact that the period was one in which the company introduced few new products. Non-air conditioning installations are increasing in the rental business, with the company continuing to focus its sales activity in non-construction fields as well.

Construction

- Q1 FY12/20 revenue: JPY1.4bn (+114.5% YoY)
- Business expansion: Rather than focusing just on diagnosis of earthquake resistance and reinforcement work, Luckland has built a framework to handle everything from skeleton structures to interior finishing, all within the group. As a result, the company is now focusing on acquiring orders related to new construction and renovations involving floorspace expansion. Since many of the projects the company handles are large and construction periods are becoming longer, revenue and profit tend to fluctuate significantly from quarter to quarter in this business.
- A large hotel project contributed to Q1 FY12/20 results. The company is expected to post sales from this project through Q3, though the company has not disclosed details as to the timing or amounts on a quarterly basis. That said, proceeds from the

project are included under the Food Systems Division, where revenue expanded 58.6% YoY, and appears to be driving the division's growth.

FY12/19 results (out February 14, 2020)

Overview

Consolidated results for FY12/19 (January–December 2019)

- Revenue JPY40.4bn (-5.8% YoY)
- Operating profit JPY1.1bn (+190.9% YoY)
- Recurring profit JPY1.1bn (+160.8% YoY)
- Net income* JPY916mn (10.3x versus FY12/18)

*Net income attributable to owners of the parent

- Business environment: The company is carefully watching trends in the economy watchers survey diffusion index (Cabinet Office), the tertiary industry activity index (Ministry of Economy, Trade and Industry), and the monetary base average balance (Bank of Japan). According to these indices, the economy watchers survey diffusion index dropped under 50 from 2018, entering a short-term adjustment period, and although there was modest growth in the tertiary industry activity index, the restaurant and retail industries, key clients for the company, have experienced worsening labor shortages and labor cost increases. The monetary base average balance growth rate recently dropped to around 3% and the economic boost effect is fading. The company is carefully observing this trend since, if the growth rate were to fall below nominal GDP growth and move into negative growth going forward, this would lead to an even tighter monetary environment.
- Recent results: Although the company saw some drag from wind and flood damage effects from typhoons since Q3 FY12/19 (July–September), top-line revenues came in ahead of expectations, up 28.3% versus the same quarter in FY12/18. In Q4 FY12/19 (October–December), the company saw additions to sales from projects delayed during 1H FY12/19 were completed, and this plus the projects originally scheduled for completion in Q4 brought sales back to roughly the same level seen in Q4 FY12/18, and left 2H sales up sharply versus the previous year.
- Full-year results versus plan: The company revised its full-year forecast when it announced Q3 results, lowering its initial forecast of JPY45.0bn down to JPY40.0bn. FY12/19 revenue finished closely in line with the downwardly revised estimate; operating profit and recurring profit finished above plan thanks to the impact of synergies within the group that enabled the company to conduct efficient prework planning. Additionally, the company conservatively estimated corporate taxes at the time of the forecast revision, taking into consideration the effect of shareholder benefit expenses due to the increase in the number of shareholders. However, net income was 52.6% higher than forecast thanks to cost-cutting and JPY70mn in extraordinary gains on negative goodwill from a subsidiary that was included in the scope of consolidated accounts starting in Q4. (Note: The company's downward revision of its full-year forecast was announced on the same day as its earnings announcement.)

Full-year results by business

Store Facilities

- FY12/19 revenue: JPY17.4bn (-11.2% YoY)
- Store Facilities is the Luckland group's core business

- Factors behind lower revenue: New business areas like interior work for restaurants located in highway parking/rest areas, facility construction, and construction of large supermarkets and retail stores logged solid gains revenues, but existing supermarkets and retail customers scaled back capital spending, especially in 1H, leaving overall revenue down.

Commercial Facilities

- FY12/19 revenue: JPY7.5bn (+0.2% YoY)
- With most of the scheduled openings of commercial facilities in the company's order pipeline concentrated in 2H, many projects were completed after the start of Q3, leading to YoY grow in top-line revenues during the second half of the year. The company continues to develop clients in the railway and large developer fields.

Food-Processing Plants and Logistics Warehouses

- FY12/19 revenue: JPY3.2bn (-38.2% YoY)
- Revenue at the Food-Processing Plants/Logistics Warehouses business finished down due to fewer large-scale projects. In freezer and refrigeration technology, which has been a core technology since its founding, in recent years Luckland has been winning more orders from general contractors and engineering firms. The volume of company's business in this area is closely tied to the capital spending plans of its customers.

Store Maintenance

- FY12/19 revenue: JPY2.1bn (+11.2% YoY)
- Factors behind higher revenue: The number of stores covered by maintenance contracts grew by about 3,742 from the end of 2018, pushing the total number over 14,500 by end-FY12/19. Additionally, the company opened the Nagano Maintenance Station as a base of operations for the Koshinetsu and Hokuriku area in November 2019. As a new business, the company also began an on-site facility maintenance service business for food manufacturing factories. The company also began marketing the expertise it has gained from servicing companies that operate food processing plants, and with this effort has already landed two contracts.

Energy Conservation and CO_2 Reduction

- FY12/19 revenue: JPY179mn (-43.6% YoY)
- Hit products: The Tanako-chan series (LED lighting for refrigerated showcases) continued to grow, reaching 175,000 total units sold. The company plans to collaborate with group company Nippon PI Co., Ltd. going forward. Additionally, Luckland intends to expand its product lineup for its rental business, offering customized rentals.

Construction

- FY12/19 revenue: JPY10.0bn (+19.1% YoY)
- Business expansion: Rather than focusing just on diagnosis of earthquake resistance and reinforcement work, Luckland is building a framework to handle everything from skeleton structures to interior finishing, all within the group. The company is working on building the construction business into one of its core businesses. Since many of the projects the company handles are large and have long construction periods, revenue and profit tend to fluctuate significantly from quarter to quarter in this business.
- A large hotel project contributed to FY12/19 results.

Q3 FY12/19 results (out October 31, 2019)

Overview

Results for Q3 FY12/19 (January–September 2019)

- Revenue JPY25.8bn (-6.9% YoY)
- Operating profit JPY231mn (+76.2% YoY)
- Recurring profit JPY179mn (+24.0% YoY)
- Net income* JPY309mn (34.4x the level of Q3 FY12/18)

*Net income attributable to owners of the parent

- Business environment: The company is carefully watching trends in the economy watchers survey diffusion index (Cabinet Office), the tertiary industry activity index (Ministry of Economy, Trade and Industry), and the monetary base average balance (Bank of Japan). According to these indices, the economy watchers survey diffusion index dropped under 50 from 2018, entering a short-term adjustment period, and although there was modest growth in the tertiary industry activity index, the restaurant and retail industries, key clients for the company, have experienced worsening labor shortages. With the monetary base average balance growth rate below the nominal GDP growth rate, the company is carefully observing trends. Continuation of the current trend and any move into negative growth will lead to an even tighter monetary environment.
- Q3 FY12/19 results (July – September): For Q3 FY12/19 (July-September) the benefits of active recruitment initiatives and development of talent have come through and the GPM reached record levels. In Q1 (January-March), however, customers held back on business expansion and capital investment. In Q2, (April-June) there was a delay to the delivery of the first phase of a large-scale construction project to Q4 FY12/19 at the parent level, along with customer project delays resulting in delayed revenue recognition at subsidiaries. As a result, progress in 1H was below the original plan.
- Revision of full-year earnings forecast: The company revised its full-year forecast when it announced Q3 results. Revenue has been revised downward from the initial forecast of JPY45.0bn to JPY40.0bn. The reason for this was that customer investment plans have shifted into next year as a result of the impact of storms and floods in September and October 2019.
  In terms of profits, the operating profit forecast remained unchanged because the GPM has been at a record high underpinned by the benefits of on-going efforts to develop talent. This will offset the impact of a decline in sales. However, the forecast for recurring profit has been revised down from JPY1.0bn to JPY914mn to reflect the impact of syndicated loan fees (JPY86mn) accounted for as a non-operating expense. The net income forecast remained unchanged.

Results by business

Store Facilities

- Q3 FY12/19 revenue (January-September 2019): JPY12.2bn (-3.2% YoY)
- Store Facilities is the Luckland group's core business
- Factors behind lower revenue: New business areas like interior work on restaurants in highway parking areas, facility construction, and construction of large supermarkets and retail stores contributed to stronger revenues, but existing supermarkets and retail customers scaled back capital investment especially in 1H, resulting in a revenue decline.

Commercial Facilities

- Q3 FY12/19 revenue: JPY4.8bn (+2.4% YoY)
- Since the scheduled openings of commercial facilities in the order pipeline are concentrated in 2H, a number of projects were completed in Q3, leading to YoY growth. The company continues to tap into clients in the railway and large developer fields.

Food-Processing Plants and Logistics Warehouses

- Q3 FY12/19 revenue: JPY2.3bn (-38.4% YoY)
- Revenue declined in the current fiscal year due to fewer large-scale projects completed. In freezer and refrigeration technology, which has been a core technology since its founding, Luckland has been working to attract orders in recent years from general contractors and engineering firms.

Store Maintenance

- Q3 FY12/19 revenue: JPY1.5bn (+10.5% YoY)
- Factors behind higher revenue: The number of stores covered by maintenance contracts grew by about 3,000 from end-2018, pushing the total above 14,000. The company began an on-site facility maintenance service business for food manufacturing factories as a new business.

Energy Conservation and CO_2 Reduction

- Q3 FY12/19 revenue: JPY142mn (-43.4% YoY)
- Hit products: The Tanako-chan series (LED lighting for refrigerated showcases) continued to grow, reaching 175,000 total units sold. The company plans to collaborate with group company Nippon PI Co., Ltd. going forward. Additionally, Luckland intends to expand its product lineup for its rental business, offering customized rentals.

Construction

- Q3 FY12/19 revenue: JPY4.9bn (-4.8% YoY)
- Business expansion: Rather than focusing just on diagnosis of earthquake resistance and reinforcement work, Luckland is building a framework to handle everything from skeleton structures to interior finishing, all within the group. The company is working on building the construction business into one of its core businesses. Since many of the projects the company handles are large and have long construction periods, revenue and profit tend to fluctuate significantly from quarter to quarter in this business.
- Decline from backlash: The company expects significant YoY decline in revenue this year compared to the previous year due to the lack of large hotel projects booked in FY12/18.

1H FY12/19 results (out July 31, 2019)

Overview

Results for 1H FY12/19 (January–June 2019)

- Revenue JPY16.0bn (-20.4% YoY)
- Operating loss JPY49mn (operating profit of JPY501mn in 1H FY12/18)
- Recurring loss JPY99mn (recurring profit of JPY496mn in 1H FY12/18)
- Net loss* JPY191mn (-32.2% YoY)

*Net loss attributable to owners of the parent

- Business environment: The company is carefully watching trends in the economy watchers survey diffusion index (Cabinet Office), the tertiary industry activity index (Ministry of Economy, Trade and Industry), and the monetary base average balance (Bank of Japan). According to these indices, the economy watchers survey diffusion index dropped under 50 from 2018, entering a short-term adjustment period, and growth in the tertiary industry activity index has also slowed down. As a result, the restaurant and retail industries, key clients for the company, have experienced worsening labor shortages. With the monetary base average balance growth rate below the nominal GDP growth rate, the company is carefully observing trends as a continuation of the current trend will lead to an even tighter monetary environment.

- 1H FY12/19 results (January–June 2019): Revenue came in JPY5.0bn below the initial 1H forecast of JPY21.0bn. This was largely attributable a customer reviewing the content of an order and requesting changes to the design amid a worsening business environment. The company suffered a large negative impact from being unable to process the order as expected. Concretely, there was delayed turnover on a major project (delayed from Q2 to Q4 FY12/19) at the parent company, and general contractor project delays resulting in delayed revenue recognition (pushed back to 2H) at subsidiaries.
- Gross profit margins were at historically high levels as a result of improvement in management costs (per project) stemming from efforts to develop talent beginning in FY12/18 and improvements to the construction management system. However, the company posted an operating loss of JPY49mn (forecast operating profit: JPY196mn) as revenues came in weaker than expected due to delayed revenue recognition. Luckland also posted a recurring loss of JPY98mn (forecast recurring profit: JPY206mn), recording syndicated loan fees (JPY86mn) as a non-operating expense. At the net income level, however, the company managed to post above-forecast results of JPY191mn (forecast net income: JPY112mn) as it booked one-time profits of JPY517mn from selling investment securities.

Results by business

Store Facilities

- 1H FY12/19 revenue: JPY8.9bn (-3.5% YoY)
- Core business in Luckland group
- Factors behind lower revenue: New business areas like interior work on restaurants in highway parking areas, facility construction, and construction of large supermarkets and retail stores contributed stronger revenues, but supermarkets and retail customers scaled back capital investment, resulting in a revenue decline.
- The company expects 2H orders to be close to forecasts and full-year orders to be almost unchanged YoY.

Commercial Facilities

- 1H FY12/19 revenue: JPY2.5bn (-4.5% YoY)
- Currently tapping into clients in the railway and large developer fields
- Some contractors responsible for initial construction such as skeleton structures incur delays from labor shortages and other factors. These delays are passed on to Luckland when the company takes over the later stages of these projects.

Food-Processing Plants and Logistics Warehouses

- 1H FY12/19 revenue: JPY1.3bn (-28.9% YoY)
- Leveraging its freezer and refrigeration technology, which has been a core technology since its founding, in recent years Luckland has been working to attract orders from general contractors and engineering firms.
- Orders progressed favorably in line with forecasts as the company secured relatively large projects to be delivered in 2H.

Store Maintenance

- 1H FY12/19 revenue: JPY936mn (+6.7% YoY)

- Factors behind higher revenue: The number of stores covered by maintenance contracts grew steadily by about 1,944 from end-December 2018, pushing the total above 13,040 at end-June 2019. The company began an on-site facility maintenance service business for food manufacturing factories as a new business.
- Since Store Maintenance is a recurring revenue business, increasing the number of maintenance contracts is strongly correlated with growth in this business.

Energy Conservation and CO_2 Reduction

- 1H FY12/19 revenue: JPY100mn (-47.9% YoY)
- Hit products: The Tanako-chan series (LED lighting for refrigerated showcases) continued to grow, reaching 175,000 total units sold. The company plans to collaborate with group company Nippon PI Co., Ltd. going forward. Additionally, Luckland intends to expand its product lineup for its rental business, offering customized rentals.

Construction

- 1H FY12/19 revenue: JPY2.2bn (-51.6% YoY)
- Business expansion: Rather than focusing just on diagnosis of earthquake resistance and reinforcement work, Luckland is building a framework to handle everything from skeleton structures to interior finishing, all within the group. The company is working on building the construction business into one of its core businesses. The company seems to be focusing on strengthening its ability to secure orders by increasing personnel with certifications.
- Decline from backlash: The company expects significant YoY decline in revenue due to lack of large hotel projects booked in FY12/18. Moreover, uncertainty in the business environment led to a request to review the design for a project for which Luckland had expected to book revenue in 1H. The resulting delay in construction caused revenue booking for the project to be shifted to 2H, making the company unable to achieve its 1H revenue target. Since a deadline has been set for the project, the company thinks the delay will be resolved by end-FY12/19.

Other information

History

Date	Description
May 1970	Luckland Industry Co., Ltd. established as a wholesaler of commercial refrigerators, freezers and showcases, also providing maintenance services
February 1973	Started handling construction work of freezing storage and kitchen for supermarkets
November 1974	Started handling interior construction work for supermarkets
July 1975	Started handling kitchen construction work for restaurants
May 1979	Started handling costruction work of cold strage facilities, kitchen, and airconditioning for cooked food plants
June 1980	Started offering 24-hour maintenance services
January 1982	Started handling general facility production for convenience stores and suburban restaurants
December 1992	Trade name changed to Luckland Co., Ltd.
January 1995	Registered as an OTC stock at Japan Securities Dealers Association (listed on the current JASDAQ of Tokyo Stock Exchange)
August 1995	Registered as a class-1 architect office
March 2005	Listed on the Second Section of the Tokyo Stock Exchange (terminated listing on JASDAQ)
July 2008	Adopted new corporate logo
November 2008	Established a subsidiary K-Create Co., Ltd., a class-1 architect office
January 2013	Established the first overseas subsidiary in Singapore
October 2015	Listed on the First Section of the Tokyo Stock Exchange
August 2016	Acquired shares in ace-center co., ltd. and made it a subsidiary
February 2018	Signed a sponsorship agreement with Bokuto Kenzai Kogyo Co., Ltd.; established a new entity under the same trade name and made it a subsidiary
October 2019	Made Kankyosoube N.S.E. Co., Ltd. a subsidiary

Source: Shared Research based on company data

While the company was established in 1970 by Fukushima Galilei (formerly Fukushima Industries) and other parties to wholesale commercial refrigerators and refrigerated/frozen showcases, Luckland considers its year of foundation to be 1973, when Akira Mochizuki (the effective founder) accepted a third-party allocation of new shares in the company.

News and topics

June 2020

On June 12, 2020, the company announced the acquisition of factory real estate by a newly established subsidiary and the commencement of full business activities at its food processing technology research business and food processing business.

At a Board of Directors meeting on the same day, the company decided to transfer real estate owned by the bankrupt Maruse Akiyama Shoten Co., Ltd (representative director: Hideki Akiyama; head office: Ishinomaki, Miyagi Prefecture) to wholly owned subsidiary Hybrid Lab Co., Ltd. (Sendai, Miyagi Prefecture), which was newly established by the company on March 10, 2020. It also decided to move the head office of Hybrid Lab to Ishinomaki and commence full-blown operations of its food processing technology research business and food processing business.

Hybrid Lab acquired land and buildings owned by Maruse Akiyama Shoten (business activities: retail and wholesale of seafood and seaweed; preparation and sale of side dishes) for a price of JPY35mn. Hybrid Lab makes it possible to maintain freshness when delivering semi-processed food products within Japan by employing certain techniques. The subsidiary plans to operate cloud kitchens employing such techniques. The company expects the acquisition of Maruse Akiyama Shoten’s factory and buildings to further the development of this business and accelerate synergy creation, thereby increasing the group’s corporate value.

May 2020

On May 22, 2020, the company announced that it had finalized the details concerning the issuance of earnings and stock-price commitment-based paid-in stock options.

The company announced that, on the same day, matters were finalized that had not been determined regarding the issuance of paid-in stock acquisition rights to the management and employees of the company and its subsidiaries based on a meeting of the Board of Directors on April 30, 2020.

It was decided that a total of 9,924 stock acquisition rights would be granted to 101 management members and employees of the company and its subsidiaries. The type and number of shares to be issued upon exercise of the stock acquisition rights are as follows: 992,400 common shares. The value of assets contributed upon the exercise of the stock acquisition rights amounts to JPY205,700 per stock acquisition right (JPY2,057 per share).

April 2020

On April 30, 2020, the company announced earnings targets and the issuance of stock-price commitment-based paid-in stock options.

Luckland announced that on April 30, 2020 its Board of Directors passed a resolution regarding the issuance of stock acquisition rights to corporate officers and employees of the company and its subsidiaries pursuant to Articles 236, 238, and 240 of the Companies Act. Since this issuance is to be made to persons subscribing to the stock acquisition rights with paid-in capital at fair value and offers no particular advantageous conditions, it will be implemented without the approval of the general meeting of shareholders. In addition, the company indicated that the stock options will be provided not as compensation to eligible individuals, but as an option to be undertaken based on their respective investment decisions.

Aiming to promote the medium- to long-term growth of its business and enhance enterprise value, the company is issuing the stock options as a means to enhance company solidarity and bolster employee morale and motivation. The exercising of all acquisition rights would result in an increase in common shares equivalent to 12.17% of all shares outstanding. The exercising of acquisition rights on these stock options is possible if the company meets its FY12/20 consolidated target of JPY1.2bn for operating profit or JPY600mn for net income attributable to owners of the parent, or if the closing share price through December 31, 2021 is higher than the JPY2,395 offering price used in the company's December 2019 public offering. The holders of the stock acquisition rights must exercise all their remaining rights if the final transaction price for the company's shares is below 50% of the exercise price for five consecutive business days. Given that the scheme is constructed so that the company and subsidiary executives and employees, who bear a certain amount of responsibility for any share price decline, will share the risk of stock price fluctuations with existing shareholders, the company believes the dilutive effects reasonable. For details, please see the company's press release (Japanese only as of April 30, 2020).

February 2020

On February 14, 2020, the company announced the outline of differences between its earnings forecast and reported figures.

November 2019

On November 29, 2019, the company announced the issuance of new shares and a secondary offering.

At a meeting of the Board of Directors held on the same day, the company made a resolution regarding the issuance new shares and a secondary offering. The proceeds of these offerings will be used to reduce Luckland's interest-bearing debt (mainly short-term debt and bonds), which increased in tandem with the company's need for more working capital to handle larger projects and pursue acquisitions of group companies.

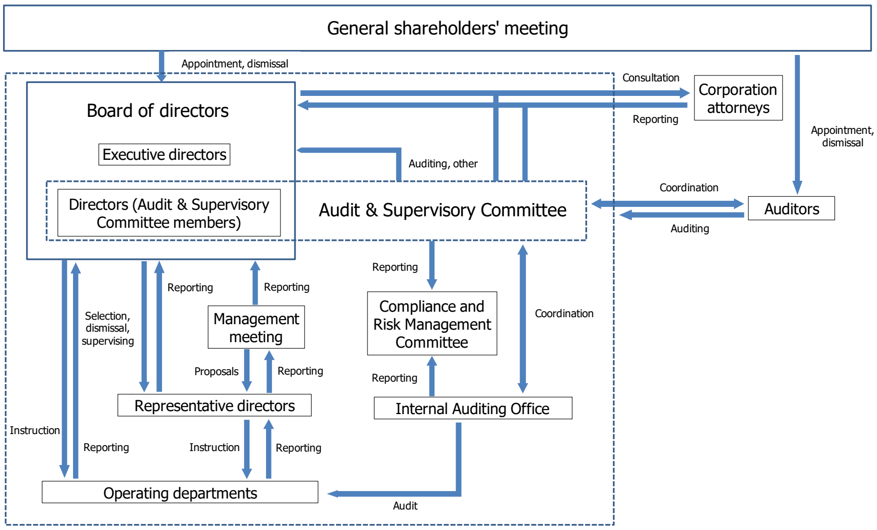
- ▷ Shares to be issued via public offering: 1,304,400 shares of the company's common stock
- ▷ Secondary offering (overallotment option): 195,600 shares of the company's common stock
- ▷ New issues for third-party allotment: 195,600 shares of the company's common stock

- Total number of issued shares (current): 8,209,400 shares
- Share increase through the public offering: 1,304,400 shares
- Total number of issued shares after the public offering: 9,513,800 shares
- Share increase from new issues for third-party allotment: 195,600 shares
- Total number of issued shares after the third-party allotment: 9,709,400 shares

Luckland plans to use all proceeds net of expenses (maximum of JPY3,489.48mn) to repay its interest-bearing debt by end-June 2020 (JPY850mn for the redemption of bonds due April 30, 2020, and the remainder for the repayment of short-term debt by end-June 2020). According to the company, the impact of these offerings on FY12/20 earnings forecast will be marginal.

Corporate governance and top management

Internal control system



Source: Shared Research based on company data

Governance structure

The company has adopted the organizational form of a company with an Audit and Supervisory Committee. The company has nine directors, including four who are members of the Audit and Supervisory Committee. The Articles of Incorporation limit the number of directors to 10, excluding directors who are members of the Audit and Supervisory Committee. The articles also limit to five the number of directors who are members of the Audit and Supervisory Committee.

The company has three outside directors, all of whom are members of the Audit and Supervisory Committee. These three have been reported to the Tokyo Stock Exchange as independent executives, and the company makes its independence criteria publicly available.

The company's Management Committee comprises directors (including directors who are members of the Audit and Supervisory Committee) and executive directors appointed by the Board of Directors.

Top management

Representative director and president: Keiichiro Mochizuki

President Mochizuki was 29 years old when the company listed on the Second Section of the Tokyo Stock Exchange in 2005. Although being the youngest such company president on record at the time, he has steered the company through the global financial crisis and on to growth. In addition to being a member of the founding family, President Mochizuki has played a strong leadership role, demonstrating the ability to take action on measures to transform the company.

Dividend policy

(JPY)	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.	FY12/18 Act.	FY12/19 Act.	FY12/20 Est.
Interim dividend	0.0	0.0	5.0	10.0	10.0	10.0	10.0	10.0
Year-end dividend	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Annual dividend	15.0	15.0	20.0	25.0	25.0	25.0	25.0	25.0
Total dividends (JPYmn)	110	112	157	196	190	192	224	-
Payout ratio (%)	38.0%	32.7%	31.3%	27.5%	28.1%	219.3%	22.4%	39.9%
DOE (%)	2.6%	2.4%	2.8%	3.1%	2.9%	2.9%	2.6%	-

Source: Shared Research based on company data

The company's policy is to pay stable, ongoing dividends. The company notes that it aims, at minimum, to pay dividends with a yield that outpaces long-term interest rates. The company does not disclose numerical targets for its dividend payout ratio. In FY12/18, the dividend payout ratio increased due to a sharp decline in net income on higher costs. In addition to cash dividends, the company, as part of its social contributions, has established a shareholder benefits program enacted four times per year, with two of these instances dedicated to supporting reconstruction efforts after the Great East Japan Earthquake and the remaining two geared toward supporting sixth-generation industry in Japan, as well as regional revitalization.

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
A-creates Co., Ltd.	1,517	15.83%
Fukushima Galilei Co., Ltd.	670	6.99%
Keiichiro Mochizuki	426	4.45%
Luckland Employees Shareholding Association	378	3.95%
Olympic Group Corporation	274	2.86%
Mitsubishi Electric Corporation	220	2.29%
Ryoden Corporation	154	1.61%
MUFG Bank, Ltd.	152	1.59%
Sumitomo Mitsui Trust Bank, Limited	100	1.04%
Nissei Build Kogyo Co., Ltd.	95	1.00%
SUM	3,989	41.62%

Source: Shared Research based on company data (as at December 31, 2019)

The top shareholder, a company wholly owned by President Mochizuki called A-creates Co., Ltd., owns 18.5% of Luckland. A-creates has no business relationship with the company.

Fukushima Industries, a refrigeration equipment manufacturer, is the second-largest shareholder. Fukushima Galilei (formerly Fukushima Industries) has maintained relationship with Luckland, to which it has outsourced sales and installation of these equipment since the time of the latter's establishment. Luckland has cross-shareholdings with its top shareholders, Fukushima Gelilei , Olympic Group, and Mitsubishi Electric, with which the company has business relationships.

Employees

Number of employees	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.	FY12/19 Cons.
No. of employees (cons.)	297	300	303	360	440	520	691	851	1,068	1,195
No. of employees (parent)	296	299	302	349	403	443	534	611	726	808
Average age	39.2	39.3	40.3	41.0	40.7	39.8	38.6	38.4	38.3	38.4
Average years of service	10.7	10.7	10.7	9.7	9.4	8.2	7.1	7.0	6.1	6.1
Average annual salary (JPY'000)	5,460	5,437	5,472	5,411	5,458	5,634	5,936	5,362	5,190	5,013

Source: Shared Research based on the company's annual securities report

The number of employees has risen rapidly since FY12/12, due to acquisitions. Employee numbers have also grown on a parent-only basis, as the company has actively recruited for in-house construction teams.

By the way

The name "Luckland" comes from two Chinese characters (meaning roughly "luck" and "land"), from Fukushima Galilei (formerly Fukushima Industries), one of the companies that founded Luckland in 1970.

Profile

Company Name	**Head Office**
Luckland Co., Ltd.	3-8-20 Nishi-Shinjuku, Shinjuku-ku, Tokyo
Phone	**Listed On**
+81-3-3377-9331	First Section of the Tokyo Stock Exchange
Established	**Exchange Listing**
May 15, 1970	January 26, 1995
Website	**Financial Year-End**
http://www.luckland.co.jp/	December
IR Contact	**IR Web**
http://www.luckland.co.jp/ir/index.html	http://www.luckland.co.jp/ir/index.html

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We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
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Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
Demae-Can CO., LTD
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
DIP Corporation
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en-Japan Inc.
Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
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Seria Co.,Ltd.
Serverworks Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
World Holdings Co., Ltd.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
ZAPPALLAS, INC.

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