

COMPANY RESEARCH AND ANALYSIS REPORT

New Constructor's Network Co., Ltd.

7057

Tokyo Stock Exchange Standard Market

17-Nov.-2023

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FISCO Ltd.

<https://www.fisco.co.jp>

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Index

Summary	01
1. Overview of 1Q FY3/24 results	01
2. FY3/24 consolidated results forecasts	01
3. The medium-term management plan and the growth strategy for the future	02
Company profile	03
Business overview	07
1. The wooden-construction, earthquake-resistant design business	07
2. Others	09
Results trend	10
1. Overview of 1Q FY3/24 results	10
2. Business segments and segment net sales	11
3. Financial position	15
Strengths	16
1. The SE-Structure Method	17
2. Timber Structure Design	17
3. BIM business (MAKE HOUSE)	18
4. The large-scale wooden buildings (Suihoo Fabricating Company)	19
5. Lifestyle	19
Business Outlook	20
1. FY3/24 consolidated results forecasts	20
2. The medium-term management plan and the growth strategy for the future	21
Corporate Social Responsibility (CSR)	24
Shareholder return policy	25

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Summary

Large-scale wooden buildings (non-residential) field steadily expanding scope of business

New Constructor's Network Co. Ltd. <7057> (hereafter, also "the Company") conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints), which has been the mainstream method for steel-framed and reinforced concrete (RC) structures, into wooden housing, to realize wooden buildings with high levels of structurally calculated earthquake resistance. It provides this method through its network of registered SE-structure contractors. The Company is also expanding the scope of its business by applying the structural calculation know-how fostered in the wooden housing business to non-residential, large-scale wooden buildings such as kindergartens, elder care facilities, retail stores, and offices.

1. Overview of 1Q FY3/24 results

For the 1Q FY3/24 (April to June 2023) results, net sales were ¥1,966mn (down 7.7% year on year (YoY)), gross profit was ¥585mn (up 10.0%), operating income was ¥33mn (down 66.4%), ordinary income was ¥5mn (down 92.7%), and loss attributable to owners of parent was ¥9mn (¥49mn profit in 1Q FY3/23). New housing starts announced by the Ministry of Land, Infrastructure and Transport fell by about 10,000 units from a year earlier, and were down approx. 11–12% YoY in all three months for owner-occupied houses. Under these conditions, net sales declined overall, increasing 3.2 times YoY in the large-scale wooden buildings (non-residential) field, but falling 32.8% in the residential field, because orders and unit sales prices were down for major customers. Profit declined sharply due to four consolidated subsidiaries posting operating losses and recording a ¥32mn investment loss in equity-method affiliate MUJI HOUSE Co., Ltd.

2. FY3/24 consolidated results forecasts

For the FY3/24 results, the Company is forecasting net sales of ¥9,055mn (down 2.0% YoY), gross profit of ¥2,401mn (up 1.8%), operating income of ¥233mn (down 44.7%), ordinary income of ¥233mn (down 48.7%), and profit attributable to owners of parent of ¥165mn (down 45.4%). The Company forecasts a 17.7% YoY drop in net sales in the residential field, because orders and unit sales prices are down for major customers. However, it forecasts a 62.2% net sales increase in large-scale wooden buildings (non-residential) field, because it is strengthening the provision of one-stop services related to large-scale wooden building construction, such as promoting initiatives to encourage greater participation of registered SE-structure contractors in the non-residential field. In the environmental design/DX/others field, the Company forecasts a 7.8% YoY increase in net sales. It plans to provide energy conservation calculations for 3,013 buildings (residential and non-residential buildings; up 20.6% YoY) and has started offering services such as ZEB* certification support for non-residential buildings. The Company forecasts a steep YoY decline for all profit lines, however, due to plans for aggressive investment in human resources and an increase in advertising and promotion expenses such as online and social media ads.

* ZEB (Net Zero Energy Building): An indicator that targets zero primary energy consumption by a building over one year. The goal of ZEB is to achieve substantial energy conservation while maintaining the quality of the indoor environment by installing highly efficient equipment and only using renewable energy such as solar power to supply the energy consumed. Projects approved as ZEB subsidized projects receive subsidies from the Ministry of the Environment and Ministry of Economy, Trade and Industry.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Summary

3. The medium-term management plan and the growth strategy for the future

The Company announced its medium-term management plan ending in FY3/26 and growth strategy for the future with its FY3/24 consolidated results forecasts. Net sales of ¥9.24bn in FY3/23 missed its previous medium-term management plan target of ¥10.0bn, but the Company posted record-high net sales, operating income, and ordinary income in FY3/23. Although it forecasts lower sales and profits in FY3/24 amid the recent severe housing market environment, it expects sales and profit growth to resume thereafter, forecasting net sales of ¥12.8bn and operating income of ¥650mn in FY3/26.

Due to the revised (reduced) Building Standards Law Article 20 No. 4 Special Exemptions, in April 2025 it will be obligatory to obtain construction approval even for two-floor wooden-structure buildings, so it seems likely that the spread of wooden-structure structural calculations will accelerate as a movement in advance of its implementation. Also, for “the obligation to comply with the energy saving standards,” so far the obligation has only been to provide an explanation, but in April 2025 it will become obligatory for all homes to comply with the energy saving standards, for which energy conservation calculations will be essential. Against this backdrop, the Company’s energy conservation calculations, structural calculations and seismic simulations are experiencing a growing growth environment.

Growth strategies for the future are as follows. (1) Expand market share in the residential field by increasing the number of registered SE-structure contractors and grow sales in the non-residential field. (2) Provide its own unique one-stop service relating to large-scale wooden buildings in the non-residential field by harnessing its structural calculation and energy conservation calculation expertise and materials supply capabilities, plus subsidiary Suihoo Fabricating Company’s capabilities in specialized processing and construction for large-scale wooden buildings. (3) Respond to growing demand for structural calculations and energy conservation calculations as a result of the revision (reduction) of Building Standards Law Article 20 No. 4 Special Exemptions. (4) Provide support for making non-residential buildings more energy efficient (e.g., support for obtaining ZEB status). Under the medium-term management plan, in the upcoming three years the Company targets net sales growth of 7.9% compared to FY3/23 in the residential field to ¥7,747mn, 171.9% in the non-residential field to ¥4,640mn, and 19.4% in the environmental design/DX/others field to ¥421mn.

Key Points

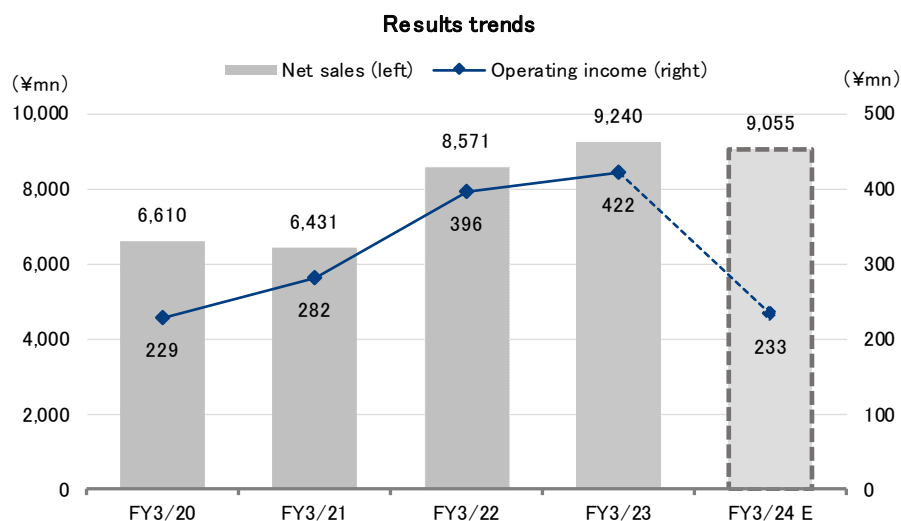
- Forecasting lower net sales and profits in FY3/24 amid severe housing market environment
- Steady expansion of large-scale wooden buildings (non-residential) field expected as one-stop service delivery structure is now in place
- Growth will accelerate from the reduction in scope of the Building Standards Law Article 20 No. 4 Special Exemptions
- Medium-term management plan targets net sales of ¥12.8bn and operating income of ¥650mn in FY3/26

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

Strengthening business structure and expanding scope of business in non-residential field, where buildings are becoming larger and more specialized

The Company conducts a business for advanced structural calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method that has been the mainstream method for steel-framed and RC structures, into wooden housing, to realize wooden buildings with high levels of structurally calculated earthquake resistance. It provides this method through its network of registered SE-structure contractors, mainly building contractors. In addition to structural design work and the stable supply of materials, it can provide a one-stop service to resolve the problems facing contractors and design offices, from confirming the heat insulation performance of wooden housing through to arranging guarantees and insurance. The New Constructor's Network Group (hereinafter also the "Group") is a corporate group centered on the Company. It combines the technologies field through Suihoo Fabricating Company, Timber Structure Design Co., Ltd. and MAKE HOUSE Co., Ltd., the assets field through SE Home Loan Services Co., Ltd., and the lifestyles field through MUJI HOUSE Co., Ltd., YADOKARI Co., Ltd., Ichinomiya Realize Co., Ltd., and N&S Development Co., Ltd.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

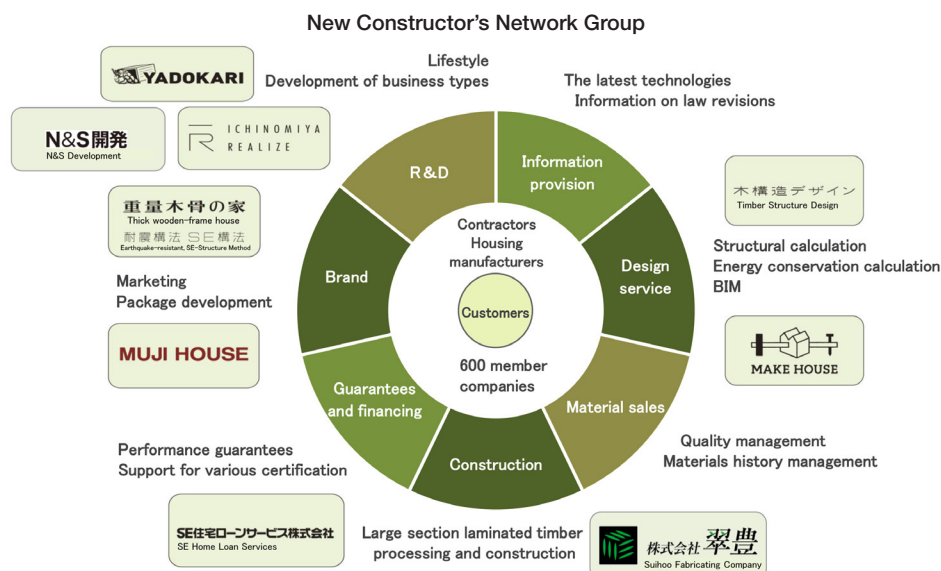
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Company profile

In terms of technology, the Company acquired shares in MAKE HOUSE. from the joint venture partner to make it a wholly owned subsidiary, further strengthening its BIM* business with the wooden construction industry. The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) started applying BIM in principle to all public works projects (except small-scale projects) in April 2023 and the Company strengthened its BIM support services for architectural design offices and small to mid-size general contractors dealing with non-residential properties. It is also making steady progress in expanding the scope of business in the large-scale wooden building (non-residential) field by making Suihoo Fabricating Company (with strengths in large section laminated timber processing, specialized wood processing, and construction of large wooden buildings) a consolidated subsidiary. In May 2023, the Company obtained a structural assessment from The Building Center of Japan for its SE-Structure Method adapted for five-story wooden buildings. The Company harnessed its research facility Timber Structure Lab. to modify its SE-Structure Method, whose previous specifications could not be used for five-story buildings, thereby promoting business expansion in the large-scale wooden building (non-residential) field.

* BIM (Building Information Modeling) refers to a system to construct a 3D building information model on a computer with attribute information on design, construction, and management and maintenance of the building. BIM Solutions therefore enable the use of attribute information required for preparing various drawings needed for construction.

In the lifestyles field, in December 2019 the Company entered into a capital and business collaboration with YADOKARI. It is engaged in survey research and media management on new ways of living in the world; the planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support. Ichinomiya Realize was established in August 2016 for regional revitalization as a town-development company through funding by Ichinomiya Town, Chosei District, Chiba Prefecture, the Company, and other private-sector companies. Also, in April 2022 the Company established N&S Development jointly with Sanu Inc. to develop the SANU 2nd Home subscription service. In the SANU 2nd Home service provided by Sanu, the aim is to promote the spread of wooden buildings toward realizing a decarbonized society by providing lodging buildings that utilize the SE-Structure Method.



New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Company profile

The Company was established in 1996 with the aims of disseminating safe and secure wooden structures and building a framework to provide homes with asset value. The Company President, Mr. Ikuo Takusari, was formerly employed in Nissho Iwai Corporation (currently, Sojitz Corporation <2768>). The Great Hanshin-Awaji Earthquake occurred in 1995, when he was active as a businessman in a trading company, and he witnessed the catastrophic damage to wooden housing. This informed him of the fact that wooden housing, which constitutes the majority of housing, does not employ structural calculations. So rather than being “weak because they are wooden,” these structures lacked structural designs from the start.

New Constructor's Network was established in 1996 as a joint venture between Seven Industries Co., Ltd. <7896> and Nissho Iwai. At that time, it requested the assistance of Mr. Shigeru Ban, the structural designer who had worked on the construction of the Nagano Olympics Memorial Arena. Utilizing Mr. Ban's expertise in large-scale buildings, the Company developed the SE-Structure Method for general homes also and worked on innovations in wooden building construction technologies. This proprietary system for wooden buildings, which offers overwhelming strength, has been one of the Company's strengths up to the present time. The SE-Structure Method is its intellectual property that cannot be duplicated by other companies because it is the result of its accumulation of 20 years of construction experience and many major housing manufacturers ask for OEM supply of standardized housing. Also, in May 2023, the SE construction method will receive a structural evaluation from the Building Center of Japan for its ability to support a five-story wooden structure, and in such ways it is promoting wooden buildings that have showed their potential to promote the use of domestically produced wood. The name of New Constructor's Network means forming a network with the Company at its center that is comprised of contractors, builders, housing manufacturers, and others to address the existing issues with wooden housing (namely, weaknesses of the practice of not performing structural calculations and rapidly declining property values.)

New Constructor's Network Co., Ltd.

7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Company profile

History

History	
December 1996	In order to not repeat the tragedy in 1995 of the Great Hanshin-Awaji Earthquake, New Constructor's Network Co., Ltd., was established in Minokamo City, Gifu Prefecture, as a joint venture between Seven Industries Co., Ltd., <7896> and Nissho Iwai Corporation (currently, Sojitz Corporation) to disseminate safe and secure wooden structures in Japan and to build a mechanism to supply homes with asset value.
October 1997	Acquired the Minister of Construction certification in the Building Standards Law Article 38 for the SE (Safety Engineering) Construction Method Wood Frame System Started sales of the SE-Structure Method
November 1998	Held the SE-Structure Method Housing Exhibition (SELL HOUSE Exhibition) by seven architects
September 1999	Started the SE Housing Performance Guarantee System ahead of the Defects Guarantee System Opened the Osaka branch office
May 2000	Acquired the Minister of Construction certification in the Buildings Standards Law Article 38 for the α - SE-Structure Method Wood Frame System (expanded the eaves height limit and an alternative-burning design)
October 2001	Acquired the Specified Constructor Business License (the Minister of Land, Infrastructure and Transport License No. 023620)
May 2002	Acquired the Minister of Land, Infrastructure and Transport certification in the Buildings Standards Law Article 68.26 for the SE-Structure Method-dedicated structural calculation program
December 2003	Started providing the "thick wooden-frame house" housing brand that uses the SE-Structure Method
January 2004	Conducted a capital participation and made an affiliate of MUJI net Co., Ltd., (currently MUJI HOUSE Co., Ltd., an equity method affiliate), a joint-venture subsidiary with Ryohin Keikaku Co., Ltd.
October 2005	Acquired the Minister of Land, Infrastructure and Transport certification for the Buildings Standards Law Article 68.26 for the SE-Structure Method Wood Frame system (split-level home)
September 2006	Acquired the Forestry Certified PEFC-CoC certification Started the design office franchise network business (NDN business department)
June 2008	The system that includes the SE-Structure Method was adopted by the Ministry of Land, Infrastructure, Transport and Tourism for the Ultra-long-term Housing Leading Model Project Started the supply of feather-pattern materials and unit rebar in the SE-Structure Method Started sales of Walk in Structure, a SE-Structure Method-dedicated design CAD
April 2009	Following the enactment of the Act to Promote Ultra-long-term Excellent Housing, established the Ultra-long-term Excellent Housing Support Office (currently, the Ultra-long-term Excellent Housing Support Section, New Business Department) The residential housing supply system using the SE-Structure Method was certified as a Ministry of Land, Infrastructure, Transport and Tourism, Long-term Excellent Housing Leading Business and adopted as an auxiliary business Started the use of domestically produced timber in the SE-Structure Method
October 2010	The system that includes the SE-Structure Method was selected by the Ministry of Land, Infrastructure, Transport and Tourism as the FY2010 Ultra-long-term Excellent Housing Leading Business Started the environmental design service (currently the primary energy consumption volume calculation service)
March 2012	Established SE Home Loan Services Co., Ltd., (currently a consolidated subsidiary) to conduct operations including loan agency operations and the brokerage of financial instruments The SE-Structure Method Wood Frame system received a structural assessment by the Building Center of Japan
March 2013	Spun-off the design office franchise network business as NDN Co., Ltd.
June 2015	Established MAKE HOUSE Co., Ltd., (currently a consolidated subsidiary) to develop and deploy BIM solutions for the housing industry
July 2016	Acquired the resilience certification
February 2017	Absorption merger of NDN Co., Ltd.
February 2018	Relocated site of the Head Office to Minato Ward, Tokyo
March 2018	Acquired the Housing Lots and Buildings Transactions Business License (Governor of Tokyo License (01) No. 101790)
March 2019	Listed on the Tokyo Stock Exchange JASDAQ market
October 2019	Participated in Isumi Forest Living, a regional revitalization project of Isumi City, Chiba Prefecture
December 2019	In the 23rd Japan Timber Engineering Society Technology Presentation, the Company's executive officer was awarded the Motoaki Okuma Award Entered into a capital and business collaboration with YADOKARI Co. Ltd., which is engaged in survey research and media management on new ways of living in the world; planning and development of idle land and interim land through utilizing cabins and moveable assets; and town-development support
February 2020	Established Timber Structure Design Co., Ltd., as a joint venture with NET EAGLE, which has the leading market share for wooden pre-cut CAT development
September 2021	Started providing structural performance guarantees for non-residential wooden buildings for the first time in the industry
October 2021	Started full operations at MAKE HOUSE BIM BASE, the BIM/CAD Center that is a new BIM business base in MAKE HOUSE's wooden buildings field
February 2022	Opened the Timber Structure Lab. as a base to develop wooden structure-related technologies
April 2022	Established N&S Development Co., Ltd. through a joint investment with Sanu Inc.
June 2022	Acquired the shares of MAKE HOUSE (made it a wholly owned subsidiary)
October 2022	MUJI HOUSE and the Ministry of Agriculture, Forestry, and Fisheries concluded an agreement regarding greater use of wood to promote use of wood in buildings
May 2023	Obtained structural assessment for adapting SE-Structure Method to five-story wooden buildings

Source: prepared by FISCO from the Company's securities reports and press releases

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Business overview

Provides wooden homes with high asset value through its SE-Structure Method

1. The wooden-construction, earthquake-resistant design business

The Company conducts a business for advanced structure calculations to ensure the earthquake resistance of wooden buildings. It also provides the SE-Structure Method, which is the Company's proprietary construction system that incorporates the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints), which has been the mainstream method for steel-framed and RC structures, into wooden homes, to realize wooden buildings with high levels of structurally calculated earthquake resistance. The system is provided through the Company's network of roughly 600 nationally registered SE-structure contractors (contractors and housing manufacturers), offering one-stop service from structural calculation to supply of the pre-cut materials.

(1) The residential field (the SE-Structure Method, an earthquake-resistant construction method)

At first, when the franchisee gets an order, the Company ships structural calculation sheets at the design stage. Then, it sells the structure-processed parts and other products at the construction stage. It also receives registration fees and monthly membership fees from the registered construction companies. The SE-Structure Method is a state-of-the-art wood-construction technology that realizes both excellent earthquake-resistant performance and a high degree of freedom for spaces. The wood used in the SE-Structure Method for the structural framework is all "custom laminated-wood," which is extremely strong and has consistently high levels of quality. The homes also have the advantage of few cross-section defects due to the use of SE metallic materials in the pedestal parts that connect the columns and the beams. Also, to protect against the tremors that occur in a large earthquake, the Company uses a metallic material called "pedestal metallic material," which directly connects the foundation and the pillars for the parts connecting the pillars and the foundation, which are the most fragile parts. This greatly improves their resistance to separation. Moreover, the metallic materials that are bonded to the wooden materials are extremely strong, which is also a major element of the method. However, the main reason why it is said that the SE-Structure Method is strong against earthquakes is related to the structural calculations. For wooden housing, the SE-Structure Method uses structural calculations that are supported by numerical values, the same as for steel-frame and RC structures, and as all properties are sold with a guarantee, houses with high asset value are provided. Up until now, there have been no cases of houses incorporating the SE-Structure Method collapsing or partially collapsing due to earthquake.

a) The franchise network (residential field franchise network)

Toward the spread of wooden housing with high earthquake resistance through its proprietary construction system SE-Structure Method, the Company is aiming to strengthen acquisitions of registered contractors for its network. It had 605 registered contractors in FY3/23 and targeting an increase of 36 companies to 641 in FY3/24, recording a stable upward trend in membership revenue. "Thick wooden-frame house" is an umbrella term for houses with high asset value built using the SE-Structure Method by thick wooden-frame house premium partners (selected contractors among the Company's 605 registered contractors). The Company is promoting DX to harness its partnership with registered contractors, including a digital showroom on YouTube and communicating with consumers on Instagram.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Business overview

b) Housing manufacturer services (OEM supply)

The Company provides OEM supply of its SE-Structure Method for its partner companies, such as house manufacturers that sell standard housing (including several major housing manufacturers). When a partner company sells a standard home, the Company ships the structural calculations sheets, and it also sells the structure-processed parts and other products. Younoie from MUJI HOUSE, an affiliate accounted for under the equity method that provides MUJI homes, is a one-floor building that does not require corridors being only one-story and needs are high as a double-base dwelling or villa, a lodging facility for rent, etc. Other than these, MUJI HOUSE is also promoting a regional revitalization business with the Urban Renaissance Agency based on housing-complex renovation.

(2) The large-scale wooden buildings (non-residential) field

In the large-scale wooden buildings (non-residential) field, the Company uses the SE-Structure Method to provide wooden buildings with a total floor area of more than 500 m². Due to the enforcement of such laws as the Act for Promotion of Use of Wood in Public Building (October 2010) and the Act on Promotion of Utilization of Wood in Buildings, etc. for Contributing to Realization of a Carbon Free Society, etc. (revised October 2021), construction demand for large-scale wooden buildings that require structural calculations is growing, and the Company is applying its expertise in earthquake-resistant designs for wooden buildings to large-scale wooden buildings to develop its business in this field. The features of its large-scale construction work include that its structures are lighter in weight than steel-frame and RC structures and it is able to keep down on construction costs and the construction period.

The SE-Structure Method, an earthquake-resistance construction method, realizes both excellent earthquake resistance and a high degree of freedom for spaces through the use of materials that are thoroughly quality controlled and calculated structurally. This business field is growing remarkably due to the global promotion of wooden buildings and wooden materials, made relevant by environmental issues like forest conservation and global warming. In order to further accelerate growth, the Company has entered into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development. This collaboration is for a structural design business in the large-scale wooden buildings (non-residential) field, which also handles construction methods other than the SE-Structure Method. In February 2020, the two companies established Timber Structure Design as a joint venture. Further, in October 2020, it started providing Japan's first matching platform business to match general contractors and design offices in the large-scale wooden buildings market to pre-cut plants. Timber Structure Design will provide structural design support and processing support, in addition to establishing a production system through forming a network of pre-cut plants. At the same time, through conducting advertising activities to general contractors and design offices, it will provide a one-stop service, from structural design through to production design. For the structural design support, it will propose construction methods according to aspects such as the building's use and size (the SE-Structure Method, the conventional framework construction method*1, the 2x4 construction method, laminated wood*2 structures, the CLT*3 construction method, etc.), and the Company is aiming to increase its share in the large-scale wooden buildings market by applying to other construction methods its expertise cultivated through conducting structural calculations for more than 25,000 buildings.

*1 Conventional framework construction method: a construction method that simplifies and was developed from traditional Japanese construction methods

*2 Laminated wood: wood material made by reconstructing panels bonded with adhesive

*3 CLT (Cross Laminated Timber): thick laminated panels bonded together in layers so that each fiber direction layer is perpendicular to the other layers

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Business overview

2. Others

In order to achieve its goal of “creating a mechanism to provide homes with asset value in Japan” centered primarily on the wooden-construction, earthquake-resistant design business, the Company provides a variety of services to improve the asset value of homes, including an energy conservation calculation service and a long-term quality housing certification agency service.

(1) Energy conservation calculation service

The Company provides various services, including an energy conservation calculation service and a long-term quality housing certification agency service. It started providing the energy conservation calculation service in 2010, looking ahead to the addition of primary energy consumption volume to the evaluation standards in 2013 with the introduction of the New Energy Saving Standard and the enforcement of the revised Building Energy Efficiency Act from 2020. (Since April 2021 in the revised Building Energy Efficiency Act, it has been made obligatory for the constructing party to explain whether or not the building complies with energy-saving standards.)

The Company provides services not only for homes constructed using the SE-Structure Method, but also for homes constructed using other construction methods, and it is working for the dissemination of zero energy homes. In order to create fuel-efficient housing, there are a wide range of techniques for keeping down the energy consumed, and “energy conservation calculations” is the method to confirm whether each one of these techniques is functioning properly before actually constructing the home. In other words, “energy conservation calculations” allow for a reading from design drawings in advance to ascertain how much heating and cooling load the building will require before it is built. The Company issues an Energy Conservation Performance Report, which adds an explanation of the results for customers in addition to the results of these calculations.

(2) Home loan business (SE Home Loan Services)

As an agency for Credit Saison's <8253> Flat 35, consolidated subsidiary SE Home Loan Services has established a framework for providing financial back-up for people acquiring homes by ordering with registered contractors. Flat 35 lowers the initial interest rate for high-quality homes with superior earthquake resistance and energy-saving performance, and is provided as a home loan that can provide support for purchasing the Company's high-quality homes while also offering peace of mind. In July 2023, the Company transferred 60% of its 100% shareholding in SE Home Loan Services to Public Holdings Co., Ltd. (located in Kumagaya, Saitama Prefecture), also a Credit Saison Flat 35 agency, which runs a home loan financial agency business including bank agency and insurances services (including fire insurance). As a result of the transfer, SE Home Loan Services will operate as a joint venture between the Company and Public Holdings.

(3) BIM (Building Information Modeling) business

BIM refers to a system to construct a building information model with attribute information on the building, mainly of 3D shape information created on a computer, but also other information such as on the name and area of the room, the specifications and performance of the materials and parts, and the finishing. Consolidated subsidiary MAKE HOUSE is realizing the integration of data, from the designs of wooden housing through to production, and it is developing and selling BIM solutions in order to supply to the market inexpensive homes with high asset value. In June 2022, the Company acquired 49% of MAKE HOUSE shares held by PaperlessStudio Japan, making it a wholly owned subsidiary.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Business overview

MAKE HOUSE's main service is a consulting business to improve work efficiency through BIM and to promote introductions of IT. In addition to BIM consulting for construction businesses, it conducts a BIM projects consignment business as a service that directly supports actual projects. Other than these, it is conducting various businesses, from content production that utilizes VR (virtual reality) and MR (mixed reality) technologies, through to developing various simulations, including presentation environments. It is also developing various tools to automate and accelerate BIM. The rate of introduction of BIM into general contractors in Japan had risen to as high as around 80% (as of 2018). But its rate of introduction in the wooden-construction field remains low and there is little data on it, and although measures to make the introduction of BIM obligatory are being progressed around the world, the situation is that Japan is lagging behind considerably for this. Amid the promotion of DX, the Japanese government is promoting the utilization of 3D data through introducing the principles of BIM. In 2D designs, it is difficult for designers to imagine and to find interference sites, but BIM makes it possible to improve the efficiency of work to check the interference visualized by BIM, to create construction plans that include the surrounding environment, and to automate calculations of quantities and construction costs from 3D models, which is changing the workstyles of both the ordering party and the party receiving the order. So, at FISCO, we think that for the Company, whose strengths include a BIM business for wooden buildings, this field will become its growth engine in the future.

Results trends

Residential field struggling, but net sales increased 3.2 times for large-scale wooden buildings (non-residential) field

1. Overview of 1Q FY3/24 results

For the 1Q FY3/24 (April to June 2023) results, net sales were ¥1,966mn (down 7.7% YoY), gross profit was ¥585mn (up 10.0%), operating income was ¥33mn (down 66.4%), ordinary income was ¥5mn (down 92.7%), and loss attributable to owners of parent was ¥9mn (¥49mn profit in 1Q FY3/23). Under these conditions, net sales declined overall, increasing 3.2 times YoY in the large-scale wooden buildings (non-residential) field, but falling 32.8% in the residential field, because orders and unit sales prices were down for major customers. Profit declined sharply due to four consolidated subsidiaries MAKE HOUSE, SE Loan Service, Timber Structure Design, and Suihoo Fabricating Company posting operating losses, and recording a ¥32mn investment loss in two equity-method affiliates MUJI HOUSE and N&S Development. MUJI HOUSE posted a loss, because detached house sales were negatively impacted by sharp increases in wooden material prices ("wood shock") starting in 2022, making orders received before then unprofitable.

1Q FY3/24 consolidated results

	1Q FY3/23 Results	1Q FY3/24 Results	YoY	
			Change	Increase/ decrease rate
Net sales	2,129	1,966	-163	-7.7%
Gross profit	532	585	53	10.0%
Operating income	98	33	-65	-66.4%
Ordinary income	78	5	-73	-92.7%
Profit attributable to owners of parent	49	-9	-58	-

Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

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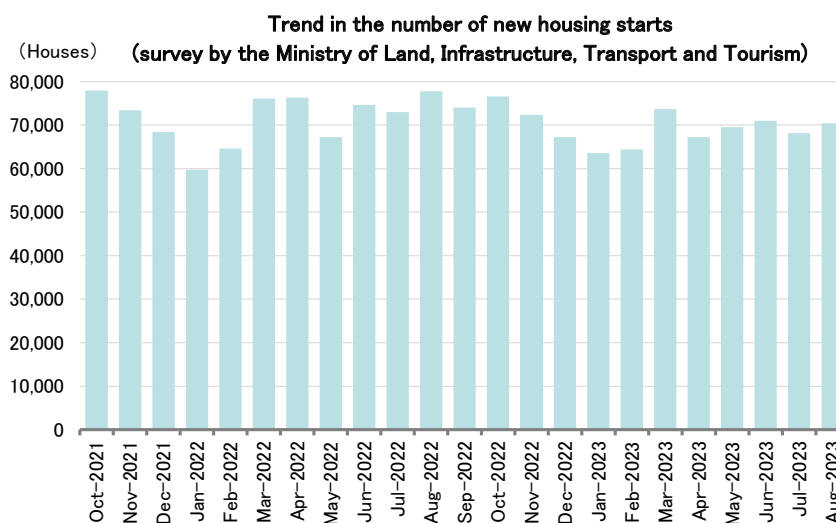
Results trends

2. Business segments and segment net sales

Looking at the housing market environment in 1Q FY3/24, new housing starts were down 11.9% YoY in April 2023, falling below year-ago levels for the third month in a row. New housing starts turned up in May (up 3.5% YoY), but turned down again in June (down 4.8%), and declined 6.7% in July. For owner-occupied houses, new housing starts were down 11.6% YoY in April, 11.5% in May, and 12.4% in June for three consecutive months of declines. The downward trend continued in July (down 7.8% YoY) and August (down 5.9%), which marked the 21st consecutive monthly fall. These figures are a reflection of the tough housing market environment.

Turning to large-scale wooden buildings that the Company supplies, the government's actions for attaining a decarbonized society have been positive for this business. The revised Act for Promotion of Use of Wood in Buildings to Contribute to Realizing a Decarbonized Society was enacted in October 2021. In June 2022, based on a law that revises part of the Act, the construction of large-scale wooden buildings using large section laminated wood and partially wooden buildings that utilize sections was permitted. The scope of business has expanded, because the Company prepared its infrastructure by establishing Timber Structure Design, which engages in structural calculations and structural design for construction methods other than the SE-Structure Method and by making Suihoo Fabricating Company (with strengths in large section glued laminated timber processing and construction capabilities required for construction of large wooden buildings) a consolidated subsidiary. As new lifestyles take hold, the Company also sees potential for demand growth in high value-added homes like vacation homes built by the SE-Structure Method, which are fully customized, and pioneering the second house market, which proposes new ways of living.

The revision of the Building Standards Law was passed in an Ordinary Diet Session in June 2022, making it obligatory from April 2025 to ensure energy conservation performance in wooden housing. Structural calculations of wooden housing have been the Company's core business from the beginning, and its various investments in growth in anticipation of government policy are reflected in its earnings performance. Looking two years ahead when the need for structural calculations is expected to spike, the Company is preparing for the shift to wooden buildings and design DX as Japan moves toward a decarbonized society.



Source: Prepared by FISCO from data on the number of new housing starts from the Ministry of Land, Infrastructure, Transport and Tourism

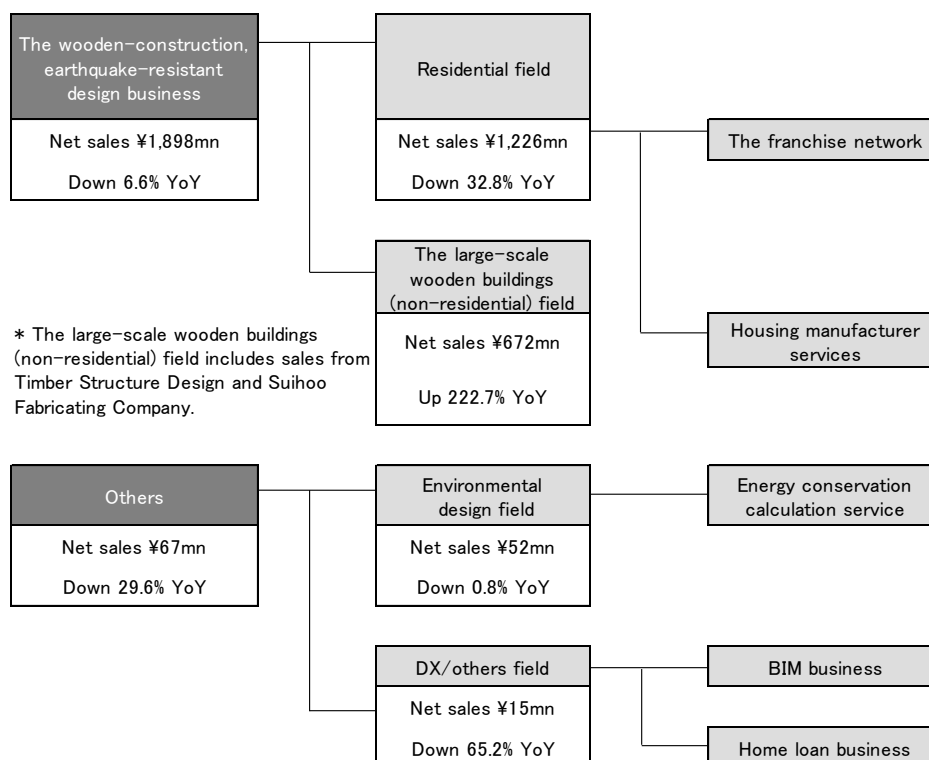
New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Results trends

Business segment and segment net sales



Source: Prepared by FISCO from the Company's financial briefing materials

Net sales of the residential field totaled ¥1,226mn, down 32.8% YoY. The number of shipments of housing structures through the SE-Structure Method in 1Q FY3/24 was 209 buildings (down 28.7% YoY), and average sales value per SE-Structure Method shipment fell by about 5%. The number of registered contractors was 600 companies, following the addition of seven companies and loss of 12 companies.

Net sales of the non-residential field totaled ¥672mn (up 222.7% YoY), increasing 3.2 times. The number of shipments of housing structures through the SE-Structure Method was 32 buildings (up 45.5% YoY). At Timber Structure Design, which handles architectural design of non-SE Structure Method large-scale wooden buildings, shipments of structural calculations increased 77.8% YoY to 16 buildings as a result of ongoing promotional activities. Combined with shipments of structural calculations through the SE-Structure Method of 33 buildings (up 22.2% YoY), total shipments of structural calculations increased a sharp 36.1% to 49 buildings. The Company is also expanding its scope of business in this field by making Suihoo Fabricating Company (with strengths in large section laminated timber processing, specialized wood processing, and construction of large wooden buildings) a consolidated subsidiary in October 2022. Further, in May 2023, the Company obtained a structural assessment from The Building Center of Japan for its SE-Structure Method adapted for a five-story wooden building. This is the result of technical research and development at the Company's research facility Timber Structure Lab. Wooden buildings over three stories high were previously not qualified to apply for building certification due to fire prevention and structural factors, but the use of the SE-Structure Method has made it relatively simple to obtain approval to apply for building certification. The Company will therefore strengthen its support structure for builders and regional general contractors working on wooden mid-rise and high-rise building projects.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

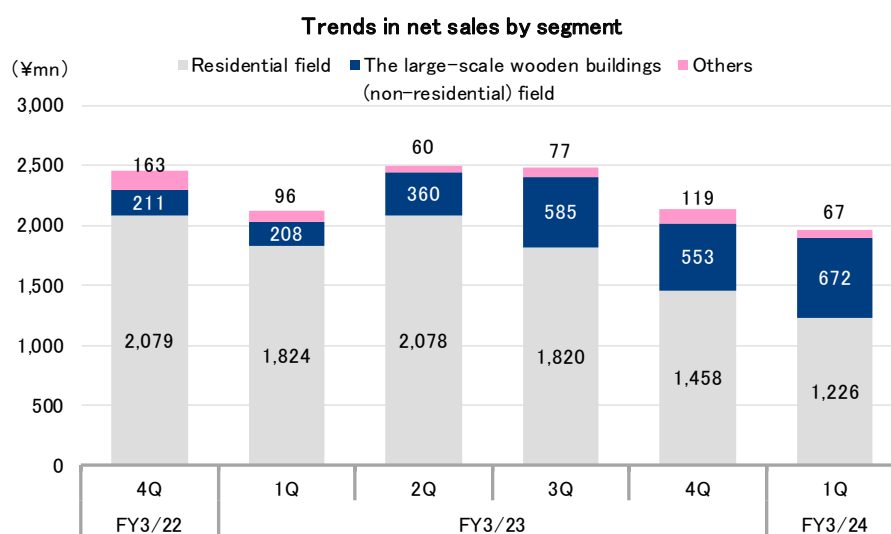
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Results trends

In May 2023, affiliate MUJI HOUSE, concluded an agreement regarding greater use of wood to promote use of wood in buildings with Ryohin Keikaku and the Forestry Agency, Ministry of Agriculture, Forestry, and Fisheries. This is part of a concept for Ryohin Keikaku to contribute toward achieving carbon neutrality in 2050 and revitalize mountain village economies by actively utilizing domestic wood materials in structural materials and interior/exterior decorating when building and remodeling wooden company-run stores. The plan is to build wooden MUJI stores utilizing 10,000 m² of domestic wood materials in the next five years. MUJI HOUSE, which builds Muji homes, plans to build wooden MUJI stores using the SE-Structure Method, but in practice, the Company will engage in the process from structural calculations and energy conservation calculations to supplying precut materials, and its registered contractors will do the building work.

Net sales of the environmental design field totaled ¥52mn (down 0.8% YoY). Through adopting a strategy of providing a service that combines consulting services relating to receiving subsidies in response to explaining the energy saving performance of homes, which became obligatory in April 2021, shipments of primary energy calculation sheets for wooden homes, condominiums, and non-residential wooden buildings totaled 685 (down 3.0% YoY). The Company also began providing support for making non-residential buildings more energy efficient (e.g., support for obtaining ZEB status). It provided this support for two buildings and applied for subsidies.

Net sales of the DX/others field came to ¥15mn (down 65.2% YoY). Subsidiary MAKE HOUSE, which develops and provides IT solutions for wooden construction, began training personnel at MAKE HOUSE BIM BASE, which was established in October 2021, to expand its business and conducted sales activities for MAKEVIZ, a high-resolution construction space simulation service harnessing BIM technology. However, net sales turned down due to the dropout of a large spot project recorded in FY3/23. As well, in July 2023, the Company transferred 60% of its 100% shareholding in SE Home Loan Services to Public Holdings (a Credit Saison Flat 35 agency like SE Home Loan Services), which runs a home loan financial agency business including bank agency and insurances services including fire insurance. It has executed Flat 35 loans totaling more than ¥300.0bn. In 2022, Public Holdings received approximately 1,000 home loan applications, of which it acted as an agency for around 700. The Company aims to strengthen its financial support structure for registered contractors in collaboration with Public Holdings to expand its business.



Source: Prepared by FISCO from the Company's financial briefing materials

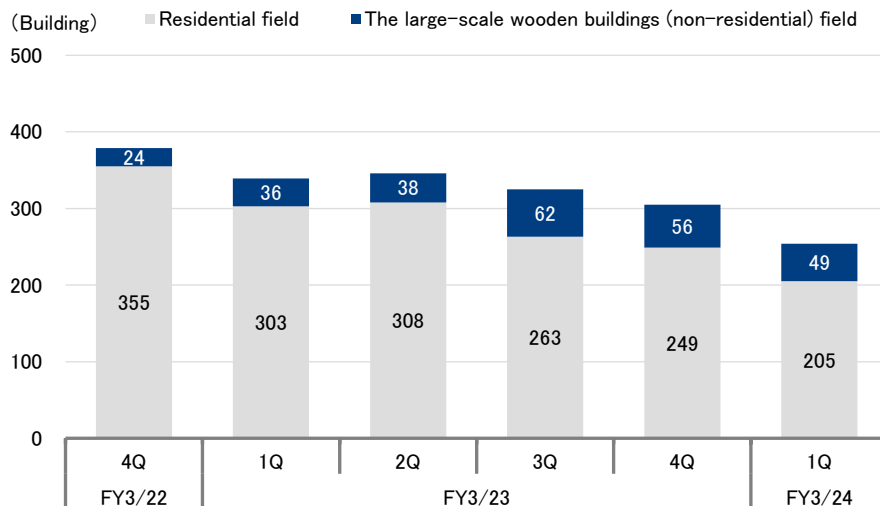
New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

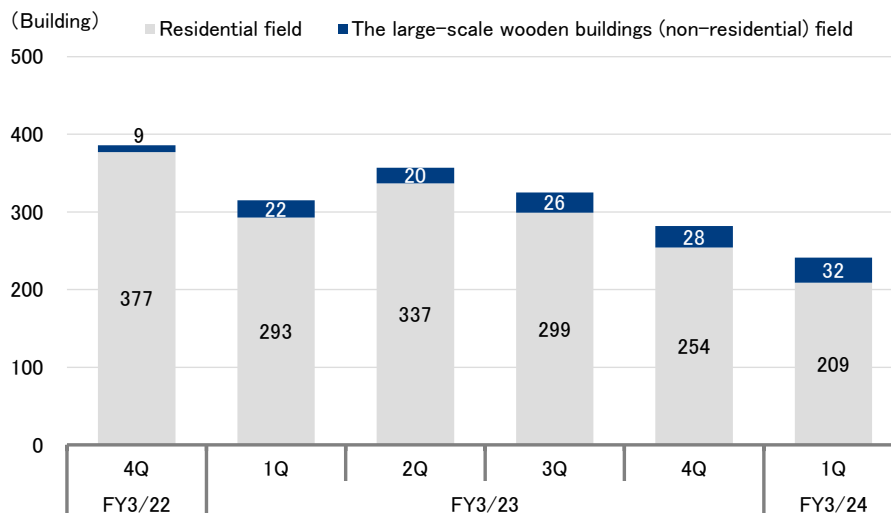
Results trends

Number of structural calculation shipments



Source: Prepared by FISCO from the Company's financial briefing materials

SE-Structure Method shipments



Source: Prepared by FISCO from the Company's financial briefing materials

After trading companies made aggressive efforts to source wood materials amid supply shortage concerns stemming from the wooden materials supply shortage ("wood shock") and Russia's invasion of Ukraine, the supply-demand situation eased due to a slowdown in new housing starts. Housing investment declined in the US due in part to rising long-term interest rates, leading to a drop in demand for wood materials. The Chicago (CME) lumber futures price has fallen from around \$1,670 in May 2021 to \$500, close to pre-pandemic levels. Although trading companies and manufactures that sharply increased their inventory during the wood shock likely made a substantial profit, we at FISCO think that a negative impact will be unavoidable due to surplus inventory as housing demand starts to weaken.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Results trends

The Company sources all of its structural laminated wood from domestic manufacturers. Company President Ikuo Takusari has a wealth of knowledge on wood material distribution, having experience in importing wood from the US, Canada, and New Zealand when he worked in the lumber department of a trading company. This gave the Company a big advantage in responding to the wood shock, managing to source the right quantity of wood materials during the critical period without carrying excess inventory. Although import price indices for wood materials, wood products, forestry products, plywood, and laminated wood remain at a high level, the Company continues to leverage its strengths as prices appear to be peaking out.

In the revised Building Energy Efficiency Act enacted in April 2021, newly constructed non-residential buildings (with a floor area of 300 square meters or more) are obligated to comply with the energy saving standards. This obligation to comply includes requirements to introduce outer wall insulating materials, glass with high heat insulation performance, highly efficient air conditioning, and light emitting diode (LED) lighting. Also, an energy saving compliance assessment has become necessary even for medium-sized non-residential buildings, so energy conservation calculations have become essential work in new construction plans.

The Company has been conducting energy saving calculations for more than 10 years and has a track record of creating many calculation sheets. Based on this wealth of experience, it seems that it will demonstrate its superiority for complying with the obligation to explain energy saving performance, and it FISCO, we think that the growth of sales in this segment will continue in the future.

3. Financial position

Total assets were ¥6,705mn, decreasing ¥144mn from the end of the previous period. This was mainly due to an increase of ¥90mn in cash and deposits and ¥101mn in investment securities offset against decreases of ¥183mn in accounts receivable – trade and ¥147mn in accounts receivable arising from outsourced production contracts. Total liabilities were ¥4,570mn, decreasing ¥16mn from the end of the previous period. The main reasons for this were increases of ¥33mn in provision for bonuses and ¥28mn in lease liabilities offset against decreases of ¥59mn in accounts payable and ¥24mn in income taxes payable. Total net assets were ¥2,135mn, decreasing ¥127mn, mainly due to the ¥9mn loss attributable to owners of parent and dividend payment of ¥118mn.

Balance sheet

	(¥mn)		
	FY3/23	1Q FY3/24	Change
Current assets	5,319	5,068	-251
Fixed assets	1,529	1,637	107
Total assets	6,849	6,705	-144
Current liabilities	3,492	3,460	-32
Fixed liabilities	1,093	1,109	16
Total liabilities	4,586	4,570	-16
Capital	390	390	-
Capital surplus	255	255	-
Retained earnings	1,707	1,581	-126
Net assets	2,263	2,135	-127
Equity ratio	29.8%	28.6%	1.2pt

Source: Prepared by FISCO from the Company's financial results

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

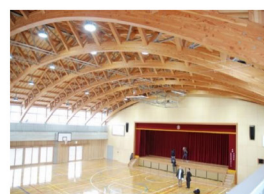
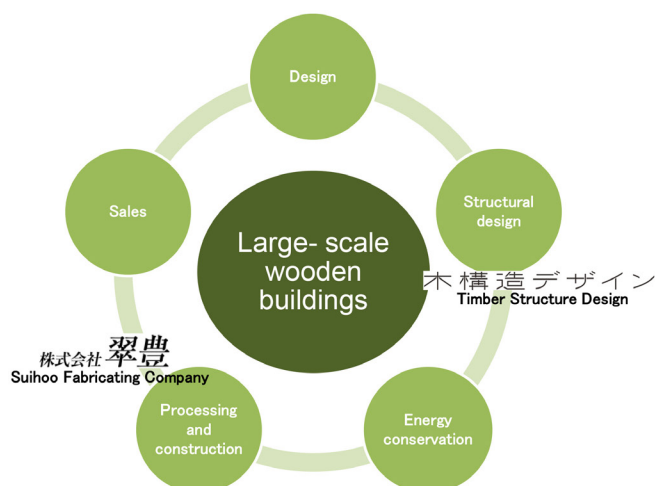
17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Strengths

Expanding business scope to become a total wooden-structure solutions company

In order for contractors and housing manufacturers nationwide to solve Japan's societal problems, that Japan's wooden buildings are not earthquake resistant and that its pre-owned wooden-structure houses have no resale value, the Company provides a business platform for wooden building construction companies. It can accurately procure materials through the management of its own integrated supply chain that starts from structural design and covers every process, from materials procurement through to construction work. This proprietary supply chain is perhaps the Company's greatest strength.

One-stop service for large-scale wooden buildings



Source: Prepared by Fisco from the Company's financial results briefing materials

Up to FY3/20, the Company focused on actively utilizing its approximately 500 existing registered contractor companies. But as its system and structure is now in place and toward the further spread of wooden housing with high earthquake resistance, it worked to strengthen acquisitions of new contractors and at the end of 1Q FY3/24, the number of contractors had expanded to over 600 companies. At FISCO, we think that it will continue to expand the contractor's network at the same time as further strengthening the business platform that integrates the technologies field of structural calculations by Timber Structure Design and MAKE HOUSE, energy conservation calculations, and BIM; the assets field through SE Home Loan Services; and the lifestyles field through MUJI HOUSE, YADOKARI, Ichinomiya Realize, and marketing by N&S Development. In addition, the Company strengthened its business structure and expanded its scope of business in large-scale wooden structures, where buildings are becoming larger and more specialized, by making Suihoo Fabricating Company, which excels in large section laminated timber processing, specialty processing of wooden materials, and large-scale wooden building construction capabilities, a subsidiary. We see potential for growth as a total wooden-structure solutions company at a time of growing demand for large-scale wooden buildings requiring structural calculations, because the target for the government's policy of promoting greater use of wood is spreading from public buildings to private-sector buildings.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Strengths

1. The SE-Structure Method

The SE-Structure Method utilizes the Company's expertise in large-scale buildings for general housing. Conventionally, the rigid construction method (a method of bonding the respective parts to the framework (parts) with rigid joints) has been the mainstream method for steel-frame and RC structures. The SE-Structure Method is the Company's proprietary construction system for wooden buildings that incorporates this rigid method for wooden housing into a system to construct wooden housing that are safe and convenient to use. This proprietary system constructs wooden buildings that are overwhelmingly strong. Up until now, it has been one of the Company's strengths and intellectual property that other companies cannot duplicate, because it is the result of the Company's accumulation of 20 years of construction experience. In this construction method, the Company conducts structural calculations for all buildings and uses structurally high-quality laminated wood and SE metal materials that it itself developed for the SE joint parts. Through this method, it realizes high earthquake resistance and large spaces at the same time. The system enables integrated management in every step of the process, from the structural calculations through to the supply of parts, the construction and inspection, and the performance guarantee.

2. Timber Structure Design

In February 2020, the Company entered into a business collaboration with NET EAGLE, which has the leading market share for wooden pre-cut CAD development (more than 60%). This collaboration is for a structural design business in the large-scale wooden (non-residential) field handling construction methods other than the SE-Structure Method. The two companies established Timber Structure Design as a joint venture. The Act for Promotion of Use of Wood in Public Building was enforced in October 2010. The Act focuses on the target of public buildings, which have a low wooden-building rate, and for which demand can be expected to increase in the future. It calls on the Japanese government to take the lead in promoting the use of wooden materials, and it also encourages independent efforts by local governments and private-sector businesses in accordance with the national policy. The aim is to increase the demand for wooden materials as a whole, including from the ripple effects to homes and other general buildings. On the other hand, the Building Standards Act defines the following buildings for which safety must be confirmed through structural calculations.

The Building Standards Law Article 20 No. 4 Special Exemptions

Sizes of wooden buildings (Number of floors and total floor space)

- (1) Wooden buildings, including homes, of three or more floors
- (2) Wooden buildings, including homes, with a total floor space of more than 500 m²
- (3) Wooden buildings, including homes, of more than 13 m in height
- (4) With eaves of a height of more than 9 m

However, the current situation is that there are few structural designers that can handle wooden buildings other than housing, and that information cannot be passed accurately to the manufacturing plants just as it is shown in the structural design drawings. At FISCO, we think that outsourcing will become the mainstream because in companies such as major construction companies and housing manufacturers, a movement to secure structural designers can be seen, but the costs for this will increase. When carrying out structural design, a major advantage for the Group's clients is that consulting on costs and on construction work can be provided at the same time. Timber Structure Design, which is a joint venture with NET EAGLE that has the largest market share for wooden-structure pre-cut CAD development, handles structural designs and production designs of non-residential wooden buildings other than those that use the SE-Structure Method, and it has significant growth potential. By providing optimized product designs as pre-cut data linked to the structural design, Timber Structure Design is the only company providing a one-stop service for a wide variety of buildings, and this would seem to be its considerable strength.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Strengths

Also, in October 2020 Timber Structure Design started providing Japan's first matching platform business to match general contractors and design offices in the large-scale wooden buildings market to pre-cut plants. It is providing structural design support and processing support, in addition to establishing a production system through forming a network of pre-cut plants. At the same time, through conducting advertising activities to general contractors and design offices, it is providing a one-stop service, from structural design through to production design. This service made a slow start because of the impact of COVID-19 pandemic that began immediately after its launch, but economic activities are normalizing and inquiries are also currently increasing, so at FISCO we think that it can be expected to grow rapidly.

3. BIM business (MAKE HOUSE)

MAKE HOUSE, which was made a subsidiary in October 2021, has opened MAKE HOUSE BIM BASE, the BIM/CAD center that will serve as a business development base toward the growth of the BIM business in the wooden buildings field. Many countries around the world have progressed efforts to comply with the obligation to introduce BIM, including that in the United States it had been introduced by approximately 70% of construction companies by 2012, and in Singapore it had been introduced into around 80% of the buildings requiring an application for construction approval by 2015. In Japan, BIM is being introduced mainly by the major construction companies, but introductions of BIM are not being progressed in the wooden buildings field.

In 2021 under the revised Building Energy Efficiency Act, the "obligation to explain a building's energy saving performance" was started, while in April 2025, the scope of the Building Standards Law Article 20 No. 4 Special Exemptions is expected to be reduced, and the Ministry of Land, Infrastructure, Transport and Tourism has announced that all newly constructed buildings will be obligated to comply with the energy saving standards. For detached houses as well, at the same time as the obligatory inspection, it is possible that it will be necessary to conduct a structural inspection at the time of applying for approval even for small-scale two-floor wooden buildings. Currently, detached houses built of wood that satisfy the requirements, including having 2 or fewer floors and a floor area of 500 m² or less, are exempted from the structural inspection in the construction approval. But by reducing the scope of No. 4 Special Exemptions, the special handling of wooden buildings will be revised and they will be treated the same as buildings with other structural forms. In short, buildings other than single-story buildings and those with a total floor area of 200 m² or less require an examination of structural provisions, etc., regardless of their structure.

The No. 4 Special Exemptions began in 1983, but in 2006, it became apparent that their designs of built-for-sale homes to which No. 4 Special Exemptions were applied were inappropriate and that many houses had insufficient structural strength. In 2010 based on the confusion at construction sites, it was announced that the No. 4 Special Exemptions would be continued. Until recently, the argument that they should be abolished strengthened every time a problem occurred with them, but even so they were never abolished. However, No. 4 Special Exemptions will finally be reduced in April 2025 and the building permit procedure for wooden buildings will be revised. The Company has continued to grow through conducting initiatives in response to government policies ahead of others, and at FISCO, we think that its growth will be further accelerated by the reduction in scope of the Building Standards Law Article 20 No. 4 Special Exemptions. In June 2022, the Company acquired 49% of the shares of MAKE HOUSE owned by PaperlessStudio and made it a wholly owned subsidiary. Making it a wholly owned subsidiary will enable the Company to respond more quickly in order to actively launch new businesses and conduct investment toward growth in the future.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Strengths

Reduction of No. 4 Special Exemptions

【Current law】

*From housing start statistics from the Ministry of Land, Infrastructure, Transport and Tourism

No. of floors	Total floor area of less than 200 m ²	Total floor area of 200 m ² to 500 m ²	Total floor area of more than 500 m ²	2021 building starts	Ratio
3rd floor	Structural calculation			30,213 buildings	8%
2nd floor	Assessment exempted (Special Exemptions)			315,639 buildings	80%
1st floor				50,238 buildings	13%

396,090 buildings

【Revised law】

No. of floors	Total floor area of less than 200 m ²	Total floor area of 200 m ² to 500 m ²	Total floor area of more than 500 m ²	2021 building starts	比率
3rd floor	Structural calculation			30,213 buildings	8%
2nd floor	Wall quantity calculations or structural calculations			315,639 buildings	80%
1st floor	Assessment exempted (Special Exemptions)			50,238 buildings	13%

396,090 buildings

Source: Reprinted from the Company's financial results briefing materials

4. The large-scale wooden buildings (Suihoo Fabricating Company)

Suihoo Fabricating Company is trusted by well-known architects because of its long history and superior technological capabilities, and has established an order base among major general contractors. As a registered contractor of the Company, Suihoo Fabricating Company has a strong track record in the construction of wooden buildings using the SE-Structure Method. Its addition to the New Constructor's Network Group has brought its know-how in large-scale wooden building construction, specialized processing, and precut processing in-house, which expands the scope of the Company's business beyond its mainstay structural calculations and structural processed product shipments relating to large-scale wooden buildings, further advancing scale expansion.

5. Lifestyle

YADOKARI is a company that increases the choices for ways of living, including through its Minimal Life, Tiny House, and Multi-site Housing, and it has announced that it has defined a new affluence from the viewpoint of "homes" and it is proposing new lifestyles. For the Tiny Houses conceived by YADOKARI, it is developing products that utilize the Company's SE-Structure Method. In addition, in a situation of the transition to teleworking and the creation of new ways of living, we at FISCO think new ideas with YADOKARI will emerge from the perspective of ways of living matching lifestyles.

Ichinomiya Realize is a town-planning company established in September 2016 through investment by private-sector companies (including the Company) for regional revitalization in Ichinomiya Town, Chosei district, which is located at the southernmost tip of Kujukurihama in eastern Chiba Prefecture. It is attracting attention for its regional revitalization alongside new ways of living, such as renovating vacant wooden-construction stores and working on shared offices with communication functions.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Strengths

In the MUJI HOUSE business, the Company has built a model house of the Younoie MUJI home in Isumi Forest Living, opened in Isumi City, Chiba Prefecture, and another in MUJI's Tokyo Ariake Center. Younoie is a single-story wooden house built using the SE-Construction Method that does not require corridors, making the most of the limited space. It is suitable as a double-base dwelling or vacation home (villa), or a lodging facility for rent.

N&S Development, a joint venture with Sanu, will conduct development and management in the future of SANU 2nd Home, which is Sanu's fixed-fee subscription service "to provide a second home in order to live in nature." In the facilities being developed by Sanu as well, the aim is to promote the spread of wooden buildings toward realizing a decarbonized society by providing lodging facilities that utilize the SE-Structure Method.

Business Outlook

Forecasting net sales of ¥12.8bn and operating income of ¥650mn in FY3/26 by capturing demand associated with revision of the Building Standards Law

1. FY3/24 consolidated results forecasts

For the FY3/24 consolidated results, the Company is forecasting net sales of ¥9,055mn (down 2.0% YoY), gross profit of ¥2,401mn (up 1.8%), operating income of ¥233mn (down 44.7%), ordinary income of ¥233mn (down 48.7%), and profit attributable to owners of parent of ¥165mn (down 45.4%).

FY3/24 consolidated results forecasts

	FY3/23 Results	FY3/24 Forecasts	YoY		1Q FY3/24	
			Change	Increase/ decrease rate	Results	Progress
Net sales	9,240	9,055	-185	-2.0%	1,966	21.7%
Residential field	7,181	5,907	-1,274	-17.7%	1,226	20.8%
Non-residential field	1,706	2,768	1,062	62.2%	672	24.3%
Environmental design /DX/others field	352	380	28	7.8%	67	17.6%
Gross profit	2,358	2,401	42	1.8%	585	24.4%
Operating income	422	233	-188	-44.7%	33	14.1%
Ordinary income	455	233	-221	-48.7%	5	2.5%
Profit attributable to owners of parent	302	165	-137	-45.4%	-9	-

Source: Prepared by FISCO from the Company's financial briefing materials

The Company forecasts a 17.7% YoY drop in net sales in the residential field to ¥5,907mn, because orders and unit sales prices are down for major customers. It plans to continue acquiring new registered contractors, targeting an increase of 36 companies for a total of 641 at end-FY3/24. The Company looks for 1,099 shipments of structural calculations (down 2.1% YoY) and 1,052 shipments of housing structures through the SE-Structure Method (down 11.1% YoY). The number of inquiries received for estimates and design requests (a leading indicator of structural calculation shipments) has been recovering after bottoming in 3Q FY3/23 thanks to aggressive sales activities targeting registered contractors, recording a solid increase to 695 in 1Q FY3/24. Although progress of net sales versus the full-year forecast was 20.8% in 1Q, the Company expects shipments to increase going forward.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

<https://www.ncn-se.co.jp/ir/>

Business Outlook

The Company forecasts a 62.2% increase in net sales to ¥2,768mn in the large-scale wooden buildings (non-residential) field business, having established a system to provide one-stop services for construction methods other than the SE-Structure Method, and registered contractors have been promoted to work in the non-housing field, etc. Progress versus the full-year forecast is on track. The Company expects an increase in the number of structural calculation shipments for both itself and Timber Structure Design for a total of 264 (up 36.9% YoY). We at FISCO think that the Company is increasingly likely to attain its full-year forecast, especially with MUJI HOUSE announcing that it will build the wooden stores that Ryohin Keikaku plans to open.

In the environmental design/DX/others fields, the Company plans to provide energy conservation calculations for 3,013 buildings (residential and non-residential buildings; up 20.6% YoY) and has started offering services such as ZEB certification support for non-residential buildings. By building a track record in this business, the Company looks for a 7.8% YoY increase in net sales to ¥380mn.

The Company forecasts a steep YoY decline for all profit lines, however, due to plans for aggressive investment in human resources and an increase in advertising and promotion expenses such as online and social media ads. Among consolidated subsidiaries, a loss is forecast for Suihoo Fabricating Company because of the wood shock, but it can avoid big fluctuations in raw material prices going forward by becoming a key part of the Company's supply chain. It has also started structural reforms such as reforms of its processing structure, which relies on skilled workers, by introducing robot processing equipment. MAKE HOUSE and Timber Structural Design are expected to turn profitable, while SE Home Loan Services is no longer a consolidated subsidiary.

2. The medium-term management plan and the growth strategy for the future

The revised Building Standards Law Article 20 No. 4 Special Exemptions is greatly changing the market environment. Due to the reduction of No. 4 Special Exemptions, in April 2025 it will be obligatory to obtain construction approval even for two-floor wooden-structure buildings, so it seems likely that the spread of wooden-structure structural calculations will accelerate as a movement in advance of its implementation. Also, for "the obligation to comply with the energy saving standards," so far the obligation has only been to provide an explanation, but in April 2025 it will become obligatory for all homes to comply with the energy saving standards, for which energy conservation calculations will be essential. Therefore, the Company's energy conservation calculations, wood construction, structural calculations and seismic simulations are all part of a situation where the growth environment is once again increasing.

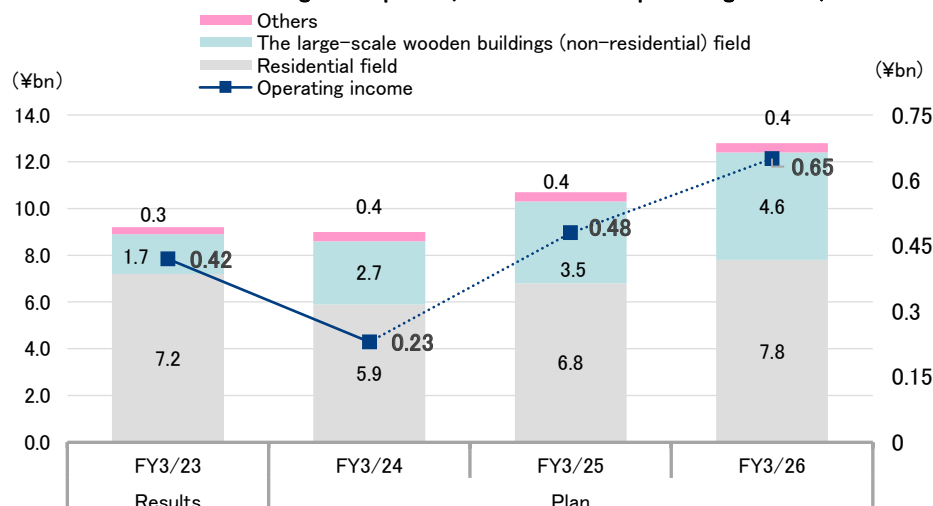
The Company announced its medium-term management plan ending in FY3/26 and growth strategy for the future with its FY3/24 consolidated results forecasts. In FY3/23, its net sales of ¥9.24bn fell short of the previous medium-term management plan target of ¥10.0bn, but it posted record-high net sales, operating income, and ordinary income. Although the Company forecasts lower sales and profits in FY3/24 amid the recent severe housing market environment, it expects sales and profit growth to resume thereafter, forecasting net sales of ¥12.8bn and operating income of ¥650mn in FY3/26.

New Constructor's Network Co., Ltd.
7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
<https://www.ncn-se.co.jp/ir/>

Business Outlook

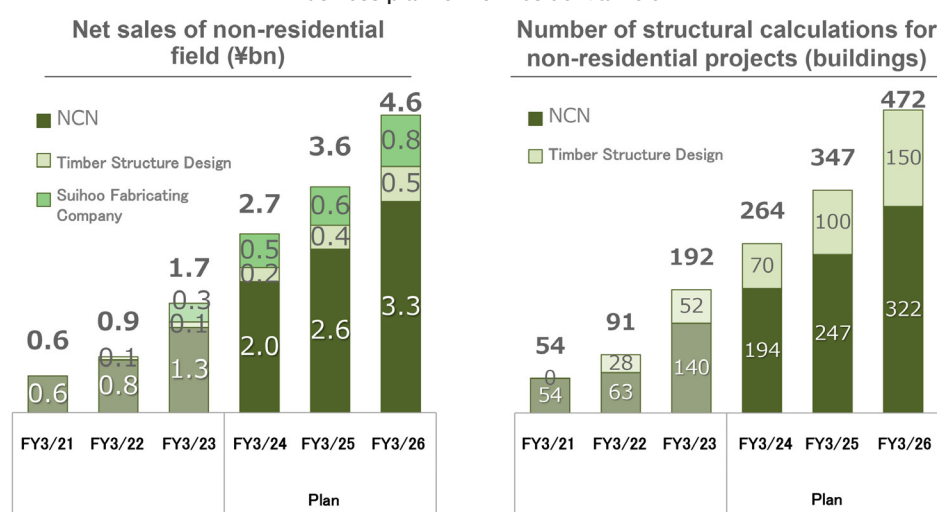
Medium-term management plan (net sales and operating income)



Source: Prepared by FISCO from the Company's financial briefing materials

Growth strategies for the future are as follows. (1) Expand market share in the residential field by increasing the number of registered SE-structure contractors and grow sales expansion in the non-residential field. (2) Provide its own unique one-stop service relating to large-scale wooden buildings in the non-residential field by harnessing its structural calculation and energy conservation calculation expertise and materials supply capabilities plus subsidiary Suihoo Fabricating Company's capabilities in specialized processing and construction for large-scale wooden buildings. (3) Respond to growing demand for structural calculations and energy conservation calculations as a result of revision of Building Standards Law in April 2025. (4) Provide support for making non-residential buildings more energy efficient (e.g., support for obtaining ZEB status). In non-residential large-scale wooden buildings, the Company expects construction demand for MUJI HOUSE to build wooden stores that Ryohin Keikaku plans to open. It plans to use 10,000 m² of domestic wood materials in the next five years (2,000 m² per year). Thus, demand from Ryohin Keikaku will add 10% to the approximately 20,000 m² of wood materials that the Company uses per year.

Business plan for non-residential field



Source: Prepared by FISCO from the Company's financial briefing materials

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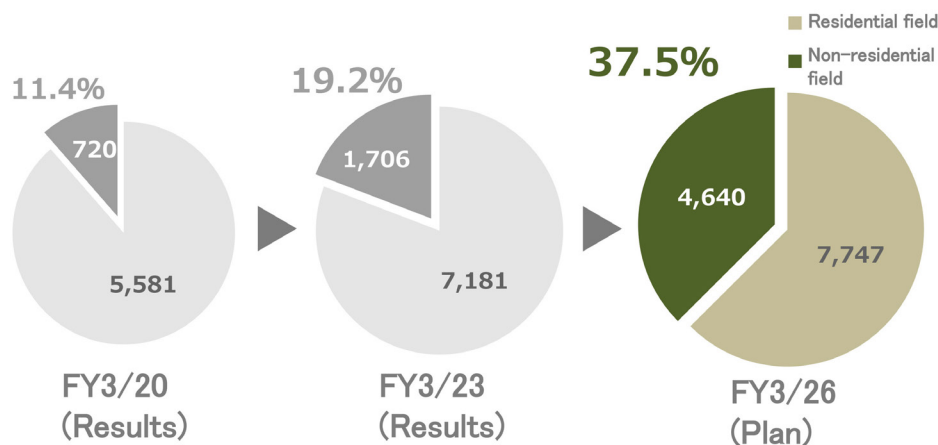
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7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

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Business Outlook

Share of net sales of non-residential field in the wooden-construction, earthquake-resistant design business (¥mn)



Source: Prepared by FISCO from the Company's financial briefing materials

In terms of providing the SE-Structure Method for new lifestyles, the Company plans to invest in new businesses to pioneer the second house market and others to create synergies with the SE-Structure Method. In addition, creating new markets, including the second house and the lodging facilities ordering businesses by MUJI HOUSE, the regional revitalization and glamping business by Ichinomiya Realize, and moreover the second house business of N&S Development, which a joint venture with Sanu, is likely to increase the name awareness of the SE-Structure Method.

Based on the government's roadmap for market areas in creating a new wooden building market that will realize sustainable forest resources and cyclical economy, the market for large buildings that utilize wooden materials (excluding low-rise homes) will be worth ¥1tn in 2030.

The Company provides wooden homes with high asset value through its SE-Structure Method with structural calculations of the same precision as for steel frames. However, photosynthesizing, trees absorb carbon dioxide (CO₂), which is a greenhouse gas, and carbon accumulates in wood fiber. Through the increase in wooden housing, the amount of CO₂ stored increases accordingly and CO₂ is removed from the atmosphere, so changing from RC structures to wooden structures has the effect of reducing CO₂ by a corresponding amount. In addition to earthquake-resistance simulations that prolong a building's earthquake-resistant life and Skeleton & Infill tailored to people's lifestyles, all of the Company's businesses are indispensable for reducing CO₂, including its energy conservation calculations and the creation of energy-saving homes that are highly heat insulation passive.

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7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023

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Corporate Social Responsibility (CSR)

17 Sustainable Development Goals (SDGs) have been defined with 2030 as the deadline to achieve them. Among them, the Company has indicated its respective themes and its plans for measures to achieve the goals through its business. Ever since its establishment with the aims of spreading safe and secure wooden structures in Japan and creating a framework to provide homes with asset value, there has been no change to its corporate philosophy of “spreading around the world wooden homes that can be lived in safely.”

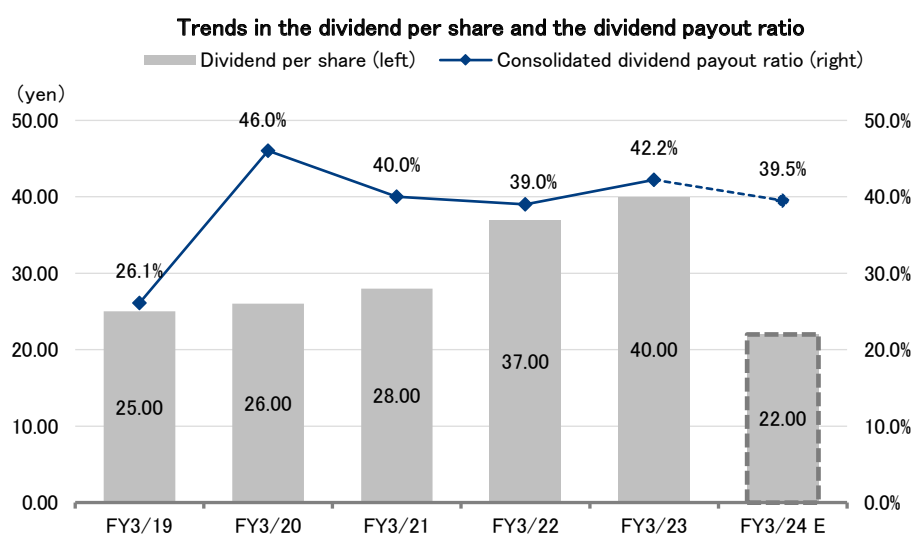
- (1) The Company's goal is to make inclusive, safe, strong, and sustainable cities and residential communities based on “11. Sustainable Cities and Communities,” which is the SDG defined on the theme of increasing the earthquake-resistance rate of wooden buildings. Another goal is to ensure a pattern of sustainable consumption and production based on “12. Responsible Consumption and Production.” The Company's specific measures for these goals include promoting the wooden-construction, earthquake-resistant design business and working to achieve 100% earthquake-resistant housing.
- (2) On the theme of raising the rate of the use of wooden materials, based on “9. Industry, Innovation and Infrastructure,” the Company's goal is to provide a strong infrastructure and promote the transition to inclusive and sustainable consulting, while also aiming to expand technological innovation. Based on “15. Life on Land,” it aims to protect ecosystems on land, to promote their recovery and sustainable use, to sustainably manage forests, to deal with desertification, to identify the elements of and reverse land degradation, and to prevent the loss of biodiversity. Its goal is also “12. Responsible Consumption and Production.” Its specific measures include establishing Timber Structure Design and utilizing CLT.
- (3) On the theme of spreading the use of energy-saving housing, the Company's goals are to secure access to sustainable and modern energy that is affordable and reliable for everyone based on “7. Affordable and Clean Energy,” and also to contribute to realizing “11. Sustainable Cities and Communities.” Its specific measures include conducting surveys of actual energy-saving conditions.
- (4) On the theme of a shift from economic concentration in the Tokyo area to regional revitalization, the Company's goal is “11. Sustainable Cities and Communities.” Specific measures include a capital alliance with YADOKARI and participation in the Forest Living project. The Company supports Isumi Forest Living, which opened in Isumi, Chiba Prefecture as a co-planner, being a company that engages in activities that will realize an abundant way of life in Japan through regional revitalization by expanding the potential of tree. As well as supplying wooden houses, it makes various proposals unrelated to housing for utilization of forest resources, cooperation with local communities, and activities for enjoying natural forests.

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7057 Tokyo Stock Exchange Standard Market

17-Nov.-2023
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Shareholder return policy

The Company considers returning profits to shareholders to be one of its most important management issues. To decide the payout ratio, the Company takes internal reserves into account to implement the business plan and expand the business scale (including for funds for the R&D required for growth and development and for capital investment). Its basic policy is to continuously and stably pay dividends targeting an annual dividend payout ratio of 40% on a consolidated results basis while taking into consideration the profit level and the cash flow conditions in each fiscal period, and also based on consolidated results. In FY3/24, the Company plans to pay a dividend per share of ¥22, a decrease of ¥18 compared to the previous fiscal year, for a dividend payout ratio of 39.5%.



Source: Prepared by FISCO from the Company's financial briefing materials

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