Innovation Holdings (3484)

Attraction in the room for the correction of the overdone valuation adjustment

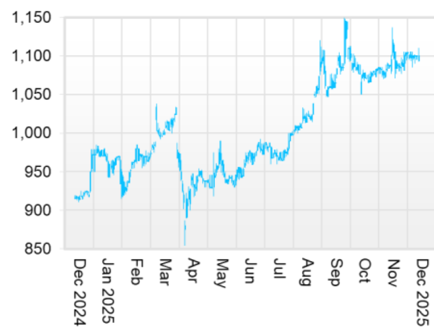
2Q update report

Real estate

As of December 22, 2025

Share price (12/19)	**¥1,127**
52weeks high/low	¥854/1,149
Avg Vol (3 month)	7.5 thou shrs
Market Cap	¥19.91 bn
Enterprise Value	¥14.24 bn
PER (26/3 CE)	14.8 X
PBR (25/3 act)	4.5 X
Dividend Yield (26/3 CE)	3.0 %
ROE (25/3 act)	28.1 %
Operating margin (25/3)	8.3 %
Beta (5Y Monthly)	0.39
Shares Outstanding	17.674 mn shrs
Listed market	TSE Prime section

Price



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◇ Investment conclusion: The attraction lies in the excessive share price discount vis-a-vis the expansion of the economic value creation margin and steady EPS growth

For the shares of Innovation Holdings CO., LTD. (the "Company"), we believe the current valuation does not fully discount the Company's high return on capital, its expanding economic value creation margin (ROIC − WACC), and its EPS growth consistent with past results. On the assumptions of a market capitalization of 19.5 billion yen, a forecast PER of 14.44x, an actual PBR of 4.32x, ROE of 28.07%, forecast EPS of 75.9 yen, and a forecast dividend of 34 yen, the implied EPS growth rate is estimated at approximately +17%, which remains at a level generally consistent with the Company's EPS growth track record over the past five years (net sales CAGR of +11%, EPS CAGR of +14%). On the other hand, the share price appreciation over the past five years has not yet caught up with the expansion in EPS and economic value creation margin, and the contraction in price multiples accompanying the loss of premium does not appear to have been fully reversed. The fact that the share price adjustment has lagged profit growth and the Company's ability to create economic value, both consistent with its past track record, suggests room for mid-term multiple re-expansion, and investment appeal is in holding the shares over the medium to long term.

There are three main reasons the Company's share price has underperformed the broader equity market over the past three years. First, its attributes as a small-cap, domestic-demand service, and real estate-related name have been out of favor with the market's prevailing trend in recent years, which has favored large-cap, value, and export-led stocks. Second, because its business model is based on subleasing store properties to restaurants, etc., risks related to vacancies and rent gaps tend to be in focus, and the view persists that the Company may be taking excessive risk behind its high ROE. Third, a discount on the governance and liquidity fronts, stemming from its parent–subsidiary listing structure, limited free float, and small index weight, has also persisted. In addition, the fact that the price multiples, which declined during a temporary phase of slower profit growth, have not fully recovered despite the subsequent earnings recovery has also had an impact.

Meanwhile, the Company has been delivering both stable growth and high profitability. ROIC stands at 32.3%, and ROE remains in the 20–30% range. With net cash of 4.43 billion yen, the financial position is sound. The diversification of its business portfolio and its abundant free cash flow generation can be interpreted as having lowered both its business risk premium and its cost of equity. With a beta of 0.57, its market sensitivity is also low, and it is more appropriate to evaluate the Company as a niche player that is highly profitable, stable, and financially sound, rather than as a company that is highly profitable but overly risky. Supported by the expansion of the economic value-creation margin, attention will focus going forward on the potential for the share price to rise over the medium term, with multiple re-expansions, in a pattern in which share price valuation revaluation catches up with profit growth.

◇ Q2 FY3/2026 results highlights: both net sales and profit tracking above plan at a record pace, driven by the expansion of high-margin projects and the store rent guarantee business

For the first half of FY3/2026, both net sales and each level of profit exceeded the previous year, and the initial plan, and progress toward renewing the record full-year high is highly favorable. Gross profit and operating profit grew faster than net sales, indicating that improved profitability in the real estate trading business and in the initial sublease and store rent guarantee business of the store subleasing business contributed to margin expansion and the maintenance of ROIC.

Consolidated net sales were 9.406 billion yen (+13.5% YoY), operating profit was 998 million yen (+46.6% YoY), and ordinary profit was 1.077 billion yen (+54.3% YoY). Interim profit attributable to shareholders of the parent company was 711 million yen (+51.4% YoY), achieving double-digit topline growth and a substantial increase in profit. Compared with the initial plan as well, against planned net sales of 9.092 billion yen, actual net sales were 9.406 billion yen (+3.5%), and against planned operating profit of 778 million yen, actual operating profit was 998 million yen (+28.3%), with results significantly exceeding the plan, particularly on the profit front. Gross profit increased from 1.543 billion yen to 2.194 billion yen, with the gross profit margin improving by 4.7 points from 18.6% to 23.3%, and the operating margin also rose by 2.4 points from 8.2% to 10.6%.

Factors behind the increase in net sales include, in the store subleasing business, the buildup in the number of subleased properties at the end of the period from 2,545 to 2,856, together with growth in initial revenue driven by a substantial increase in the number of successful sublease contracts (from 217 to 285) and improved profit per contract, as well as the contribution from the store rent guarantee business. In the real estate trading business, three properties were sold over the six months, and the closing of a large, high-margin project made a significant contribution to profits. Although SG&A expenses increased due to stronger hiring and higher branch rents, gross profit growth exceeded this, and operating profit rose 317 million yen to 998 million yen from 681 million yen in the previous year.

As for the financial position, total assets expanded to 16.231 billion yen (+579 million yen from the end of the previous fiscal year), and net assets expanded to 4.267 billion yen (+251 million yen), with the equity ratio at 26.2% (+0.6 points) and the actual equity ratio, which offsets guarantee deposits and deposits received for guarantees and prepaid and unearned rent, at 60.0%, indicating that financial stability is also increasing. In terms of cash flows, net cash provided by operating activities was 607 million yen, net cash provided by investing activities was 113 million yen (funds recovered through the sale of a company retreat), and net cash used in financing activities was 428 million yen (mainly due to dividend payments), with cash and cash equivalents at end of period increasing to 4.577 billion yen. In light of the favorable results to date, the Company has revised its full-year forecast to net sales of 19.388 billion yen (+16.4% YoY) and operating profit of 1.743 billion yen (+28.5% YoY). It has also raised its year-end dividend forecast by 4 yen to 34 yen per share, clearly indicating its stance of balancing growth and shareholder returns.

This interim result is characterized by increases in gross profit and operating profit that exceeded net sales growth, and the combination of high-margin real estate trading and store subleasing (initial revenue) and store rent guarantees in the store subleasing business is further boosting profitability. Compared with the initial plan, operating profit has exceeded the plan by nearly 30%, and the upward revision to the full-year forecast and the dividend increase can be regarded as an expression of confidence in the earning power and cash-generating capacity of the Company's business model. From a business performance perspective, these results confirm that the current high ROIC and ROE are not temporary but are becoming established as structural earning power.

◇ Segment analysis: two-pillar structure with store subleasing as the foundation and real estate trading driving profit growth

The Company consists of two segments, the "store subleasing business" and the "real estate trading business," with the store subleasing business generating the majority of net sales and profit. In contrast, the real estate trading business contributes to profit growth and portfolio diversification. In Q2 FY3/2026, net sales were 8.588 billion yen in the store subleasing business and 826 million yen in the real estate trading business, for a total of 9.414 billion yen, of which the former accounted for roughly 90%. Segment profit was 734 million yen in the store subleasing business and 264 million yen in the real estate trading business, for a total of 998 million yen. The store subleasing business is also the core profit driver.

The store subleasing business is a model in which the Company leases store properties for restaurants and similar uses from owners, mainly in the Tokyo metropolitan area, and subleases them to tenants. By combining the running revenue, such as rent and renewal fees, with initial revenue, such as key money and proceeds from the sale of fixtures, the business achieves both stability and profitability. The store rent guarantee business of subsidiary Safety Innovation CO., LTD. is also included in this segment, and by guaranteeing rent payments to owners, it enhances the Company's ability to secure properties and the stability of earnings. In addition, the store rent guarantee business not only handles projects within the Group but also focuses on external sales, aiming for nationwide expansion. In Q2 FY3/2026, supported by growth in the number of properties and in initial revenue and store rent guarantees, the store subleasing business achieved double-digit growth in both net sales and profit.

The real estate trading business is operated by a subsidiary, Asset Innovation CO., LTD., which procures and resells small- to medium-sized buildings and sectional-title stores suitable for store use. Focusing on small- and medium-sized store properties with strong marketability in the 23 wards of Tokyo, the Company seeks to limit holding risk by leveraging its expertise in the subleasing business to assess properties. In Q2 FY3/2026, three properties were sold, and three were acquired, leaving four properties held at the end of the period. The business delivered strong profitability, with net sales of 826 million yen and segment profit of 264 million yen.

In this way, by combining the highly stock-type store subleasing business with the agile real estate trading business as its two pillars, the Company has built a business portfolio that achieves both a favorable ROIC and stable growth.

◇ Earnings outlook: record profit for the full year in sight, with a high probability of achieving the plan

The full-year forecast for FY3/2026 is likely to be achieved and is at a level where a return to record-high profits is in sight. The Company forecasts net sales of 19.388 billion yen (+16.4% YoY), operating profit of 1.743 billion yen (+28.5% YoY), ordinary profit of 1.935 billion yen, profit attributable to shareholders of the parent company of 1.274 billion yen, and EPS of 75.96 yen. Actual results for the six months were net sales of 9.406 billion yen and operating profit of 998 million yen, with progress rates of 48.5% and 57.3%, respectively, both above plan.

Based on the business drivers underlying the forecast, the number of store subleasing properties at fiscal year-end is planned at 3,029 (2,706 at the end of the previous fiscal year), and the number of successful sublease contracts for the full year is scheduled at 597. The 2,856 properties and 285 contracts at the end of Q2 are generally reasonable for the halfway point. Regarding the composition of net sales, the Company plans to generate profit from initial revenue, store rent guarantees, and the real estate trading business, in addition to stable operating revenue as the base. It expects the full-year operating margin to improve to 9.0%.

From a medium-term perspective, the Company has presented plans for FY3/2027 of net sales of 21.957 billion yen and operating profit of 1.832 billion yen. For FY3/2028, with net sales of 25.342 billion yen and operating profit of 2.237 billion yen, the current full-year forecast is based on extending this growth trajectory. Over the longer term, the Company aims for 5,500 subleased properties in FY3/2031, net sales of 30 billion yen, and operating profit of 3 billion yen, and seeks to expand recurring revenue by strengthening its sales force and expanding its procurement areas. For FY3/2026, it plans a dividend of 34 yen per share (28 yen in the previous fiscal year), with a dividend payout ratio expected at 44.8%.

Risk factors include increased cancellations due to deterioration in the restaurant market environment, volatility in trading profits driven by fluctuations in the real estate market, and adjustments in real estate prices as interest rates rise. Still, property and area diversification, along with the high equity ratio, provide some capacity to absorb these.

The Company's plan is within a realistic range, given progress through Q2 and past trends, and can also be interpreted as somewhat conservative. If recurring revenue continues to grow and contributions from the real estate trading and store rent guarantee businesses remain, it is easy to envisage a growth scenario in which an operating margin of 9% and an ROE above 20% are maintained. At the same time, attention needs to be paid to the fact that trading profit is prone to fluctuate depending on market conditions, and for investors it is essential to monitor "trends in the number of subleased properties and the number of successful contracts" and "progress each quarter relative to the full-year forecast."

◇ Share price trends and points of focus going forward: discounted at a PER in the 14x range relative to high ROE, moving sideways in a box range while digesting events

The Company's current share price is judged to remain undervalued relative to its high ROE and favorable ROIC, and the situation can be viewed as one in which it is building energy within a box range around the upper 1,000-yen level while digesting recent events such as earnings announcements. The latest share price is around 1,100 yen, with a market capitalization of approximately 19.5 billion yen, a forward PER of 14.44x, a PBR of 4.32x, and an expected dividend yield of about 3.1% (EPS of 75.95 yen, dividend of 34 yen). ROE remains high at 28.07%, and compared with phases over the past five years when the shares were valued at a PER of 20–30x and a PBR of 5–7x, the premium has clearly disappeared.

Looking at the share price trend, the closing price range over the past three months (from early September to early December) has been 1,047–1,148 yen. After hitting a year-to-date high of 1,149 yen on September 24, the shares have remained sideways in the 1,050–1,100 yen range. Following the announcement on November 13 of interim results, an upward revision to the full-year forecast, and an increase in the dividend, the closing price rose from 1,088 yen on November 12 to 1,095 yen (+0.6%) on the 13th. Further, on the 14th, the following day, it rose to 1,104 yen (+0.8 %) and gained about 1.5% over the two trading days, while trading volume jumped sharply from 3,300 shares to 17,500, then to 20,800. Meanwhile, on November 18, when the “extension of the exercise restriction period for the third series of stock acquisition rights” was announced, the closing price fell from 1,097 yen to 1,084 yen, a decline of about 1%, suggesting a tendency for the shares to react somewhat suppressively to news related to the MS warrants. Following the September 9 disclosure of “receipt of dividends from a consolidated subsidiary,” the share price was flat at 1,059 yen, and this was quietly factored in mainly as material confirming financial soundness rather than as a flow-related factor.

From a technical perspective, since the high in September, the market has remained range-bound, with shares pulling back to around 1,080 yen while testing the upside around 1,100 yen, with the lower end of the range gradually rising. This pattern reflects strong fundamentals supported by the upward revisions to earnings and dividends. As for the MS warrants, they are not of the nature of a “last-resort measure” chosen by a company that has difficulty obtaining bank loans, but instead were adopted as one method of disposing of treasury shares after comparison and examination with other methods; at the same time, however, the market tends to be conscious of potential dilution and flow factors associated with stock acquisition rights, and such cautious views are thought to be incorporated to some extent into the current share price range.

Conditions that would make it easier to consider an overweight stance include: (1) further upward revisions to earnings and increases in dividends, and clarification of the policy on the use of treasury shares; (2) further explanation and control policy regarding dilution risk, including the third series of stock acquisition rights, and the positioning of the use of treasury shares; and (3) disclosure of medium- to long-term policies on capital strategy, including the parent–subsidiary listing structure and the free-float ratio. As these move forward in phases, there is room for the PER to be re-rated from the current 14x range to part of the Company’s historical range (for example, around 20x in phases of high ROE). In terms of investment timing, if, after strong results and an upward revision to guidance, the shares are pushed down to 1,050–1,080 yen on short-term profit-taking, given that the good news may have run its course, it becomes easier to consider phased entries aimed at medium-term returns.

Price movements over the past three months have shown a clear event-driven pattern, with straightforwardly positive responses to good results and dividend increases, and somewhat negative responses to MS warrant-related news. A PER in the 14x range still gives a sense of discount relative to the quality represented by high ROE, favorable ROIC, net cash, and low beta, and whether there is more in-depth disclosure on governance and the shareholder return policy is considered to be the watershed for a medium-term decision on an overweight stance.

Company profile

◇ Specialized group engaged in store subleasing and real estate trading, focused on small store properties for restaurants

Innovation Holdings CO., LTD. is a commercial real estate group that oversees the store subleasing, real estate trading, and rent guarantee businesses, all of which specialize in small-store properties for restaurants and related uses. Mainly in Tokyo. The Company was founded in April 2005 and, in October 2024, transitioned to a holding company structure, with the store subleasing business succeeded by an operating subsidiary through a company split, changing its trade name to Innovation Holdings Co., Ltd.

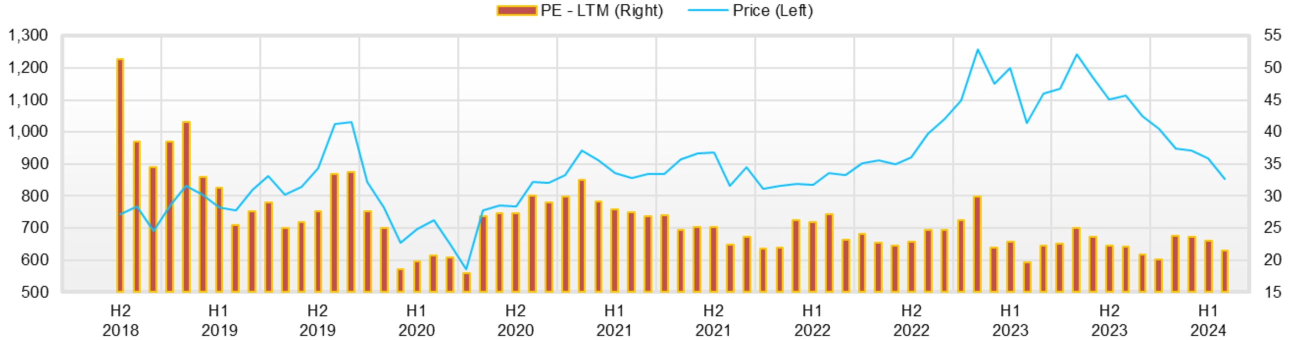
The Group consists of three companies: Tenpo Innovation CO., LTD., which is responsible for the store subleasing business; Asset Innovation CO., LTD., which conducts the real estate trading business; and Safety Innovation CO., LTD., which handles the store rent guarantee business. In the store subleasing business, the Company subleases store properties it leases from real estate owners to prospective tenants, building a stock-type revenue model that combines recurring revenue, such as rent and renewal fees, with upfront revenue, such as key money and the transfer of store fixtures. The real estate trading business meets counterparties' needs by procuring and selling small- to medium-sized retail properties in central urban areas. In contrast, the rent guarantee business supports stable income for owners by advancing rent payments when tenants are unable to pay. By operating these three businesses in an integrated manner, the Company has built a store-specialized information network and operational know-how, establishing its position as a highly profitable, high-growth niche player.

Key financial data

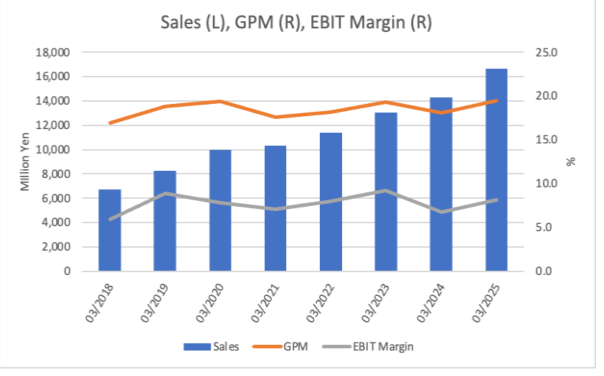
Unit: million yen	2020	2021	2022	2023	2024	2025 CE
Sales	10,343	11,415	13,070	14,264	16,659	19,388
EBIT (operating profit)	732	910	1,200	960	1,356	
Pretax Income	842	987	1,267	992	1,489	
Net Profit Attributable to Owner of Parent	576	662	886	666	1,029	1,274
Cash & Short-Term Investments	2,909	3,468	3,501	3,331	4,284	
Total assets	10,430	11,912	12,882	13,710	15,666	
Total Debt	0	0	0	0	103	
Net Debt	-2,909	-3,468	-3,501	-3,331	-4,181	
Total liabilities	7,468	8,584	9,687	10,386	11,649	
Total Shareholders' Equity	2,961	3,328	3,195	3,319	4,013	
Net Operating Cash Flow	666	1,124	1,074	455	1,020	
Capital Expenditure	130	260	12	73	14	
Net Investing Cash Flow	-140	-269	-22	-83	177	
Net Financing Cash Flow	-160	-296	-1,018	-542	-244	
Free Cash Flow	538	867	1,073	405	1,013	
ROA (%)	5.57	5.93	7.14	5.01	7.01	
ROE (%)	20.90	21.06	27.15	20.45	28.07	
EPS (Yen)	32.3	37.4	50.3	39.6	61.4	76.0
BPS (Yen)	166.1	188.3	187.7	197.9	239.2	
Dividend per Share (Yen)	9.00	12.00	16.00	20.00	28.00	34.00
Shares Outstanding (Million shares)	17.82	17.67	17.67	17.67	17.67	

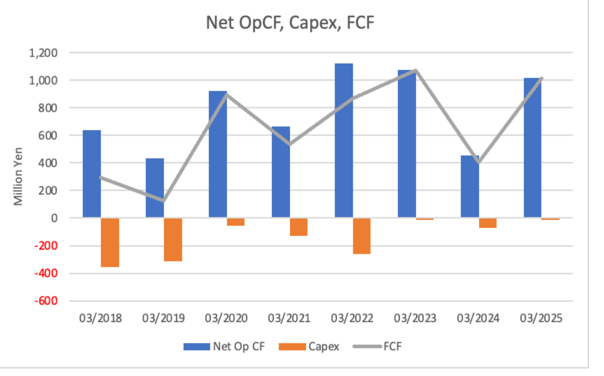
Source: Omega Investment from company data, rounded to the nearest whole number

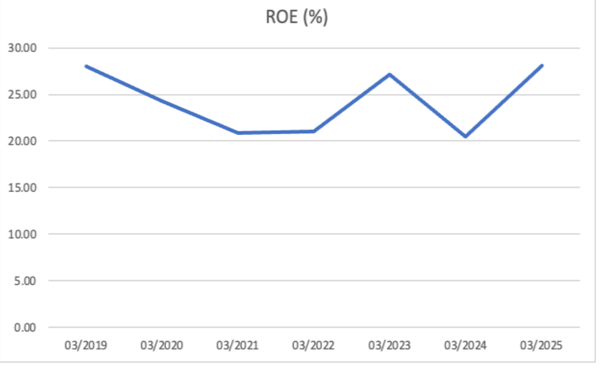
Share price

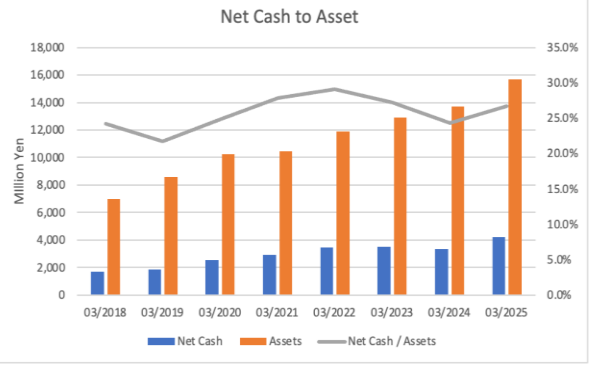


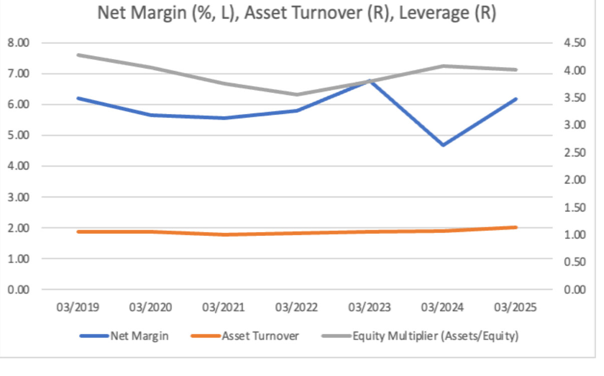
Key stock price data

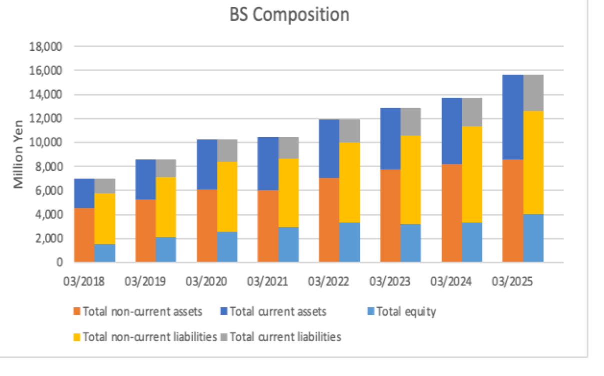


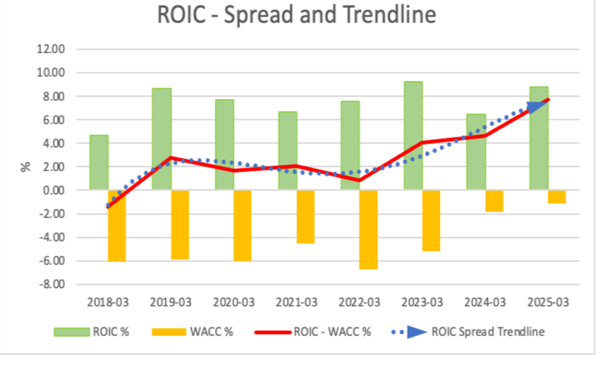


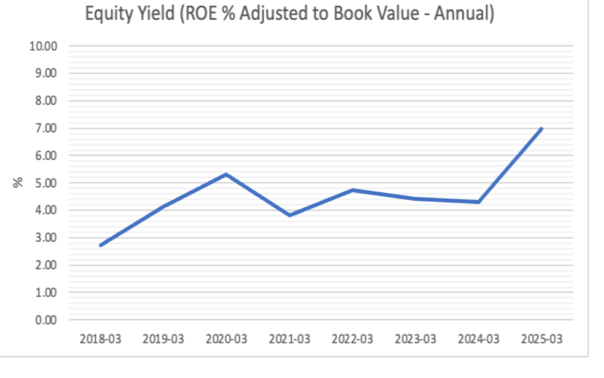












Financial data (quarterly basis)

Unit: million yen	2024/3			2025/3				2026/3	
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
(Income Statement)									
Sales	3,688	3,423	3,742	3,789	4,500	4,174	4,197	4,817	4,590
Year-on-year	19.0%	-9.2%	17.1%	11.1%	22.0%	21.9%	12.2%	27.1%	2.0%
Cost of Goods Sold (COGS)	3,026	2,832	3,026	3,099	3,645	3,346	3,331	3,681	3,531
Gross Income	661	591	716	690	854	828	866	1,135	1,059
Gross Income Margin	17.9%	17.3%	19.1%	18.2%	19.0%	19.8%	20.6%	23.6%	23.1%
SG&A Expense	380	396	462	418	441	454	542	581	615
EBIT (operating profit)	279	192	248	270	411	369	306	555	444
Year-on-year	3.8%	-59.0%	30.9%	11.7%	47.6%	92.2%	23.7%	105.4%	8.0%
Operating profit Margin	7.6%	5.6%	6.6%	7.1%	9.1%	8.8%	7.3%	11.5%	9.7%
EBITDA	290	206	263	284	425	383	320	565	455
Pretax Income	282	202	231	274	424	387	405	578	499
Consolidated Net Income	192	138	147	183	285	255	305	394	326
Minority Interest	0	0	-0	-1	-1	1	0	7	2
Net Income ATOP	192	138	147	184	286	255	305	387	324
Year-on-year	1.7%	-58.5%	-5.2%	-2.7%	48.6%	84.6%	107.6%	110.2%	13.5%
Net Income Margin	5.2%	4.0%	3.9%	4.9%	6.4%	6.1%	7.3%	8.0%	7.1%
(Balance Sheet)									
Cash & Short-Term Investments	3,265	2,827	3,331	3,256	3,461	3,562	4,284	4,179	4,577
Total assets	12,977	13,218	13,710	13,626	14,158	14,562	15,666	15,547	16,232
Total Debt	0	0	0	0	0	0	103	153	145
Net Debt	-3,265	-2,827	-3,331	-3,256	-3,461	-3,562	-4,181	-4,026	-4,432
Total liabilities	9,945	10,046	10,386	10,454	10,701	10,850	11,649	11,606	11,965
Total Shareholders' Equity	3,032	3,172	3,319	3,168	3,453	3,708	4,013	3,930	4,254
(Profitability %)									
ROA	6.83	5.12	5.01	5.03	5.56	6.27	7.01	8.45	8.36
ROE	26.52	19.21	20.45	22.01	23.27	25.32	28.07	34.71	32.97
(Per-share) Unit: JPY									
EPS	11.5	8.2	8.8	11.0	17.0	15.2	18.2	23.1	19.3
BPS	180.8	189.1	197.9	188.8	205.9	221.1	239.2	234.3	253.6
Dividend per Share	0.00	0.00	20.00	0.00	0.00	0.00	28.00	0.00	0.00
Shares Outstanding (milion shares)	17.67	17.67	17.67	17.67	17.67	17.67	17.67	17.67	17.67

Source: Omega Investment

Financial data (full-year basis)

Unit: million yen	2020	2021	2022	2023	2024
(Income Statement)					
Sales	10,343	11,415	13,070	14,264	16,659
Year-on-year	3.6%	10.4%	14.5%	9.1%	16.8%
Cost of Goods Sold	8,526	9,343	10,551	11,690	13,422
Gross Income	1,817	2,072	2,519	2,574	3,238
Gross Income Margin	17.6%	18.2%	19.3%	18.0%	19.4%
SG&A Expense	1,085	1,162	1,307	1,600	1,856
EBIT (Operating Income)	732	910	1,200	960	1,356
Year-on-year	-6.6%	24.3%	31.8%	-20.0%	41.3%
Operating Income Margin	7.1%	8.0%	9.2%	6.7%	8.1%
EBITDA	891	1,089	1,236	1,010	1,411
Pretax Income	842	987	1,267	992	1,489
Consolidated Net Income	576	662	886	666	1,028
Minority Interest	0	0	0	0	-1
Net Income ATOP	576	662	886	666	1,029
Year-on-year	2.0%	15.1%	33.7%	-24.8%	54.5%
Net Income Margin	5.6%	5.8%	6.8%	4.7%	6.2%
(Balance Sheet)					
Cash & Short-Term Investments	2,909	3,468	3,501	3,331	4,284
Total assets	10,430	11,912	12,882	13,710	15,666
Total Debt	0	0	0	0	103
Net Debt	-2,909	-3,468	-3,501	-3,331	-4,181
Total liabilities	7,468	8,584	9,687	10,386	11,649
Total Shareholders' Equity	2,961	3,328	3,195	3,319	4,013
(Cash Flow)					
Net Operating Cash Flow	666	1,124	1,074	455	1,020
Capital Expenditure	130	260	12	73	14
Net Investing Cash Flow	-140	-269	-22	-83	177
Net Financing Cash Flow	-160	-296	-1,018	-542	-244
Free Cash Flow	538	867	1,073	405	1,013
(Profitability)					
ROA (%)	5.57	5.93	7.14	5.01	7.01
ROE (%)	20.90	21.06	27.15	20.45	28.07
Net Margin (%)	5.57	5.80	6.77	4.67	6.18
Asset Turn	1.00	1.02	1.05	1.07	1.13
Assets/Equity	3.75	3.55	3.80	4.08	4.01
(Per-share) Unit: JPY					
EPS	32.3	37.4	50.3	39.6	61.4
BPS	166.1	188.3	187.7	197.9	239.2
Dividend per Share	9.00	12.00	16.00	20.00	28.00
Shares Outstanding (million shares)	17.82	17.67	17.67	17.67	17.67

Source: Omega Investment

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