

## Arealink (8914, Corporate)

Initiating coverage: #1 storage status

26<sup>th</sup> April 2023

Share price: ¥2,260

Market cap: ¥29.2bn

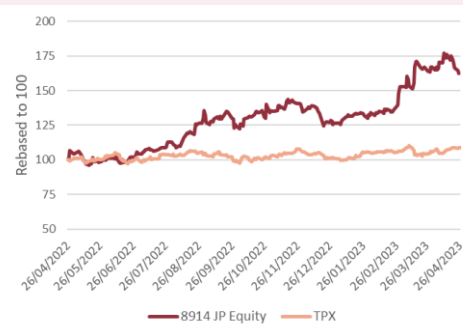
**We expect renewed post-COVID storage appetite to combine with Arealink's #1 storage status to drive long-term earnings growth.**

## Company sector

Real Estate Management (GICS Industry)

## Stock data

Price (¥)	2,260
Mkt cap (¥bn)/(\$m)	29.2 / 19
52-week range (¥)	1,345 - 2,531
Shares O/S (m)	12.9
Average daily value (\$m)	0.4
Free float (%)	60.9
Foreign shareholding (%)	17.0
Ticker	8914
Exchange	Tokyo
	Standard
Net Debt/Equity (x)	Net cash



Source: Bloomberg

## BUSINESS OVERVIEW

Arealink operates domestic self-storage & deals in land with leasehold rights.

## Next event:

1Q FY 12/23 results, 27<sup>th</sup> Apr 2023.

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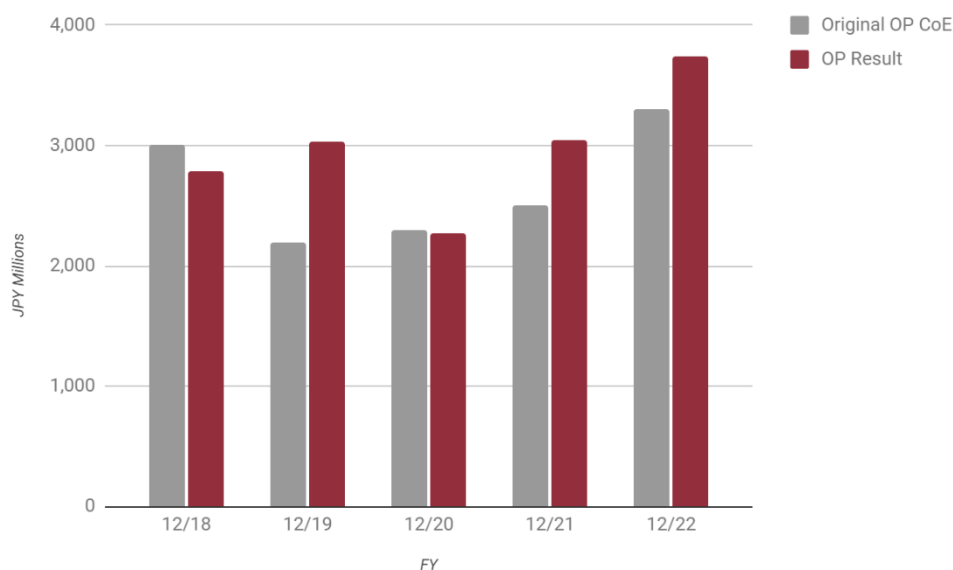
[info@stormresearch.co.uk](mailto:info@stormresearch.co.uk)

[Storm Corporate profile page](#)

**Arealink is a research client of Storm Research**

- **Arealink is Japan's leading self-storage company under the Hello Storage brand, with an approx. 18% share of a growing market. Having changed its model from investor-owned management storage to directly owned & managed storage in 2018 following depreciation rule changes, it is well set to expand its stock business.**
- **FY 12/22 sales & OP exceeded upwardly revised forecasts driven by above plan storage unit openings & record high utilisation due to a combination of strong demand, improved brand awareness & efficient operations.**
- **After a deceleration in storage unit openings through COVID, openings picked up in FY 12/22 & are set to re-accelerate in FY 12/23 as part of Arealink's longer term plan to double unit capacity from 100k to 200k by FY 12/29.**
- **The company's use of data to select both storage locations & format is optimising efficiency & maximising profitability. Of note, its focus on opening smaller facilities, thereby obviating the need to increase personnel, results in new unit profitability within 6 months, high utilisation achieved quickly & likely economies of scale & improved OPM.**
- **We regard the appointment of Yoshika Suzuki (36) as President in March 2023 as a positive development ahead of the company's next stage of growth. With 90% of customers basing storage decisions on the closest available solution, we believe he has an opportunity to cement Arealink's #1 ranking as the company targets 50% market share.**
- **With its healthy balance sheet, new President & market leading status, we conclude Arealink is in a strong position to capitalise on significant long-term growth potential in the post-COVID storage market. We encourage investors to book time with management to hear the investment case first hand: [here](#).**

Year end	12/2020	12/2021	12/2022	12/2023E
Sales (¥bn)	22.5	20.6	20.9	21.8
OP (¥bn)	2.3	3.0	3.7	4.1
NP (¥bn)	2.2	3.2	2.9	2.6
EPS (¥)	176.2	250.7	227.5	205.1
DPS (¥)	31.0	47.0	69.0	62.0
Sales growth YoY (%)	-23.4	-8.5	1.5	4.4
OP growth YoY (%)	-24.9	33.8	22.9	8.2
NP growth YoY (%)	n/a	42.5	-9.1	-9.8
EPS growth YoY (%)	n/a	42.3	-9.3	-9.9
PER (x)	5.4	6.1	7.8	11.0
EV/EBITDA (x)	4.8	4.6	4.7	6.1
EV/Sales (x)	0.7	0.9	1.1	1.4
PBR (x)	0.7	0.9	1.0	1.2
ROE (%)	12.9	16.2	13.1	n/a
ROIC (%)	5.5	7.3	8.3	n/a
FCF yield (%)	1.1	12.8	n/a	n/a
Dividend Yield (%)	1.4	2.1	2.9	2.7

RESULTS VS  
FORECAST HISTORYCOMPANY  
HISTORY

Arealink was established under the name Wells Giken in 1995 by current Chairman Naomichi Hayashi (69) after working at Starts Corp (8850).

It was originally set up as a coin parking operator using leased land but launched its storage business, Hello Container, by placing containers on unused land in March 1999. The company changed its name to Arealink in 2000, listed on the Mothers index in 2003, moved to the TSE 2<sup>nd</sup> section in 2020 & to the Standard Market in 2022.

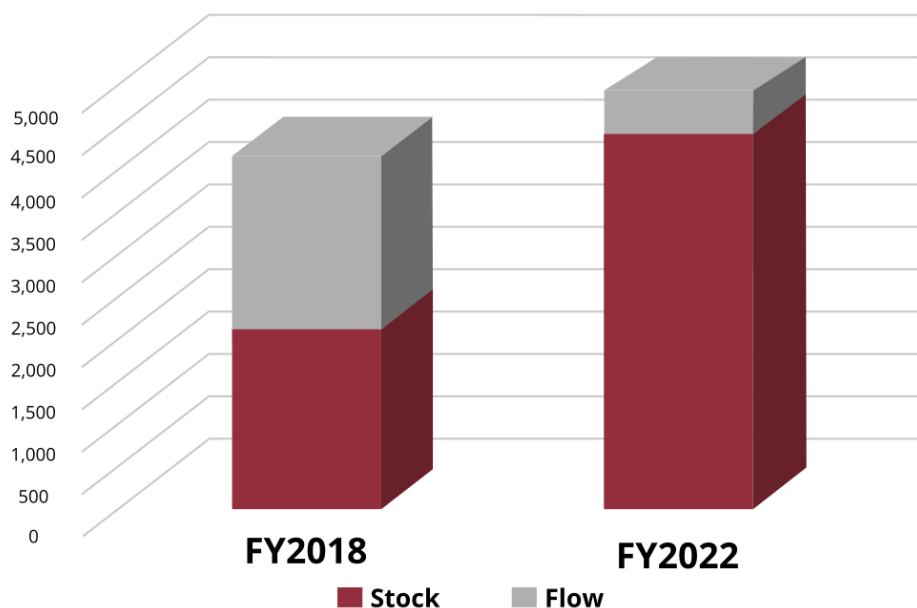
- *Core business:* Arealink's core business is nationwide rental storage space under the Hello Storage brand. In FY 12/22, **self-storage accounted for 78.4% of sales & 83% of OP**, the latter before deducting administrative expenses. The land rights maintenance business accounted for 14.9% of sales & 9.4% of OP, with other operations 6.7% of sales & 7.6% of OP.

The storage business model has changed over time in line with regulations. Previous models include the purchase & sale of real estate units & managing storage units owned by investors.

- *Business model change:* Although selling units to investors & managing them had been the main revenue generator until approx. 2018, changes to depreciation rules dictated storage containers were no longer attractive as investment vehicles, prompting Arealink to change its business model shortly before COVID.

The structural change in business model has since been completed, with **the core model switching to managing directly owned units**, therefore allowing the company to focus on a stock business model.

- Profit split between stock and flow businesses:



Source: Company.

Arealink opened approx. +10,000 units per year between 2016-2019 but openings slowed in FY 12/20 due to uncertainty during COVID as the company changed its model. Openings resumed in FY 12/21, with +1,614, increased to +2,915 in FY 12/22 & are set to accelerate from FY 12/23 as part of the MTP.

- **COVID impact: COVID-19 has had a positive effect on demand for storage.** Although there were cancellations due to the deterioration of the economy, utilisation improved due to demand for home rearrangement caused by the rise in WFH. In addition, utilisation of large-scale facilities opened between 2016 to 2018 increased & new unit utilisation rose due to improvements in the accuracy of storage facility opening sites & increased brand awareness from 2019 onwards.

Arealink intends to expand units efficiently by focusing on utilisation &, as it grows, anticipates the OPM improving to 20% (versus 17.9% in FY 12/22) due to economies of scale.

- **Staff:** As of Dec 2022, the company had 71 full-time staff, which compares to the FY 12/16 peak of 125. **Its unmanned operations mean it can ramp up storage units without needing to increase staff numbers significantly.** Arealink's FY 12/22 administrative costs of ¥1.2bn were 5.7% of total sales, which it expects to decline to 5.6% as a result of economies of scale.

Arealink leases land, sets up a storage container & manages the storage facility. As there is no purchase administration (which takes time) the whole process is quick. For example, the lead time to put a container on leased land is 3-4 months, whereas the equivalent time for a building is up to 1 year.

One container costs approx. ¥100m-¥150m &, given Arealink does not purchase the land, the model generates a high RoI of 15-18% after the monthly land lease charge. The container model also allows for a nationwide rollout of storage facilities with high utilisation in all areas,

## SELF-STORAGE BUSINESS MODEL

including more regional cities such as Aomori or Akita, without the need to adapt for regional differences.

- *Strategy:* The company's strategy is to open storage facilities mainly in small, unmanned properties that can generate earnings quickly. New containers consist of approx. 25-30 rooms & Arealink targets a breakeven period of 6 months, with high utilisation reached within 1 year.

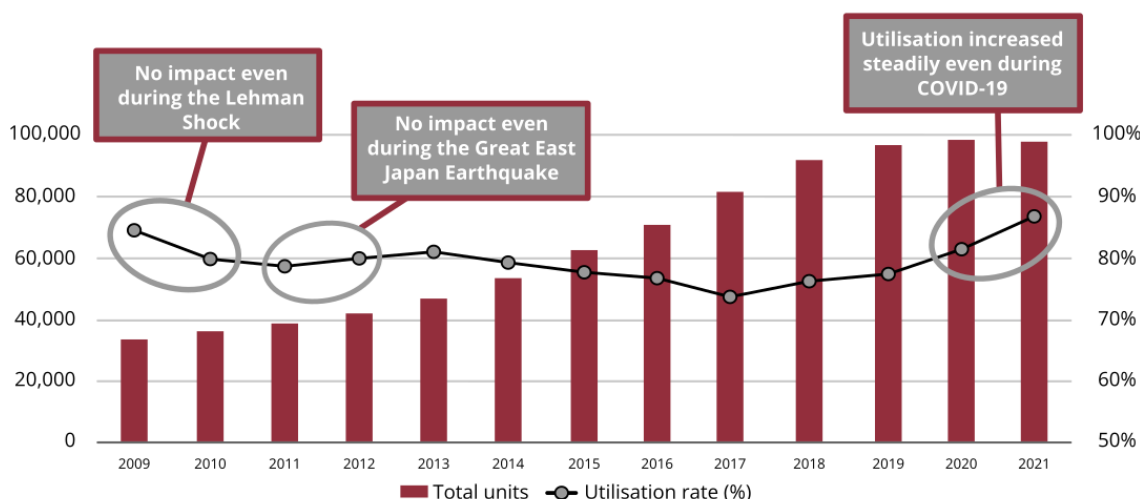
**It has discovered this is the most efficient way of achieving high utilisation quickly & of being able to accelerate new facility expansion.** Previously, 50-150 rooms per container was normal, with larger containers reaching 200 rooms, but turning profitable took 2-3 years & dragged on profitability as openings accelerated. The larger the facility, the larger the cost of land required, whilst a greater number of units require a greater number of customers to reach full capacity.

Whilst Arealink abides by local planning laws, with planning taking up to 1 month, the installation of a container is quick & can be completed within 1 day. Leaseholds are typically for an initial 10 years at a fixed rate. The most common reason for returning land after this period is for inheritance tax purposes.

We note, the cost of containers has increased +20-30% due to higher steel prices & Yen weakness. Arealink is offsetting the cost increase by managing with a limited number of employees & via economies of scale on both fixed costs & advertising as the number of units increases. The impact from the increase in utility costs has been minimal as heating & lighting requirements are limited for containers.

- *Stock business:* **As of FY 12/22, stock model sales increased to 90% of total sales** versus approx. 50% in FY 12/18 as the company focused on storage & other management, de-emphasising its storage brokerage & land business. As a result, **it has achieved stable earnings even in times of economic turbulence**, such as during the Lehman shock, the Great East Japan Earthquake or COVID-19.

**- Total units and utilisation:**



Source: Company.

- *Convenient sign up:* Customers can sign up for a storage contract in under 3 minutes, searching for a suitable site on the Hello Storage site & applying online for a quote depending

on the location, time & size of storage required. On application, the customer is sent a PIN by email for the dial lock or how to register the transport IC card, which can be sent by courier.

**Arealink's monthly admin charge of Y2,220 is the same nationwide.** In addition, customers can purchase the peace of mind guarantee pack which is offered at Y550/month or Y880/month depending on the level of cover required. This covers costs for loss or damaged keys & provides insurance. Those opting not to subscribe to the peace of mind pack must pay a Y8,800 one-off admin fee but no insurance.

The monthly rental fee is additional. An example of a basement storage facility in Kanda, Chiyoda-ku would cost Y38,300/month for a 2.7 mat (253 x 210 x 300cm) unit. In Osaka a 3 mat unit in Honmachi would cost Y15,500/month. Whilst a 3 mat unit in Sapporo would cost Y11,300/month.

- *Added value services:* The company **also offers additional chargeable services to make trunk rooms easier to use**, such as Hello Courier Service, which provides all-in-one services from home to trunk room storage (from a one-off fee of Y25,300), transportation IC card linkage for entrance security in building-type trunk rooms, LED light sales & the sale & assembly of racks for efficient storage stacking.

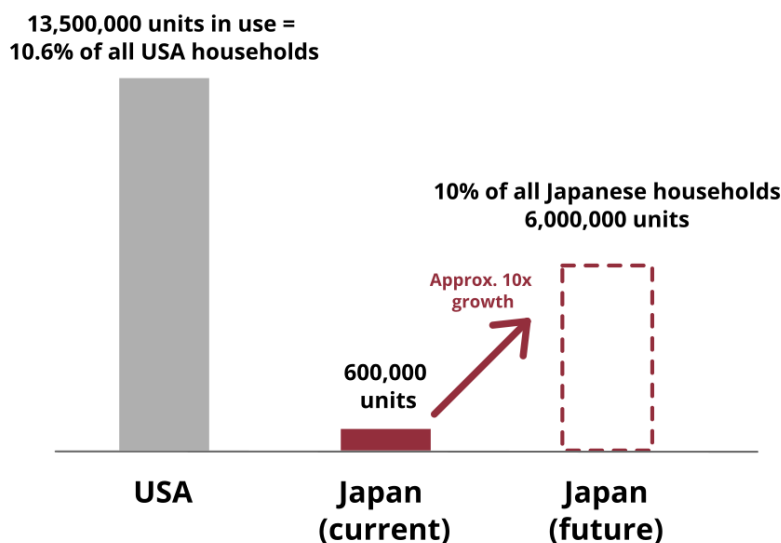
- **Domestic self-storage market:** Arealink has the #1 domestic market share by number of units at approx. 17-18% with approx. 98,600 units. The #2 operator is Kase Warehouse with an approx. 13-14% market share & approx. 85,000 units. Quraz is #3 with an approx. 6% market share & 38,000 units. Other notable companies include Storage O & U space, but each has <2% market share. **Arealink's aggressive opening strategy targets 50% market share in the medium term.**

Japan's self-storage market grew at a CAGR of +7.7% between 2010-2019, helped by a high percentage middle class population, small living spaces, a high population density & an active culture of consumerism. The pace of storage unit growth slowed during COVID due to uncertainty, but changes to behaviour, lifestyle & use of living space due to COVID, with extra space required for teleworking, generated increased demand.

- *Immature market:* Whilst Arealink is the largest domestic self-storage company, the market remains **immature versus other countries given the general lack of awareness among consumers**. We expect this factor to change over time. Arealink believes over 10% of US citizens use self-storage at any one time in a market of 13.5m units.

In Japan, there are approx. 600,000 units with usage by approx. 1% of households, despite much smaller living spaces. If 10% of the Japanese population were to use storage, it would require a 10-fold increase in self-storage provision. Using conservative assumptions in light of the shrinking population, Arealink believes there is potential for 2-3-fold growth.

**- Comparison between US & Japan storage container usage:**



\* USA data: DEMAND STUDY - Self Storage Association

\* Japan current data: Arealink research

\* Japan future data: Arealink research, referencing 2020 Population Census Results, Statistics Bureau, Ministry of Internal Affairs and Communications for future population figures

Source: Company.

The largest US self-storage companies include Public Storage (PSA US, market cap \$51bn, P/E 25x, P/B 9x) & Extra Space Storage (EXR US, market cap \$20bn, P/E 24x, P/B 6x). In contrast, Japan's largest self-storage company, Arealink, has a market cap ¥29.3bn, P/E 11x & P/B 1x.

- **Barriers to entry:** Barriers to entry could be regarded as low given there is no legal exclusion of other companies due to patent rights, the business model is simple & it is easy to put a container on land & use it as storage space.

**Arealink believes the difficulty is in attracting & managing customers.** Any small or large apartment owner can find tenants, regardless of size, by listing the apartment on a portal site such as HOMES or Suumo. By comparison, **90% of customers decide on a storage company by searching for the closest available storage solution**, with a similarly well-known portal site for storage conspicuous by its absence.

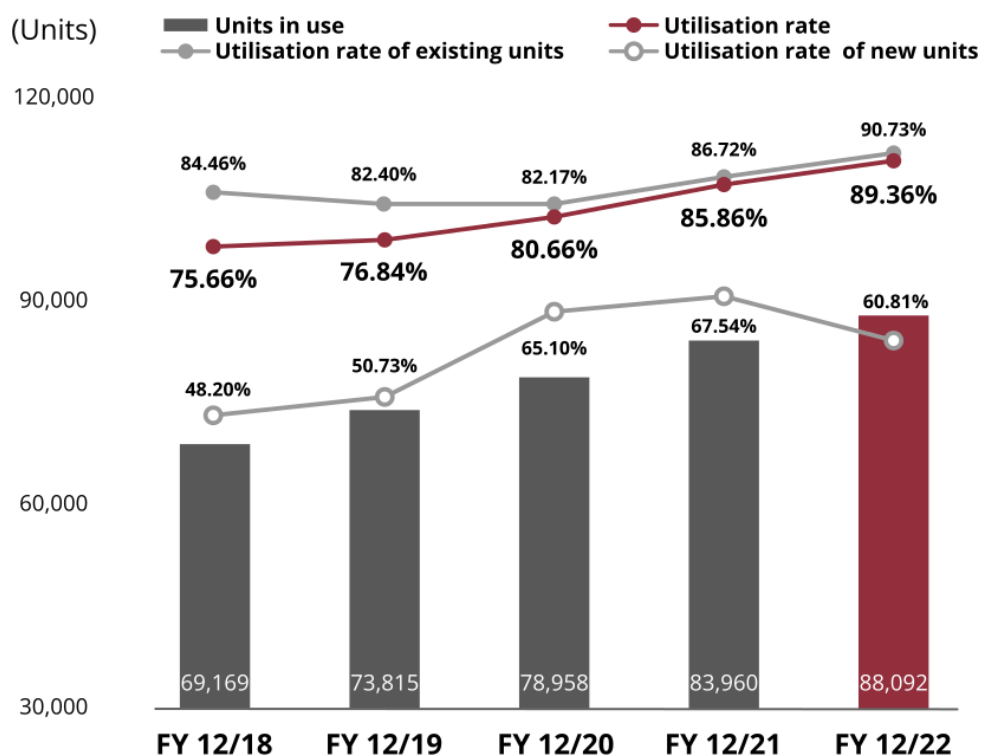
The situation dictates each storage company advertises to garner interest on individual sites, meaning the larger the operator, & the more extensive its nationwide presence, the greater the success level. Arealink's online advertising budget of approx. ¥100m would not be feasible for a smaller company with fewer units. Arealink is focusing on increasing the recognition of its Hello Storage brand & developing new products & services to differentiate itself.

- **Data:** Given its top market share, Arealink is successfully amassing customer & property data & considers its ability to analyse this data as a strength. It believes the data helps attract customers & open facilities in suitable locations, as well as achieving high utilisation quickly by optimising rental management. It contends competitors do not have access to similar data.

- **Utilisation:** **Arealink's KPI is utilisation.** It has adjusted its new facility opening strategy, focusing on smaller facilities with 30-50 unmanned units, & can reach break-even within 6

months versus competitors focusing on larger facilities with 150-200 units that take 2 years or more to break even.

**- Trends in unit number & utilisation rates:**



Source: Company.

- **Pricing:** Pricing is difficult to compare as facilities, locations & size are all different. Arealink’s average prices are not increasing due to the expansion of units in regional areas, although prices for existing units are forecast to increase gradually in the medium term due to inflation. Operators with a high exposure to trunk room storage are also likely to need to raise prices most to offset construction & other increasing costs.

- **Competition:** Competitors include the companies in the table below. Arealink believes it can open new units more efficiently than its competitors due to its database & experience in planning properties. Its unmanned & small, high utilisation storage facilities, with a mixture of container, build-in & mini storage formats, allow it to expand successfully even in areas where plots are less desirable.

Company	Service	Arealink est. Market Share	Charge (1 mat*/month in Setagaya, Tokyo)**, ¥	Charge (1 mat*/month in Hachioji, Tokyo)**, ¥	Additional Fees (maintenance etc.), ¥	Units	Approx. % of inside locations	Approx. % of outside locations	Region
Arealink (8914)	<a href="#">Hello Storage</a>	18%	11,400	5,300	2,750-3,000	98,600	20%	80%	Nationwide
Kase Warehouse	<a href="#">Kase Rental Box</a>	14%	13,600	4,300	n/a	85,000	30%	70%	Nationwide
Quraz	<a href="#">Quraz</a>	6%	19,700	15,900	n/a	38,000	100%	0%	Nationwide



Storage O (2997)	<a href="#">Storage King</a>	1.6%	12,700	n/a	n/a	8,800	30%	70%	South Japan
Palma (3461)	<a href="#">Keep It</a>	n/a	12,100	n/a	n/a	n/a	100%	0%	Kanto
Sankyo Frontier (9639)	<a href="#">U-Space</a>	n/a	n/a	6,500	n/a	n/a	10%	90%	Nationwide
Ambitious	<a href="#">Syuno Pit</a>	n/a	18,400	7,700	n/a	n/a	100%	0%	South Japan
Reise	<a href="#">Reise Box</a>	n/a	n/a	n/a	3,000	n/a	100%	0%	Chubu
Root STORHUB	<a href="#">Root STORHUB</a>	n/a	10,500	7,100	10,000	n/a	100%	0%	Kanto
Warehouse TERRADA	<a href="#">Terrada Trunk Room</a>	n/a	14,600	n/a	n/a	n/a	100%	0%	Tokyo
UK Corporation	<a href="#">Spa Lab</a>	n/a	13,000	n/a	n/a	n/a	100%	0%	Mainly Tokyo

\*1 mat = 1.62m<sup>2</sup> \*\* Represents an average of fees for 1 mat/month

Source: All data from company websites.

## EARNINGS

FY 12/22 sales were slightly above plan & OP was 13% above the company's original forecast & marginally above the upward revision announced at 1H results. **Above plan earnings were due to strength in the core self-storage business, with sales at a record high.** Sales declined in the Land rights maintenance business, but OP increased due to a focus on improved business quality.

FY 12/22 sales of ¥20.9bn +1.5%YoY were stronger than expected due to above plan unit expansion of +2,915 to 98,581 versus the company forecast of +2,300. The main driver of above plan OP of ¥3.7bn +22.9%YoY was **higher than expected utilisation of self-storage units**, which increased +3.5ppt YoY to 89.6%, a record high despite above plan unit expansion. FY 12/22 SG&A was within expectation, with limited requirement to increase staff or other costs in tandem with the rising number of containers.

FY 12/22 NP declined -9.1%YoY to ¥2.9bn due to the one-off extraordinary gain of ¥1.6bn in FY 12/21 from the reversal of allowance for repurchase losses.

**Demand for self-storage units continues to grow with a COVID tailwind** as users organise space for both WFH & hybrid working solutions. The recent slowdown in new facility openings has also been a factor in improving utilisation in an environment of growing demand.

Arealink achieved an equity ratio of 50.5% (versus 49.7% in FY 12/20), surpassing its 50% target & exceeding the TSE 1<sup>st</sup> section real estate industry average of 32.9% in FY 3/22. FY 12/22 ROA was 8.6% & ROE was 13.1%, versus TSE 1 real estate averages of 3.9% & 8.1% respectively.

As a result of strong operating performance, Arealink revised its FY 12/22 dividend from ¥47 to ¥69 per share +¥22 YoY with a payout ratio of 30.3%.

- 1Q 12/23: Arealink releases monthly unit & utilisation data. As of Mar 2023, it had 98,912 units, a +331 net increase FYTD which included +584 new openings. **Utilisation increased to a historic high of 90.4%**, with existing utilisation at 91.5% & new unit utilisation at 61.3%. Arealink assumes FY 12/23 utilisation to be flat YoY & is therefore running above plan with a likely positive impact on profitability.



- *FY 12/23 outlook:* Arealink expects sales & OP growth to continue to be driven by the core storage business, as nationwide storage room openings accelerate, but for the land rights maintenance business to achieve steady growth YoY.

FY 12/23 NP is forecast -9.8%YoY to Y2.6bn due to the absence of special factors recorded in FY 12/22, such as the gain on liquidation of investment securities & corporate tax refunds. Arealink is maintaining its 30% payout ratio target & therefore forecasts a dividend of Y62 -Y7 YoY.

Arealink believes its FY 12/23 forecasts are conservative.

## SELF-STORAGE BUSINESS

(JPY millions)	1-3Q 12/22	YoY	12/22 Results	YoY	12/23 CoE	YoY
<b>Sales</b>	12,345	6.0%	16,366	5.8%	17,200	5.1%
<b>OP</b>	2,994	21.2%	4,085	19.6%	4,440	8.7%
<b>OPM</b>	24.3%	3.0%	25.0%	2.9%	25.8%	0.9%

FY 12/22 sales were slightly above forecast as unit expansion exceeded plan, with above plan Self-Storage division OP the main reason for the consolidated FY 12/22 upward revision. Historic high utilisation of 89.6% +3.5ppt YoY generated an OPM of 25% +2.9ppt YoY, as the number of rooms increased above plan & utilisation of both new & existing openings improved.

The Self-Storage division includes the core Arealink storage unit stock business revenue which, as of Dec 2022, accounted for 96% of Self-Storage division sales. It also includes the liquidation business, where Arealink sells storage units as an investment product, generating flow income. The liquidation business is a small loss-making subdivision which therefore has limited earnings impact.

- *Self-storage business:* The storage business is split into storage operation & storage liquidation. The core storage operation manages storage facilities & generates stable stock revenue. The main brand is Hello Storage. Products are mainly outdoor trunk rooms (container type) & indoor trunk rooms (building-in type). All units are accessible 24 hours a day.

- **Storage operations:** FY 12/22 sales increased +5.2%YoY to Y15.7bn & business profit +20.7%YoY to Y4.3bn, with the business profit margin +3.5ppt to 27.4%. Both the pace of unit opening & utilisation were ahead of plan & a focus on cost control resulted in above plan sales & OP growth.

As of Dec 2022, outdoor container type rooms accounted for 75% of the total. The containers are durable, marine transport containers, can be installed in 1 day & are spread nationwide. Users can drive up to the container to allow easy loading & unloading & there are different sizes of storage room. Units are typically unmanned.

Building-in type indoor trunk rooms are mainly in central Tokyo. They are often air conditioned & security is provided. Trunk rooms can either feature in all or some floors of existing buildings, or in a dedicated trunk room construction. In addition, Arealink released the Storage Mini wooden storage facility from FY 12/21. This is a 3-storey wooden building built on land owned by Arealink, with air con & an elevator & often close to a train station. The Storage Mini

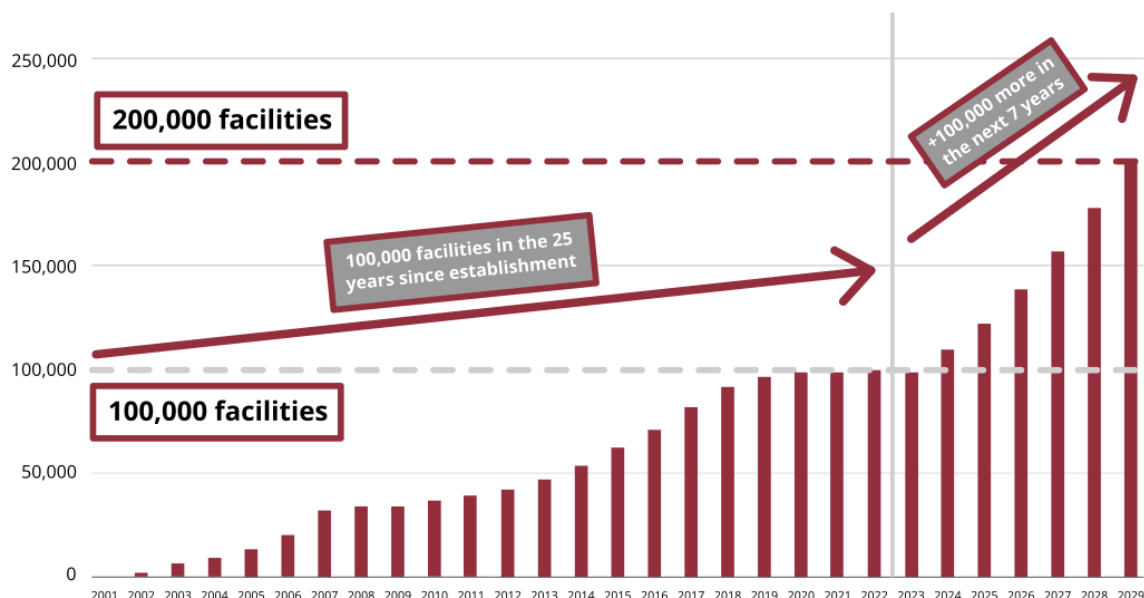
is smaller than other trunk rooms & is **regarded as a good solution for storage room expansion in regional cities.**

- *Unit expansion:* Arealink temporarily suspended store openings in 2020 due to concerns over COVID, but gradually resumed thereafter, with +1,614 openings in FY 12/21 & +2,915 in FY 12/22. Regular ongoing closures (weeding out unprofitable or less profitable sites) resulted in a +797 net increase of new units to 98,581 in FY 12/22.

As of FY 12/22, Arealink had a total of 98,581 storage rooms with 73,881 containers & 24,700 in-building mini trunk rooms with luxurious interiors. It opened +2,141 containers at 79 sites (approx. 27 per site) & +774 in-building mini units at 16 locations (approx. 48 per site). **In FY 12/23, it plans to open +4,700 rooms, a +61% increase versus +2,915 in FY 12/22.**

- *MTP:* Arealink's MTP is to increase the number of storage facilities from 98,561 in FY 12/22 to 200,000 units by FY 12/29.

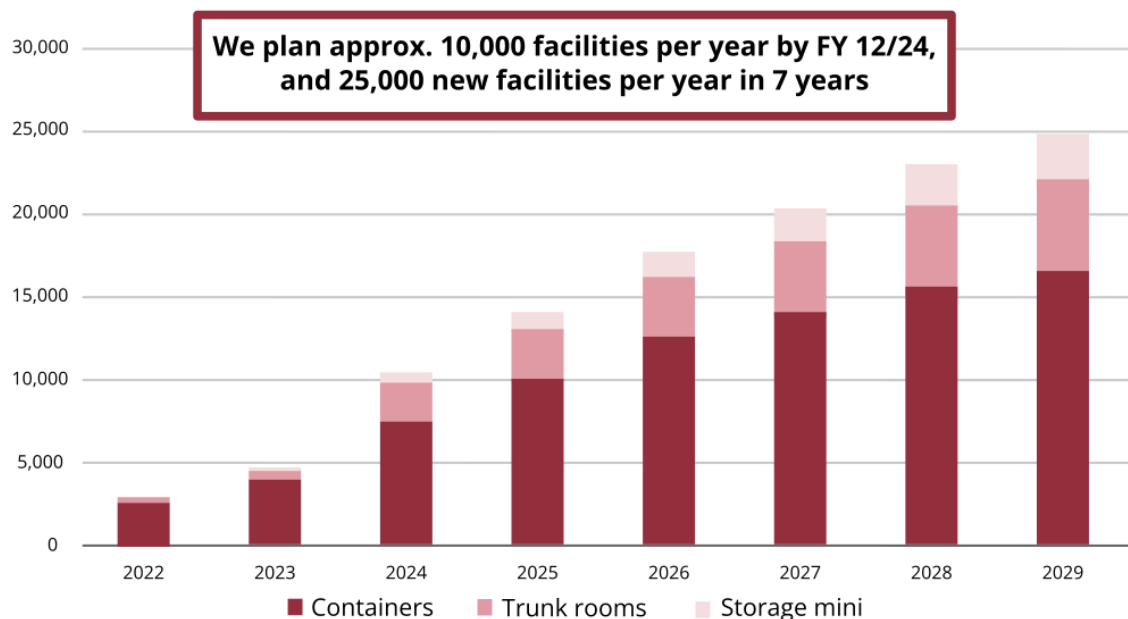
- *Projected facility numbers:*



Source: Company

The company aims to increase production each year with the main focus on containers but achieving a balance between containers, trunk rooms & the mini storage format.

- Projected new facility production:



Source: Company.

Each container costs approx. ¥100-¥150m but Arealink believes it can achieve its opening plans within working capital, interest bearing debt & cash flow. After 2026, further financing may be necessary given accelerated openings.

- **Utilisation:** Utilisation is Arealink's KPI & main marker of profitability. FY 12/22 trunk room Hello Storage utilisation was 89.4% +3.5ppt YoY, with existing utilisation of 90.7% & new utilisation of 60.8%, boosted by product recognition & strong demand. The company assumes FY 12/23 utilisation remains flat YoY despite the acceleration in storage room openings. As of Mar 2023, utilisation had improved to 90.4% with existing utilisation at 91.5% & new 61.3%. Average 1Q utilisation was 89.8%.

- **Storage liquidation business:** Arealink orders & sells storage as an investment product, generating flow income. The division continues to post small operating losses due to labour costs in the store opening & construction departments but remains a small percentage of the total & therefore has limited impact.

FY 12/22 sales totalled ¥641m +21%YoY but generated business profit losses of -¥222m versus -¥153m in FY 12/21. Arealink recorded 5 storage facility sales & 2 orders for trunk room storage facilities with land. It purchased the land, built the building & sold it to investors. Whilst sales are forecast to grow steadily in the medium term, the storage liquidation business is not expected to turn profitable due to the personnel costs required in the development of a storage facility.

## LAND RIGHTS CONSOLIDATION BUSINESS

(JPY millions)	1-3Q 12/22	YoY	12/22 Results	YoY	12/23 CoE	YoY
<b>Sales</b>	2,434	-6.1%	3,110	-16.3%	3,250	4.5%
<b>OP</b>	445	2.5%	464	5.0%	520	12.1%
<b>OPM</b>	18.3%	1.5%	14.9%	3.0%	16.0%	1.1%

It is common practice in Japan to rent land & build on it. The owner of the building has the right to use the land (leasehold) but must pay land rent to the landowner. The landowner cannot freely use the land due to restrictions on land lease rights. This complicated structure often impacts the price of the land.

Arealink employs dedicated lawyers to find solutions to problems depending on landowners' circumstances, through buying & selling the leased land & leaseholder rights. Sales are mainly temporary flow income via the sale of leasehold land & real estate. Japan has seen an increase in issues related to leased land given the ageing demographic & inheritance tax issues.

Arealink had expanded the business quickly pre-COVID, with limited land right inventory increasing to ¥7.1bn in FY 12/19 from ¥4.9bn in FY 12/18. This resulted in a number of unprofitable projects which Arealink disposed of in FY 12/20 & FY 12/21, shrinking inventory to ¥2.5bn as of FY 12/21. As a result, FY 12/22 sales declined -16%YoY as disposal sales had been completed, but OP increased +5%YoY as unprofitable project sales had been completed.

Arealink estimates FY 12/23 OP growth of +12.1%YoY, with +10%YoY regarded as a normalised level in the medium term. Arealink believes it is a relatively niche market & has synergies with its main storage business. With its revised policy of emphasising quality over quantity, it targets steady growth & an OPM of 15% over the medium term.

## OTHER OPERATIONAL SERVICES BUSINESS

(JPY millions)	1-3Q 12/22	YoY	12/22 Results	YoY	12/23 CoE	YoY
<b>Sales</b>	1,053	1.3%	1,400	1.0%	1,350	-3.6%
<b>OP</b>	281	-2.8%	373	-2.4%	305	-18.2%
<b>OPM</b>	26.7%	-1.1%	26.6%	-0.9%	22.6%	-4.1%

Other Operational Services includes stock type revenue from the Asset Business & Office Business. FY 12/22 sales & OP were broadly in line & Arealink does not expect the segment to be a growth driver.

The Asset Business offers property management & maintenance services to storage unit investors. FY 12/22 sales & OP declined YoY due to the cancellation of leased properties but maintained high occupancy rates in line with the company forecast.

The Office Business manages rental offices under the Hello Office brand close to train stations, also offering a corporate registration service. It operates rental offices through a sublease contract allowing building owners to earn a stable income. FY 12/22 sales increased but OP declined YoY due to the impact of opening expenses for a new property in Aug 2022 & 2 new properties in Dec 2022.

	2023	YoY	2024	YoY	2025	YoY
<b>Sales</b>	21,800	4.4%	24,400	11.9%	28,100	15.2%
<b>OP</b>	4,050	8.2%	4,650	14.8%	5,500	18.3%
<b>OPM</b>	18.6%	0.7%	19.1%	0.5%	19.6%	0.5%
<b>RP</b>	3,930	4.6%	4,520	15.0%	5,350	18.4%
<b>RPM</b>	18.0%	0%	18.5%	0.5%	19.0%	0.5%
<b>New units</b>	4,700	1,785	10,400	5,700	14,000	3,600

Whilst Arealink released its original MTP forecast in Feb 2022 for the FY 12/22 - FY 12/24 period, **it currently expects to achieve the FY 12/24 goal in FY 12/23**. As a result, it released a new MTP for the FY 12/23 - FY 12/25 period in Feb 2023.

The new plan focuses on growth in the core self-storage business, with a significant acceleration of new storage room openings, market share expansion & a focus on improving profitability. It targets 4,700 unit openings in FY 12/23, 10,400 in FY 12/24 & 14,000 in FY 12/25. **By FY 12/29, Arealink plans to open 100,000 new units.**

Arealink believes its accelerated opening plan is achievable as its nationwide database generates greater accuracy & efficiency of new openings & faster utilisation. It also believes it can achieve additional economies of scale as units are largely unmanned.

The company anticipates OP growing by an average approx. +15% per year to FY 12/25, thereafter targeting OP of ¥10bn on sales of ¥50bn by FY 12/29. It targets an OPM of 20% as soon as possible.

- *Opening method:* Arealink contends its storage unit opening method sets it apart from competitors as it focuses on smaller, unmanned containers with approx. 30-40 units that can turn profitable within the 1<sup>st</sup> year in both urban & regional areas. This compares to its competitors, who are focusing on larger manned facilities of over 100 units which take a number of years to turn profitable. Arealink compares itself to a convenient & familiar presence, similar to a convenience store, as opposed to a supermarket, like its competitors.

**It has achieved approx. 100,000 units in the 25 years since establishment & plans to double the figure to 200,000 by FY 12/29.** It plans to open storage units nationwide, including in previously undeveloped areas, with the ability to choose the most suitable storage type for each area, whether it be container, build-in or mini storage format.

Arealink's business model is efficient, does not rely on manpower & uses accumulated data to select sites, storage type & the most efficient size. It expects the OPM to improve to 19.6% by FY 12/25, mainly driven by economies of scale, with **the company able to increase the number of storage units without materially increasing the number of staff.**

Even if the number of units doubles to 200,000, Arealink believes it can operate with 1.3-1.4x the current staffing level at <100 people from the current 70 people. Other economies of scale can also be recognised in areas such as manufacturing & maintenance.

- *Overseas:* Arealink plans to open operations in Europe & the US in FY 12/23, primarily with the view to learning from storage methods in other countries, where storage is more advanced, as well as to help improve the service in Japan by joining local associations. The strategy is also expected to allow Arealink to build up its global database. We note that longer term, the company could potentially roll out Storage Mini globally.

## MANAGEMENT

Chairman Naomichi Hayashi (69) graduated from Tokyo Rika University (Tokyo Science University) in April 1978 & joined real estate company Starts Corp (previously Chikuma Real Estate). He subsequently founded Arealink in April 1995. As he is approaching 70, he is aiming to gradually share responsibility & have a succession plan in place.

President Yoshika Suzuki (36) graduated from Tokyo Rika University (Tokyo Science University) in April 2011 & immediately joined Arealink. He worked up through the company ranks, heading up a number of different departments, before he was appointed President in 2023.

## BALANCE SHEET

As of FY 12/22, Arealink had a shareholder equity ratio of 50.5%, comfortably above the FY 3/22 TSE 1 real estate industry average of 32.9%. It also has high profitability, with an ROA of 8.6% & ROE of 13.1% versus the FY 3/22 TSE 1 real estate industry averages of 3.9% & 8.1% respectively.

## SHAREHOLDER RETURNS

Arealink has **a stable dividend policy with a target payout ratio of 30%**. In addition to shareholder returns, it plans to fund domestic storage facility openings out of operating CF. The company would consider raising the dividend payout ratio if free cash flow exceeds the amount required for openings.

We note there are no current plans for a share buyback & it has no set targets for RoE or RoI. Arealink would potentially consider acquiring a smaller company but is more focused on targeting overseas opportunities to gain knowledge of storage business practices in other countries. It has 1 storage property in the US which is managed by a US storage company,

As a result of its strong operating performance & balance sheet, the company revised its FY 12/22 dividend from Y47 to Y69 per share +Y22 YoY with a payout ratio of 30.3%. It assumes Y62 in FY 12/23 in line with its payout ratio policy.

## ESG

- *Environment*: Arealink claims its business contributes to the reduction of waste by encouraging storage (rather than disposal) of unwanted items. Its storage containers have longevity & can theoretically be used for 50-100 years with adequate maintenance.

- *Social*: Arealink's General Employee Action Plan for the April 2023 - March 2028 period aims to improve employee satisfaction & the working environment to enhance employee productivity & motivation. Measures include supporting maternity & childcare leave & promoting the use of paid holiday. It also strives to train & educate its employees to improve human capital value.

Arealink has contributed to society by offering free storage during the 2016 Kumamoto earthquakes & partnering with Ota City in Tokyo to offer free storage to individuals displaced by natural disasters.

- *Governance*: Arealink has 10 board directors, 100% of whom are male & 60% of whom are external. Naomichi Hayashi, the founder, has been chairman for 8 years. Arealink publishes Corporate Governance Reports & Guidelines.

## COMPANY TIMELINE

<b>Apr 1995</b>	WELL's Giken K.K. (currently Arealink) established in Funabashi City, Chiba Prefecture
<b>Apr 1996</b>	Launched the property leasing business
<b>Jun 1996</b>	Launched the coin-operated hourly parking lot business Hello Parking
<b>Jul 1998</b>	Relocated the head office to Mihama Ward, Chiba City
<b>Mar 1999</b>	Launched the Hello Container business (installing storage containers on vacant land and renting them out)
<b>Sep 2000</b>	Changed name to Arealink Co., Ltd.
<b>Dec 2000</b>	Launched the weekly/monthly rental apartment business Hello Monthly
<b>Jan 2001</b>	Relocated the head office to Ginza, Chuo Ward, Tokyo
<b>Feb 2001</b>	Launched the Hello Trunk business (renting out storage spaces set up in vacant buildings)
<b>Aug 2001</b>	Relocated the head office to Kasumigaseki, Chiyoda Ward, Tokyo
<b>Sep 2002</b>	Launched a property management service through proprietary land and buildings
<b>Jun 2003</b>	Opened Hello Bike Box, an indoor parking lot only for motorbikes
<b>Aug 2003</b>	Listed on TSE Mothers
<b>Jan 2004</b>	Launched the Hello Office SOHO business, which makes use of vacant buildings
<b>Apr 2005</b>	Executed a stock acquisition of Space Products K.K., a company from the same industry that operates Rakuchin Box
<b>Nov 2005</b>	Storage rooms operated by the Hello Storage business exceeded 10,000
<b>Apr 2007</b>	Relocated the head office to Akasaka, Minato Ward, Tokyo
<b>Jan 2008</b>	Storage rooms operated by the Hello Storage business exceeded 30,000
<b>Apr 2009</b>	Relocated the head office to Kanda Ogawamachi, Chiyoda Ward, Tokyo
<b>Jun 2014</b>	Storage rooms operated by the Hello Storage business exceeded 50,000
<b>Jul 2015</b>	Storage rooms operated by the Hello Storage business exceeded 60,000
<b>Aug 2015</b>	Opened the suburban indoor retail storage facility, 2 x 4 Trunk
<b>Dec 2016</b>	Relocated the head office to Sotokanda, Chiyoda Ward, Tokyo
	Storage rooms operated by the Hello Storage business exceeded 70,000
<b>Nov 2017</b>	Storage rooms operated by the Hello Storage business exceeded 80,000
<b>Nov 2018</b>	Storage rooms operated by the Hello Storage business exceeded 90,000
<b>May 2020</b>	Market changed to the TSE Second Section
<b>Apr 2022</b>	Market changed to the TSE Standard Section

## COMPANY DETAILS

## Company contact details

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Major shareholders	Stake %
Naomichi Hayashi	22.45
Goldman Sachs	6.50
Tsujimoto Takehiro	3.98
Niihama Iron Works	2.44
Custody Bank of Japan	2.42
Master Trust Bank of Japan	2.39
Amix KK	1.97
Takeshi Watanabe	1.75
Satoshi Nakajima	1.73
Arealink CSH	1.64

Source: Company.



## MANAGEMENT

Representative Director	Naomichi Hayashi
Year of birth	1953
Shareholding	22.45%
Career history	
Apr 1978	Joined Chikuma Real Estate (currently Starts Corporation Ltd.)
Apr 1995	Founded Arealink, appointed Representative Director and President
Feb 2010	Appointed Director of the Japan Self-Storage Association
May 2019	Appointed Representative Director of the Japanese Self-Storage Association (current position)
Sep 2019	Appointed Representative Executive Director and President and Head of Marketing of Arealink
Sep 2020	Appointed Representative Executive Director and CEO
Mar 2022	Appointed Representative Director and President
Mar 2023	Appointed Representative Director and Chairman (current position)

Managing Director and President	Yoshika Suzuki
Year of birth	1986
Shareholding	0.06%
Career history	
Apr 2011	Joined Arealink
Aug 2014	Appointed Head of Storage Opening Department, Tokyo Office
Feb 2015	Appointed Executive Officer and Head of Storage Opening Department, Tokyo Office
Mar 2016	Appointed Director, Head of Storage Operations Department, General Manager of Tokyo & Chiba offices
Jul 2018	Appointed Director, Head of Storage Department and Head of Storage
Sep 2019	Appointed Director and Executive Head of Storage Department
Mar 2021	Appointed Managing Director and Executive Head of Storage Department
Mar 2022	Appointed Senior Managing Director and Executive Head of Storage Department
Mar 2023	Appointed Representative Managing Director and President (current position)

Director, Executive General Manager of Administration and Accounting Manager	Yasuaki Otaki
Year of birth	1977
Shareholding	0.07%
Career history	
Apr 2001	Joined Arealink
Mar 2011	Appointed Executive Officer, Deputy General Manager of Administration and General Manager of General Affairs
Mar 2012	Appointed Director and General Manager of Administration
Mar 2017	Appointed Executive General Manager of Administration
Mar 2019	Appointed Accounting Manager
Sep 2019	Appointed Deputy General Manager of Administration and Accounting Manager
Mar 2021	Appointed Executive Deputy General Manager of Administration and Accounting Manager

Mar 2022	Appointed Director, Executive Deputy General Manager of Administration and Accounting Manager
Mar 2023	Appointed Director, Executive General Manager of Administration and Accounting Manager (current position)

<b>Director, Executive Manager of the Storage Division, and Customer Contact Manager</b>	<b>Minoru Nishizawa</b>
Year of birth	1978
Shareholding	0.04%
<b>Career history</b>	
Apr 2001	Joined Arealink
Mar 2012	Appointed Director, Storage Manager
Mar 2016	Appointed Executive Deputy Manager of the Storage Division and Storage Manager
Mar 2017	Appointed Director, Deputy Manager of the Storage Division and Storage 2 Manager
Mar 2019	Appointed Head of Promotion for the Ideal Future Company School
Mar 2021	Appointed Executive Deputy Manager of the Storage Division and Customer Contact Manager
Mar 2022	Appointed Director, Executive Deputy Manager of the Storage Division, and Customer Contact Manager
Mar 2023	Appointed Director, Executive Manager of the Storage Division, and Customer Contact Manager (current position)

<b>Director (External)</b>	<b>Kazuhiro Furuyama</b>
Year of birth	1959
Shareholding	--
<b>Career history</b>	
Apr 1986	Lecturer at the University of Tasmania
Apr 1987	Founded the Foreign Language Academy Tokyo Forum, appointed Representative
Apr 2002	Appointed Chief of the Matsushita Institute of Government and Management
Sep 2002	Appointed Head of the Matsushita Institute of Government and Management
Apr 2004	Appointed Managing Director of the Matsushita Institute of Government and Management
Apr 2013	Appointed Councillor and Lecturer of the Japan Agricultural Management College
Mar 2015	Appointed Director of Arealink (current position)
Apr 2016	Appointed Advisor at the Matsushita Institute of Government and Management
	Appointed Advisor at Agriconnect (current position)
Apr 2019	Appointed Councillor of the Japan Agricultural Management College

<b>Director (External)</b>	<b>Masanori Koda</b>
Year of birth	1943
Shareholding	--
<b>Career history</b>	
Mar 1971	Joined Japan Recruit Center (currently Recruit Holdings)
Apr 1989	Appointed Representative Director and President of Network Hachiju Hachi (current position)
Mar 2015	Appointed External Director of Daiei Sangyo (current position)
Mar 2017	Appointed Director of Arealink (current position)
Jul 2019	Appointed External Director of Green Ship (current position)

Auditor (External)	Hideto Kojima
Year of birth	1947
Shareholding	--
Career history	
Apr 1970	Joined Asahi Life Insurance
Apr 1993	Appointed Managing Director of Asahi Life Investment Advisors
Apr 2002	Appointed Managing Director and General Manager of Asahi Life Building
Aug 2003	Appointed Managing Director and General Manager of Asahi Insurance Service
Jun 2004	Appointed Full-Time Auditor of Keihin Corp
Mar 2010	Appointed Auditor of Arealink (current position)

Auditor (External)	Iwao Aoki
Year of birth	1967
Shareholding	--
Career history	
Apr 1992	Joined Fujita
Oct 2004	Appointed Representative Director and President of Asset Managers (currently Ichigo)
Apr 2009	Appointed Representative Director and President of Capital Advisory (current position)
Dec 2010	Appointed External Auditor of Nexyz Group
Jul 2014	Appointed External Auditor of Balnibarbi (current position)
Mar 2016	Appointed External Director of Something Holdings
Mar 2017	Appointed External Auditor of Arealink (current position)
Dec 2019	Appointed External Director (Member of Audit Committee) at Nexyz Group (current position)

Auditor (External)	Koji Tamura
Year of birth	1969
Shareholding	--
Career history	
Oct 2000	Passed the bar examination
Oct 2002	Registered with the Tokyo Bar Association Joined Kotobuki Legal Office
Jan 2007	Appointed Partner Attorney at Kotobuki Legal Office
Oct 2011	Appointed Auditor of Zenkankyo SSI Holdings
Dec 2011	Appointed Temporary Auditor of Arealink
Mar 2012	Appointed Auditor of Arealink (current position)
May 2013	Appointed Representative Attorney, Keimei Legal Office
Oct 2020	Joined Taiyo Sogo Legal Office as an Attorney-at-Law (current position)

Auditor (External)	Shigekazu Mitsuta
Year of birth	1946
Shareholding	--
Career history	
Sep 1970	Passed the bar examination
Apr 1973	Registered with the Tokyo Bar Association
Dec 2012	Appointed auditor of Hamano Golf Club
Dec 2015	Appointed Director of Tojo Kaikan (current position)
Dec 2016	Appointed Representative Director of Hamano Golf Club
Mar 2020	Appointed Auditor of Arealink (current position)

Jun 2020

Joined Hibiya Harumi Doori Legal Office as an Attorney-at-Law  
(current position)

## J GAAP Financial statements

Income statement (¥bn)	FY 12/20	FY 12/21	FY 12/22
Sales	22.48	20.57	20.88
COGS	17.0	14.5	14.2
<b>Gross profit</b>	<b>5.5</b>	<b>6.0</b>	<b>6.7</b>
Gross profit margin (%)	24.5	29.3	32.2
Operating expense	3.2	3.0	3.0
<b>Total OP</b>	<b>2.28</b>	<b>3.04</b>	<b>3.74</b>
OP margin (%)	10.1	14.8	17.9
Non-Op Income (Loss)	-1.0	-1.5	-0.1
<b>Pretax Income</b>	<b>3.3</b>	<b>4.5</b>	<b>3.9</b>
Tax	1.1	1.3	1.0
Effective tax rate (%)	32.3	29.8	25.3
<b>Net income</b>	<b>2.23</b>	<b>3.17</b>	<b>2.88</b>

Cash flow statement (¥bn)	FY 12/20	FY 12/21	FY 12/22
Net income/pre-tax profit	2.2	3.2	2.9
Depreciation/amortization	0.8	0.9	1.0
Other non-cash items	0.2	0.3	(0.2)
Changes in working capital	-0.7	0.3	-2.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Operating Activities</b>	<b>2.5</b>	<b>5.7</b>	<b>1.6</b>
Change in fixed * intangible assets	-2.2	-1.6	-2.2
Net change in long-term investments	0.0	0.2	0.2
Net cash from acquisitions * divestitures	0.0	0.2	0.0
Other investing activities	0.0	0.0	-0.2
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Investing Activities</b>	<b>-2.2</b>	<b>-1.3</b>	<b>-2.3</b>
Dividends paid	-0.5	-0.4	-0.6
Cash from (repayment) debt	-1.7	-0.4	2.1
Cash from (repurchase) of equity	0.0	0.0	0.0
Other financing activities	0.0	0.0	0.0
Net cash from discontinued operations	0.0	0.0	0.0
<b>Cash from Financing Activities</b>	<b>-2.2</b>	<b>-0.8</b>	<b>1.5</b>
FX impact	0.0	0.0	0.0
<b>Net cash flow</b>	<b>-1.9</b>	<b>3.7</b>	<b>0.9</b>
<b>Free cash flow</b>	<b>0.3</b>	<b>3.9</b>	<b>-0.6</b>
<b>EBITDA</b>	<b>3.1</b>	<b>3.9</b>	<b>4.7</b>

Balance sheet (¥bn)	FY 12/20	FY 12/21	FY 12/22
Cash * equivalents	9.8	13.4	14.3
Accounts * notes receivable	0.1	0.1	0.1
Inventories	4.8	3.4	5.2
Other short-term assets	1.2	0.4	0.5
<b>Current assets</b>	<b>15.9</b>	<b>17.3</b>	<b>20.0</b>
Property, plant * equipment (net of depreciation)	20.4	21.2	21.9
Long term investments * receivables	0.2	0.1	0.1
Other long-term assets	4.2	3.5	3.6
<b>Total non-current assets</b>	<b>24.8</b>	<b>24.9</b>	<b>25.6</b>
<b>Total assets</b>	<b>40.7</b>	<b>42.2</b>	<b>45.6</b>
Payables * accruals	1.1	2.3	2.3
Short-term debt	2.1	2.3	2.4
Other short-term liabilities	3.6	1.4	1.5
<b>Total current liabilities</b>	<b>6.8</b>	<b>5.9</b>	<b>6.2</b>
Long term debt	10.3	9.7	11.6
Other long-term liabilities	5.5	5.7	4.8
<b>Total non-current liabilities</b>	<b>15.8</b>	<b>15.4</b>	<b>16.4</b>
<b>Total liabilities</b>	<b>22.6</b>	<b>21.2</b>	<b>22.6</b>
Share capital * APIC	12.3	12.3	12.3
Treasury stock	0.3	0.2	0.2
Retained earnings	6.1	8.9	11.0
Other equity	0.0	0.0	0.0
<b>Equity before minority interest</b>	<b>18.1</b>	<b>21.0</b>	<b>23.1</b>
<b>Total equity</b>	<b>18.1</b>	<b>21.0</b>	<b>23.1</b>
<b>Total liabilities * equity</b>	<b>40.7</b>	<b>42.2</b>	<b>45.6</b>

Key metrics	FY 12/20	FY 12/21	FY 12/22
<b>Profitability</b>			
Gross margin (%)	24.5	29.3	32.2
Operating margin (%)	10.1	14.8	17.9
Net margin (%)	9.9	15.4	13.8
ROIC (%)	5.5	7.3	8.3
<b>Liquidity</b>			
Current ratio (x)	2.4	3.0	3.2
Quick ratio (x)	1.5	2.3	2.3
<b>Leverage</b>			
Debt/Equity ratio	68.2	57.0	60.9
Net Debt/Equity ratio	14.3	-7.1	-1.1

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