

# Pressance Corporation Co., Ltd.

**3254**

Tokyo Stock Exchange First Section

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

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## ■ Summary

### **Making healthy progress toward over ¥150bil in FY3/'19 sales plan and all-time high profits for nine consecutive years. In spite of uncertainty in the market for property investment by individuals due to multiple incidents of fraudulent conduct by other companies, no direct impact on the Company's studio condominium business because of its supply to central urban areas**

Pressance Corporation Co., Ltd. <3254> (hereafter, also "the Company") is an independent and integrated developer of studio and family condominiums that handles planning, development, sales and rentals as well as building management. It is the biggest supplier in the Kinki area and Tokai-Chukyo areas for eight and six consecutive years respectively and has risen to the second place nationwide in 2017. The Company offers the Pressance Series of condominiums, conveniently located close to major railway stations, designed and developed under the Company brand. Another strength is a highly motivated sales force resulting in so few unsold inventories. Pressance has grown steadily since its establishment in 1997. It was listed on the Second Section of the Tokyo Stock Exchange in 2007. Having suffered little from the Lehman Brothers bankruptcy, it was listed on the First Section of that stock market in 2013. The Company is highly rated on the stock exchange and selected as a component of the JPX-Nikkei Index 400 in 2015 and of the JPX-Nikkei Mid and Small Cap Index in 2016.

Pressance is a unique company in the condominium development industry with diverse products that range from studio condominiums, family condominiums and buildings (studio condominium wholesale business) to hotels. The diverse product line-up enables optimal use of sites when land information is acquired and enlarges purchase volume. Consequently, the Company can purchase lands and build on them more effectively and less expensively than competitors.

#### **1. Market trends**

Multiple incidents of fraudulent conduct by other companies were reported in the property investment market by individuals in Japan in 2018 and triggered uncertainty throughout the market. The incidents mainly involved loans for apartments in suburbs (priced at ¥50-60mil to over ¥100mil per property) supplied by newcomer real estate companies. Resident demand differs vastly depending on whether the property is located in suburbs with shrinking populations or in central urban areas with growing populations. So it is not a good idea to watch over the market from a single standpoint. The Company is the leader in the real estate investment industry that specializes in supply of studio condominiums in central urban areas (prices in the range of ¥16-17mil per unit). Its sales and orders have been healthy despite the incidents. We expect that individual real estate investors with feelings of distrust will increasingly tend to select trustworthy property developers.

Furthermore, it was mainly regional banks who dealt with fraudulent documentation on the loan applications for real estate investments. On the other hand, lenders to the Company's customers are mainly non-bank financial institutions that have considerable lending experience from the early stages of the property investment market. They can hence utilize suitable loan decision standards and procedures for preventing improper lending, based on extensive past data. Also non-bank institutions have been already selecting real estate developers that supply properties with high asset value prior to recent incidents.

Both real estate investors as customers and financial institutions preferably select the Company.

## Summary

**2. Results trends**

In 1H FY3/'19 consolidated results, the Company reported ¥121,350mil in net sales (+83.2% YoY), ¥25,777mil in operating profit (+134.6%), ¥25,583mil in ordinary income (+138.5%), and ¥17,402mil in net profit attributable to owners of parent (+140.4%), achieving sharply higher sales and profits in line with the initial forecast. The number of units sold rose by a healthy 26.0% YoY for studio condominiums and climbed by a steep 141.0% for family condominiums. Hotel sales dramatically increased in the second year since starting the business with a 1,261.1% gain. The initial sales forecast called for concentration of property deliveries through 2Q (targeting ¥111,573mil), and the results exceeded this level by 8.8%. The cost of sales ratio dropped 1.2 percentage point YoY on differences in product mix and other factors. While SG&A expenses (primarily sales fees and personnel costs) rose, sales growth had a larger effect and the SG&A expenses ratio declined by 3.6 percentage points to 7.2%. These trends supported a 21.2% operating margin and put operating profit at 16.2% more than the 1H target.

The Company kept the initial FY3/'19 consolidated forecast of ¥152,471mil in net sales (+13.7% YoY), ¥24,541mil in operating profit (+20.5%), ¥23,661mil in ordinary income (+19.2%) and ¥16,132mil in net profit attributable to owners of parent (+17.3%). Fulfillment of the forecast means net sales at over ¥150bil for the first time and nine consecutive years of all-time high sales and profits. The Company is achieving healthy progress in deliveries of studio and family condominiums. In hotel sales, it has already sold all the properties planned in the FY3/'19 sales forecast as well as one property scheduled for delivery in FY3/'20 earlier than expected. Net sales reached 79.6% of the full-year target through 1H. Counting orders too, the Company has secured 98.9% of the FY3/'19 sales target for the condominium sales business (¥142,897mil; results + orders). It is just a matter of time until the Company achieves the forecast. Profit results already exceeded 100% of targets in 1H. We expect little change in 2H profit from the initial forecast.

**3. Growth strategy and topics**

The Company is developing a building for residential accommodations on the north side of Shin-Imamiya Station in Osaka City. In Japan, the new Residential Accommodation Business Act took effect in June 2018 and limits residential accommodation usage to 180 days a year. However, Osaka city has been permitted as one of the special districts in which residential accommodations can be operated 365 days a year, requiring a minimum of two nights' stay. This is the first new construction of a residential accommodations property in Osaka. Development of lodging facilities that target expanding inbound tourist demand, and the area around Shin-Imamiya Station offer excellent access to Kansai International Airport, the Minami area and other tourist spots in Kansai area with connections to multiple train lines, including the JR Osaka Loop Line and the Nankai Main Line. Hoshino Resorts and other developers are planning hotels in this area. These development activities are changing the past image as a low-income earners' residential area. The Company's project for a residential accommodations project is a nine-story building with 48 rooms on a roughly 430 square-meter site with a convenient location on the north side of JR Shin-Imamiya Station. Under its business model as a real estate developer, the Company plans to lease the building to an operation company that possesses residential accommodations knowhow and operates an accommodation business. The Company's risk management is well-established, preparing a contingency plan in which its basic design allows for conversion to condominiums in case of a change in supply-demand trends because this is a new business. The Company will not engage in residential accommodations business at any existing or new residential condominium properties.

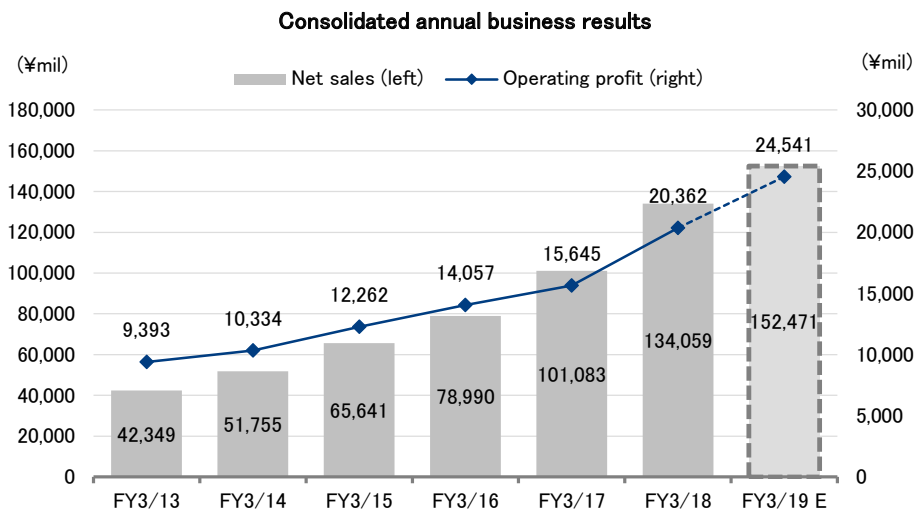
Summary

4. Shareholder return policy

The Company has consistently raised the dividend in adherence with a policy of expanding funds available to pay dividends through operating profit growth at an annual pace of at least 10% YoY. It added two new policies at the start of this fiscal year of “incrementally raising the payout ratio to 20% within five years” and “increasing total dividend amount by at least 15% YoY.” We expect these measures to accelerate the dividend increase pace over the medium term. The interim dividend for FY3/’19 was ¥17.50 on track with the initial forecast. It plans to pay a dividend of ¥17.50 at the end of FY3/’19 also and thus ¥35.00 for the full year (¥17.50 at end-1H, ¥17.50 at end-2H), forecasting an estimated 13.0% dividend payout ratio.

Key Points

- Uncertainty in the market for property investment by individuals due to multiple incidents of fraudulent conduct by other companies, but these conditions do not directly affect the Company’s studio condominium business in central urban areas
- Making healthy progress toward exceeding ¥150bil sales in FY3/’19 and nine consecutive increase in sales and profits have already secured 98.9% of the full-year sales target
- Building Osaka’s first residential accommodations property near JR Shin-Imamiya Station
- Expecting accelerated dividend increases due to “operating profit growth at a pace of at least 10% a year” and “raising the dividend payout”



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

## ■ Company overview

**No.2 condominium developer in Japan and consecutively ranked as No.1 in Kinki and Chukyo-Tokai areas in supplied units**  
**Specializes in supply to central urban areas with a diverse product portfolio, such as studio and family condominiums and hotels, distinguishing itself from competitors**  
**Outstanding growth potential and profitability**

### 1. Company overview

Pressance is an independent, integrated developer of studio and family condominiums that handles planning, development, sales as well as rentals and building management. It has been consecutively the largest supplier in the Kinki area and Chukyo-Tokai area and has risen to the second place nationwide in 2017 in terms of supply units. The Company offers the Pressance series of condominiums. Studio condominiums are conveniently located within 5 minutes' walk from major railway stations, and family condominiums are located within 10 minutes' walk as well. Both are originally designed and developed. Its highly motivated sales force is another strength and results in few unsold inventories. Pressance has grown steadily since its establishment in 1997. It was listed on the Second Section of the Tokyo Stock Exchange in 2007. Having suffered little from the Lehman Brothers bankruptcy, the Company was listed on the First Section of that stock market in 2013 and was included in the JPX-Nikkei Index 400 in 2015.

### 2. History

Pressance's predecessor was Nikkei Prestige Co., Ltd., which was established in Osaka in October 1997 to sell studio condominiums. The Company was renamed as Pressance Corporation in April 2002. It steadily diversified into peripheral areas and expanded business scope, such as offering building management as well as insurance agency services in 1998, starting sales of family condominiums and offering real estate rental management services in 1999. Early in the 2000s, Pressance began developing properties by itself and extended its business area to the Chukyo-Tokai and Kanto areas. It established Pressance Realta Co., Ltd. to handle brokerage and mediation for existing condominiums in 2008, acquired Tryst Co., Ltd., to operate a construction business and established Pressance Guarantee Co., Ltd. to offer rent fee payment guarantee service in 2014. It established Pressance Real Estate Co., Ltd. as a real estate solution consultancy in May 2015. Although the real estate industry seriously suffered from the aftermath of the Lehman Brothers bankruptcy in September 2008, the Company has kept outstanding performance and grown to a solid player just behind the leading pack in the condominium business. Pressance was listed on the Second Section of the Tokyo Stock Exchange in 2007 and on the First Section in 2013. The Company is highly rated on the stock exchange, selected as a component of the JPX-Nikkei Index 400 in 2015 and of the JPX-Nikkei Mid and Small Cap Index in 2016.

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## Company overview

**History**

Date	Main events
Oct. 1997	Established Nikkei Prestige Co., Ltd.
Oct. 1997	Obtained real estate broker license from the Governor of Osaka
Nov. 1998	Sold Pressance Namba Higashi, the first building carrying the company's brand
Dec. 1998	Founded Pressance Community Co., Ltd. (currently Pacific Co., Ltd.), to offer building management and insurance agency services
June 1999	Created Nikkei Assist Co., Ltd. (now Pressance Jyuhan Co., Ltd.), to sell family condominiums
June 1999	Started offering rental property management services
July 2000	Sold Pressance Shinsaibashi EAST, the first property that the company had itself developed
Apr. 2002	Renamed Pressance Corporation
May 2003	Sold Pressance Nagoya-jo Mae, the first property that the company developed itself in the Tokai region
Feb. 2005	Opened the Nagoya Sales Center
July 2005	Elevated Nagoya Sales Center to branch status
Dec. 2007	Listed on the Second Section of the Tokyo Stock Exchange
Aug. 2008	Established Room Pro Co., Ltd. (now Pressance Realta Co., Ltd.), to sell and broker existing condominiums
Dec. 2008	Opened a Tokyo branch
Oct. 2013	Listed on the First Section of the Tokyo Stock Exchange
Apr. 2014	Acquired a stake in construction firm Tryst Co., Ltd., making it a subsidiary
Aug. 2014	Set up Pressance Guarantee Co., Ltd., to offer rent guarantee services
Aug. 2015	Established Pressance Real Estate Co., Ltd., as a real estate solutions consultancy
Aug. 2015	Included in the JPX-Nikkei Index 400
Sep. 2016	Founded PROSEHRE Co., Ltd. in order to participate in real estate development projects in ASEAN and neighboring countries
Nov. 2016	Acquired all shares of Sanritsu precon Co., Ltd. and made it a subsidiary
Dec. 2016	Selected as a component stock of the JPX-Nikkei Mid and Small Cap Index
Jan. 2017	Designed as loan margin trading issue
Apr. 2017	Acquired all shares of Sanritsu precon Co., Ltd. and made it a wholly-owned subsidiary Lala place Co., Ltd.

Source: Prepared by FISCO from Company materials

### 3. Business breakdown

Pressance mainly develops and sells studio as well as family condominiums. Both businesses involve building construction and sales of condominiums. Studio condominium sales, a core business since its foundation, booked 1,638 units sold and generated 25.5% of total sales in 1H FY3/'19. Studio condominiums are 20-50 square meters at highly convenient location within five minutes on foot from major train stations in central urban areas under the Pressance brand. Customers purchase studio condominiums for investment purposes as their financial assets in general, and main customers are ordinary salaried employees with stable income in addition to wealthy professionals.

Family condominium sales booked 1,639 units and provided 53.1% of 1H FY3/'19 sales. Family condominiums are 50-100 square meters at location with attractive environments located within 10 minutes on foot from major train stations under Pressance Loger and other brands. Subsidiary Pressance Jyuhan Co., Ltd. manages sales of family condominiums.

The third-largest business is condominium building sales, in which Pressance develops buildings of studio condominiums and sells them to other condominium retailers in bundles. This accounted for 6.3% of total sales of 1H FY3/'19. The Company added hotel property sales as a new segment in FY3/'18, focusing on developing and selling business hotels. A completion rush in FY3/'19 led to delivering 980 units sold, increasing significantly to generate 15.1% of total sales. Other businesses include a real estate rental business that handles self-developed and owned properties, a building management business, rental property management business and an insurance agency. Contribution of these businesses to total sales is subtle.

## Company overview

## Business lineup in 1H FY3/'19 results and full-year forecast

Business segment	Business description	FY3/'19 forecast		1H FY3/'19 results		
		Net sales (¥mil)	Composition (%)	No. of units sold	Net sales (¥mil)	Composition (%)
Real estate sale business (main segment)	Studio condominium sales	41,951	29.0%	1,638	29,780	25.5%
	Family condominium sales	74,027	51.2%	1,639	61,985	53.1%
	Condominium building sales	13,083	9.1%	503	7,392	6.3%
	Hotel property sales	15,429	10.7%	980	17,625	15.1%
<b>Total</b>		<b>144,490</b>	<b>100.0%</b>	<b>4,760</b>	<b>116,784</b>	<b>100.0%</b>

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

## Market trends

**In spite of uncertainty in the market for property investment by individuals due to multiple incidents of fraudulent conduct by other companies, there was no direct impact on the Company's studio condominium business because of its supply to central urban areas**

### 1. Impact of incidents of fraudulent conduct by other companies on the market for property investments by individuals

Multiple incidents of fraudulent conduct by other companies occurred in the property investments by individuals market in 2018 and have made the market skeptical about the overall market. Specific examples include the bankruptcy of Smart Days Inc. (Chuo Ward, Tokyo), which offered investments on the Kabocha No Basha shared house, in May, accompanied by inappropriate lending by SURUGA bank Ltd. <8358> for related loans. Another example is TATERU, Inc.'s <1435> falsification of customer (individual investor) deposit balances. Although the Company's studio condominium business seems to be similar from the viewpoint of property investments by individuals, financial institutions lending to buyers (individuals) and the value of investing properties are significantly different. We should review this difference in more detail below.



Market trends

**2. Financial institutions: Regional banks vs. non-banks**

Fraudulent conduct by other companies (falsification of loan review documents, etc.) occurred in real estate investments in apartment buildings located in suburbs with loans supplied by regional banks including SURUGA bank. Loans in TATERU's case were provided primarily by The Saikyo Bank, Ltd. (headquarters in Shunan City, Yamaguchi Prefecture). Regional banks surprisingly have much less experience with loans for real estate investment while low interest rates pressured financial institutions to find new borrowers. This situation led to inconsistency in the adequacy of loan review standards supported by past loan data among financial institutions. Many financial institutions are applying stricter review standards and lending terms since the fraudulent conduct by other companies. As a result, the new lending balance for apartment loans\*1 tends to be lower recently. On the other hand, non-bank financial institutions (ORIX Bank Corporation\*2, JACCS Co., Ltd. <8584>, and Credit Saison Co., Ltd. <8253>) provide loans for individual investors in the Company's studio condominium business. ORIX Bank and JACCS have been supplying loans for property investments by individuals since the 1970s and accumulated substantial amounts of lending data. They hence had already applied very strict review standards even before the incidents. Their review standards or lending terms have not changed since the fraudulent conduct by other companies. In fact, their aggressive lending stance stands out in new products (45-year loans, loans covering 105% of property cost, etc.)

\*1 According to the Japanese Bankers Association, the loan balance rose ¥71.9bil from end-June to end-October in 2017 while it declined ¥20.3bil from end-June to end-October in 2018.

\*2 ORIX Corporation <8591> has ORIX Bank in its group, but we include this entity with non-banks here because of its track record of studio condominium loans over many years.

**Financial institution moves**

	Buildings (apartments, etc.)	Studio condominium units
<b>Financial institutions providing loans</b>	Regional banks, etc.	Non-banks, etc. JACCS ORIX Bank Credit Saison
<b>Investment amount per property</b>	Roughly ¥100mil	About ¥15-20mil
<b>Loan track record of financial institutions</b>	Relatively short Ramp-up since the Lehman shock	Relatively long Set clear lending terms using abundant data (customer attribute, property value and content)
<b>Changes in review standards and loan terms</b>	Applying tougher review standards and loan terms (income, upfront funds, job, asset holdings, etc.)	No revisions to review standards or loan terms
<b>Recent loan balance</b>	Tend to be lower	Unchanged Actually offering aggressive financing with new products Ex.) Started 45-year loans Ex.) Started 105% loans of the property purchase price

Source: Prepared by FISCO from the Company's information, interviews, etc.

**3. Real estate companies: Newcomers vs. longstanding firms**

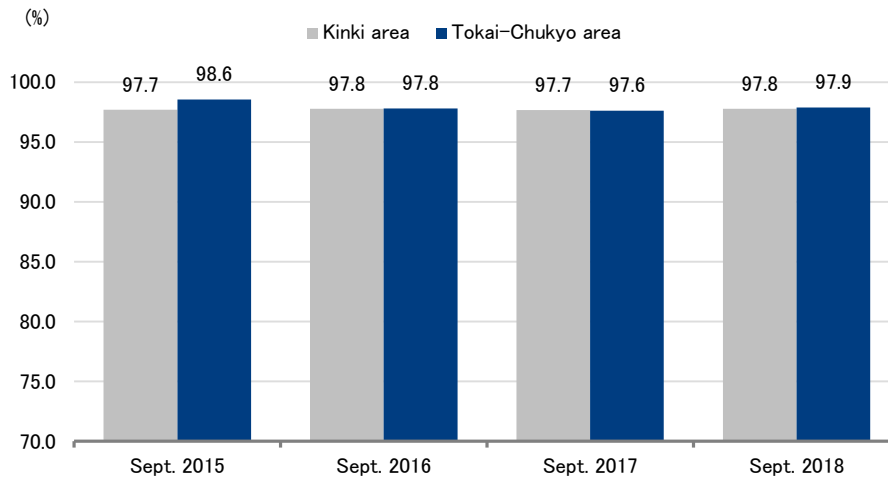
Companies involved in the incidents of fraudulent conduct by other companies share the trait of being newcomers. Smart Days, which went bankrupt, was founded in 2012, and Investors Cloud, the predecessor to TATERU, was established in 2006. Both companies were relatively young. While not always the case, younger companies are prone to facing problems arising from insufficient compliance operations and employee training. The Company has reached an appropriate compliance level during a history of over 20 years. It uses well-established checks to prevent irregularities in the business process as an independent department from the sales division handles loan applications with financial institutions.

Market trends

**4. Location and properties: Rural and suburban apartments vs. central urban condominiums**

The fraudulent conduct occurred on loans for investments in rental apartments (including shared houses) in rural and suburban areas. Population in rural and suburban areas obviously tends to decrease, and this trend causes lowers occupancy rates. Then it becomes harder to obtain profits on rental properties, resulting in stricter lending standards. Fraudulent conduct by other companies stemmed from excessive pursuits to grant loans. On the other hand, occupancy rates of condominiums in central urban areas has been stable at high levels since more people are willing to move into convenient central urban areas even though the population is aging. The Company's studio condominiums are located within five minutes on foot from major city-center train stations and have stably maintained occupancy rates of 97-98% (most of them are built, sold and managed by the Company) in Kansai and Tokai-Chukyo areas.

**Trends in occupancy rates at studio condominiums rented and managed by the Company**



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

As this indicates, significant differences exist in the property investment market based on whether sites are located in rural and suburbs or in central urban areas or whether the properties are single-building apartments or condominium units. It is not possible to make a uniform assessment of the market. In fact, the Company's studio condominium sales have remained upbeat even after the incidents of fraudulent conduct by other companies. There are also discrepancies in financial institution and customer (individual property investor) trends. Financial institutions appear to be promoting stricter reviews and selection of property companies. While interest in and appetite for property investments has not changed since the discovery of these incidents, individual investors are taking a closer look at developers amid heightened concerns about the trustworthiness of real estate companies. The Company is the market leader for city-based studio condominiums and stands out in product offerings, reassurance (trust), and recognition (brand). This makes the Company a preferable choice of both financial institutions and real estate investors.

## Results trends

### Posted sharply higher sales and profits (YoY) in 1H FY3/'19 in line with the initial forecast skewed toward 1H

#### 1. Financial results for 1H FY3/'19

For 1H FY3/'19, Pressance reported net sales of ¥121,350mil (+83.2% YoY), operating profit of ¥25,777mil (+134.6%), ordinary income of ¥25,583mil (+138.5%), and net profit attributable to owners of parent of ¥17,402mil (+140.4%), with significant YoY growth for sales and earnings in line with the initial forecast.

In sales, the Company sold 1,638 studio condominiums (+26.0% YoY), a healthy result, and 1,639 family condominiums (+141.0%), sharply higher than the previous year's result. Building sales fell 38.9% to 503 units, as planned. Hotel sales dramatically increased to 980 units (+1,261.1%) in the second year of business. The initial sales forecast called for concentration of property deliveries through 2Q (targeting ¥111,573mil), and actual sales exceeded this level by 8.8%.

The cost of sales ratio dropped 1.2 percentage point YoY to 71.5% due to the differences in product mix and other factors. While SG&A expenses (primarily sales fees and personnel costs) rose by ¥1,658mil, sales growth had a larger effect so that the SG&A expenses ratio declined by 3.6 percentage points to 7.2%. These trends supported a 21.2% operating margin and put operating profit at 16.2% more than the 1H plan.

#### Business results for 1H FY3/'19

	1H FY3/'18		1H FY3/'19		YoY
	Results	Composition	Results	Composition	
Net sales	66,241	100.0%	121,350	100.0%	+83.2%
Cost of sales	48,127	72.7%	86,788	71.5%	+80.3%
Gross profit	18,114	27.3%	34,562	28.5%	+90.8%
SG&A expenses	7,126	10.8%	8,784	7.2%	+23.3%
Operating profit	10,987	16.6%	25,777	21.2%	+134.6%
Ordinary income	10,726	16.2%	25,583	21.1%	+138.5%
Net profit attributable to owners of parent	7,239	10.9%	17,402	14.3%	+140.4%

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

### Expanding asset scale while retaining financial soundness

#### 2. Financial position and management indicators

Total assets were ¥261,600mil, a YoY increase of ¥16,201mil. The main contributors were increases of ¥15,031mil in current assets and ¥20,724mil in cash and deposits. Healthy condominium deliveries led the advances. Real estate for sale and real estate for sale in process, which are barometers of future sales, remained at a high level of ¥187,698mil.

## Results trends

Total liabilities decreased by ¥3,301mil YoY to ¥166,924mil. The main factors were the decreases in current liabilities of ¥10,969mil, in advances received of ¥6,035mil due to increased sales and in short-term loans payable of ¥4,892mil. Non-current liabilities increased by ¥7,667mil. The main factors were the increase in long-term loans of ¥10,507mil and the decrease in bonds with subscription rights to shares of ¥2,900mil.

In management indicators, the current ratio is 428.2%, significantly higher than the 200% threshold for short-term soundness. The 35.5% equity ratio is on par with the industry average. These values show that the Company maintains financial soundness despite achieving strong growth with emphasis on procurement.

## Consolidated balance sheet and management indicators

	(¥mil)		
	As of March 31, 2018	As of September 30, 2018	Change
Current assets	227,161	242,193	15,031
Cash and deposits	31,374	52,098	20,724
Real estate for sale	11,275	17,737	6,461
Real estate for sale in process	180,461	169,961	-10,500
Non-current assets	18,237	19,407	1,169
<b>Total assets</b>	<b>245,399</b>	<b>261,600</b>	<b>16,201</b>
Current liabilities	67,537	56,567	-10,969
Advances received	12,492	6,456	-6,035
Short-term loans payable	7,965	3,073	-4,892
Non-current liabilities	102,689	110,357	7,667
Bonds with subscription rights to shares	6,400	3,500	-2,900
Long-term loans	95,621	106,129	10,507
<b>Total liabilities</b>	<b>170,226</b>	<b>166,924</b>	<b>-3,301</b>
<b>Total net assets</b>	<b>75,172</b>	<b>94,675</b>	<b>19,503</b>
<b>Total liabilities and net assets</b>	<b>245,399</b>	<b>261,600</b>	<b>16,201</b>
Stability			
Current ratio (current assets/current liabilities)	336.4%	428.2%	-
Equity ratio (shareholders' equity/total assets)	29.8%	35.5%	-

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

## Future outlook

### Making healthy progress toward exceeding ¥150bil in FY3/'19 sales and ninth consecutive increase in profit, already secured 98.9% of the full-year sales target in the condominium business

Pressance retained FY3/'19 consolidated forecast of ¥152,471mil in net sales (+13.7% YoY), ¥24,541mil in operating profit (+20.5%), ¥23,661mil in ordinary income (+19.2%) and ¥16,132mil in net profit attributable to owners of parent (+17.3%). Fulfillment of the forecast means sales at over ¥150bil for the first time and nine consecutive years of double-digit profit growth as well as all-time high results.

## Future outlook

The Company expects healthy growth in sales of family condominiums, the largest segment, to ¥74,027mil (+4.0% YoY). In 1H, it reached 83.7% of the full-year target on smooth deliveries of units at Legend Biwako and other properties. It projects a steep rise in sales of studio condominiums to ¥41,951mil (+41.2% YoY), and its sales result was at 71.0% of the target in 1H as a result of steady deliveries of units at Pressance Itachibori Park City and other locations. It forecasts hotel sales at ¥15,429mil (+462.3% YoY) with a surge of completions, but already exceeded the full-year target at 114.2% by delivering a property scheduled in FY3/'20, an early sale, and also finishing all sales planned for the year.

Sales results reached 79.6% of the full-year target through 1H. Counting orders too, the Company has secured 98.9% of the FY3/'19 sales target (¥144,492mil) for the condominium sales business (¥142,897mil; results + orders). It is just a matter of time until it completes the plan. Profit results already exceeded 100% of targets in 1H. We expect only little change in 2H profit from the initial forecast.

## Outlook for FY3/'19 consolidated earnings

	FY3/'18		FY3/'19			
	Results	Composition	Forecast	Composition	YoY	1H progress rate
Net sales	134,059	100.0%	152,471	100.0%	+13.7%	79.6%
Operating profit	20,362	15.2%	24,541	16.1%	+20.5%	105.0%
Ordinary income	19,858	14.8%	23,661	15.5%	+19.2%	108.1%
Net profit attributable to owners of parent	13,757	10.3%	16,132	10.6%	+17.3%	107.9%

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

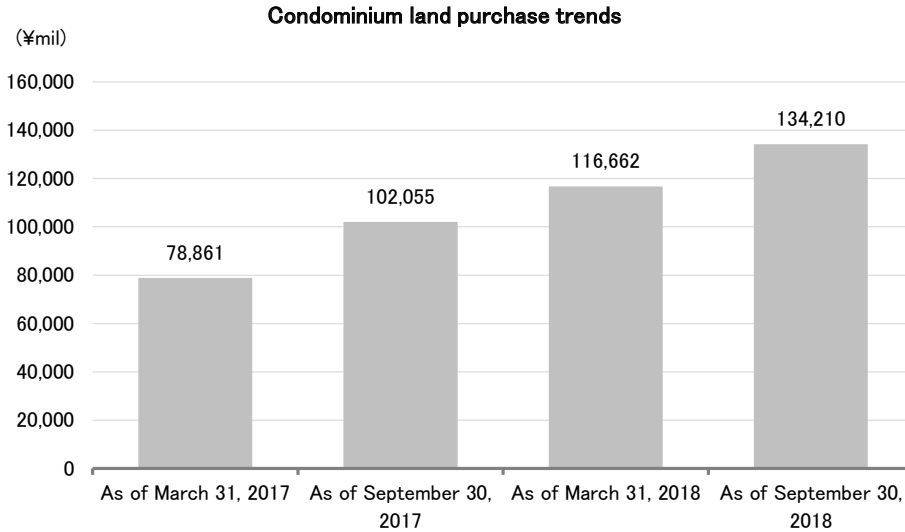
## Medium-/long-term topics

### Building Osaka's first residential accommodations property near JR Shin-Imamiya Station

#### 1. Progress on land acquisitions: Already purchased condominium lands for the next three years of business

The Company has continued to aggressively purchase land for condominium properties and boosted land holdings (inventory assets) from ¥78,861mil at the end of March 2017 to ¥134,210mil at the end of September 2018. It has been able to steadily acquire properties every fiscal year and has thereby strengthened prospects of future growth. Land holdings viewed by property type show 9,159 studio condominium units and 7,312 family condominium units. The Company thus has already acquired land to support three year worth of business in these segments. It has also purchased land for 3,116 units for building sales and 1,460 units for hotel sales, lasting through FY3/'21. While the Company utilizes loans from financial institutions for procurement, their lending stances toward the Company have remained the same so that there are no issue in securing funds to expand business. In addition to capital resources, its capabilities to gather land information facilitate aggressive procurement. In addition to quick decision making, the Company has built a competitive advantage in acquiring land information from local real estate brokers as the companies had kept purchasing lands even during the Lehman shock period and later on.

Medium-/long-term topics



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

## 2. Building the first residential accommodations property in Osaka

The Company is building a property for residential accommodations on the north side of Shin-Imamiya Station in Osaka City. In Japan, the new Residential Accommodation Business Act took effect in June 2018 and limits residential accommodation usage up to 180 days a year. However, Osaka city has been permitted as one of the special districts in which residential accommodations can be operated 365 days a year, requiring a minimum two night stay. This is the first new construction of a residential accommodations property in Osaka. Development of lodging facilities that target expanding inbound tourist demand, and the area around Shin-Imamiya Station offer excellent access to Kansai International Airport, the Minami area and other tourist spots in Kansai area with connections to multiple train lines, including the JR Osaka Loop Line and the Nankai Main Line. Hoshino Resorts and other developers are planning hotels in the area. These developments are transforming the area from a low-income earners' residential area in past. The Company's project for a residential accommodations consists of a nine-story building with 48 rooms on a roughly 430 square-meter site at a convenient location near JR Shin-Imamiya Station. Under its business model as a real estate developer, the Company plans to lease the building to an operation company that possesses residential accommodations knowhow and operates an accommodation business. The Company's risk management is well-established, preparing a contingency plan in which its basic design allows for conversion to condominiums in case of a change in supply-demand trends because this is a new business. The Company will not engage in residential accommodations business at any existing or new residential condominium properties.

## Shareholder return policy

### Expecting accelerated dividend hikes by “raising the dividend payout” and “increasing total dividend amount”

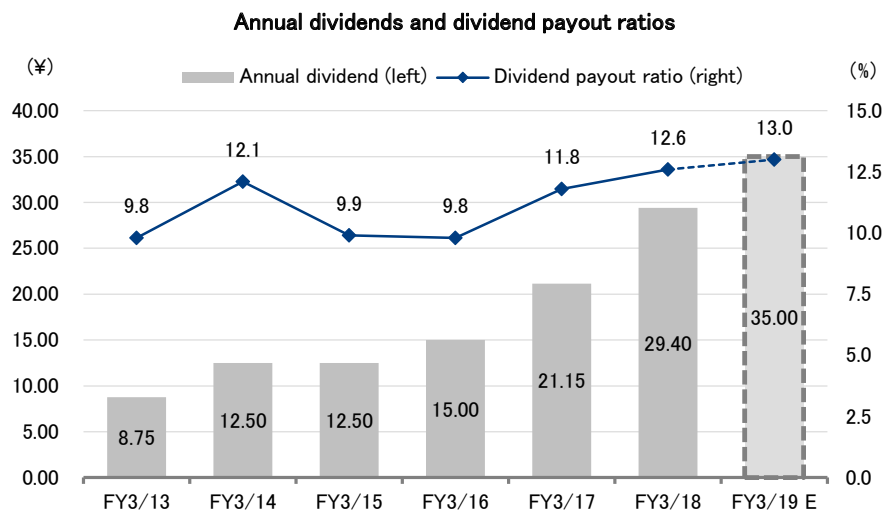
The Company has steadily raised the dividend for the past years based on a policy of “expansion of funds available to pay dividends through achievement of at least 10% operating profit growth (YoY) each year.” The Company added the following two new policies in the medium-term business plan announced at the beginning of FY3/’19.

- 1) Steadily raising the payout ratio to 20% within the next five years
- 2) Increasing total dividend amount by at least 15% YoY

These policies are expected to accelerate the pace of increasing dividend over the medium term.

The 1H FY3/’19 dividend was ¥17.50 on track with the initial forecast. The Company also plans to pay a dividend of ¥17.50 at the end of FY3/’19 and thus ¥35.00 for the full year (¥17.50 at end-1H, ¥17.50 at end-2H). This works out to an estimated 13.0% payout ratio.

As a shareholder benefit, the Company gives a VJA Gift Card corresponding to ¥2,000 (face value of ¥1,000 x 2) to shareholders who own at least 100 and less than 400 shares at the end of the fiscal year (end-March) and ¥5,000 (face value of ¥1,000 x 5) to shareholders who own 400 shares or more. While it has not changed the terms or values, the Company switched from money ticket to a gift card in response to requests from numerous shareholders.



Note: Implemented a 4-for-1 stock split on October 1, 2016  
 Source: Prepared by FISCO from the Company's financial results



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