Pressance Corporation Co.,Ltd.

3254 Tokyo Stock Exchange First Section

18-Apr.-16

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The Biggest Condominium Supplier in the Kinki, Tokai, and Chukyo Regions

Pressance Corporation <3254> is an independent developer of family and studio condominiums. It is the biggest supplier in the Kinki region and Tokai-Chukyo regions. The company offers the Pressance Series of condominiums, conveniently located less than 10 minutes' walk from central railway stations and using a proprietary design and development. Another strength is a highly motivated sales force, which is why so few of the company's units typically remain unsold. Pressance has grown steadily since its establishment in 1997. It listed on the Second Section of the Tokyo Stock Exchange in 2007. Having suffered little from the Lehman Brothers bankruptcy, the company listed on the First Section of that stock market in 2013.

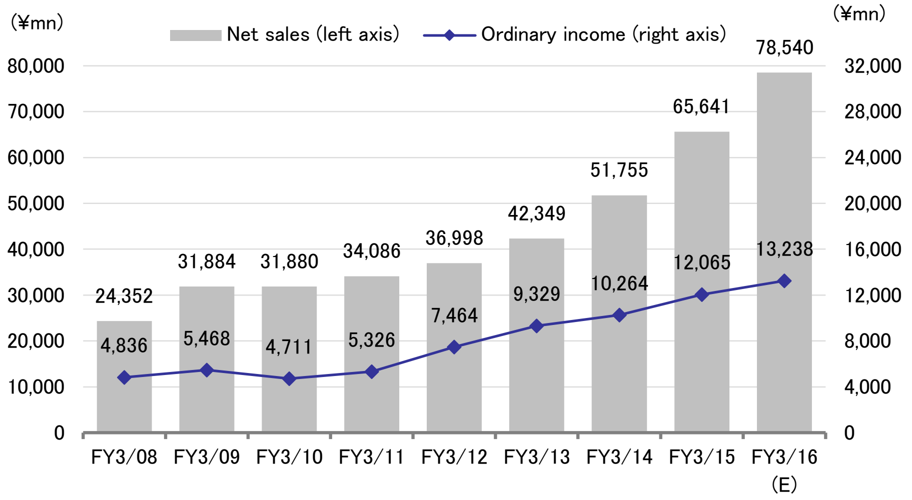
Pressance is performing solidly. In Q3 FY3/16 (April through December 2015), net sales were up 21.8% YoY to ¥69,846mn. Ordinary profit rose 17.7% to ¥14,270mn. The main driver of the real estate sales business was the expansion of family and studio condominiums in three major regions, centered in the Kinki region. For the full year, management has retained its forecasts of net sales of ¥78,540mn (up 19.7% YoY) and recurring profit of ¥13,238mn (up 9.7%). Through Q3, Pressance reached 88.9% of its full-year target for net sales and surpassed the annual profit targets. The company is thus well on the way to posting revenue and earnings gains for the sixth straight year. The stock's inclusion in the JPX-Nikkei Index 400 in August 2015 testifies to the company's solid profitability and financial position.

Management aims to boost operating profit more than 10% annually over the medium term. This seems realistic, as the average gain over the seven years through FY3/15 was 13.9%. If converted into condominium numbers, real estate for sale in progress at the end of December 2015 represented 4,476 family condominiums (3.2 years worth in terms of the target for FY3/16, 4,408 studio condominiums (3.1 years in terms of that target), and sales of 2,352 units in entire buildings (5.8 years in terms of that target). This illustrates that the company is making steady forward investments to drive growth. Management has decided to use some condominium sites to build hotels in keeping with a decision to enter that arena that should start bearing fruit from FY3/18.

Check Point

- Family condominiums sales are a mainstay for the company, which markets its brand in highly attractive locations
- Having a highly motivated sales force means a minimal inventory of unsold units, enabling the company to quickly recoup its investments
- Management has pushed ahead with forward acquisitions of land, particularly in the Kinki region and Tokai-Chukyo regions

Consolidated Full-Year Business Results



Source: Earning release

Company Overview

Family condominiums sales are a mainstay for the company, which markets its brand in highly attractive locations

(1) 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 Pressance Corporation in April 2002. The company thereafter diversified into peripheral areas. It began offering building management and insurance agency services in 1998. It started selling family condominiums and offering real estate rental management services in 1999. Early in the previous decade, Pressance began developing properties itself, extending sales to the Tokai and Kanto regions. The company started brokerage and mediation for existing condominiums in 2008. It established subsidiaries in 2014 to enter the construction and rent guarantee businesses. Although the real estate industry suffered greatly from September 2008 in the aftermath of the Lehman Brothers bankruptcy, the company maintained its performance, becoming a solid player just behind the leading pack in the condominium business. Pressance listed on the Second Section of the Tokyo Stock Exchange in 2007 and on the First Section in 2013.

Major 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. (now 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 real estate rental 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

Sources: Annual securities report and other materials

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(2) Business Overview

Family condominiums are a mainstay for Pressance, accounting for 60.2% of net sales. The company offers condominiums under the Pressance Loger and other brands. The units range from 50 to 100 square meters and are located within 10 minutes' walk of major railway stations in locations with pleasant environments. Subsidiary Pressance Jyuhan Co., Ltd., oversees sales. The next biggest segment is sales of studio condominiums, which has been a core business since foundation, representing 26.4% of net sales. The company offers these condominiums under the Pressance brand. The units range from 20 to 50 square meters and are conveniently located within five minutes' walk of major railway stations. Since these studio condominiums are bought for the purpose of asset management, the company is targeting high-income, high-net-worth individuals. The entire building sales business entails wholesale selling of Pressance-developed condominiums. This business accounts for 5.8% of net sales. Other businesses include rentals of Pressance-developed properties, constituting 3.5% of net sales. In Q3 FY3/16, the company supplied 2,859 units nationwide. This included 1,911 units in the Kinki region, the company's stronghold, 776 in the Tokai and Chukyo regions, where it has solid presences, 122 in Okinawa, and 50 in metropolitan Tokyo, where the company is building a position.

Business Breakdown in Q3 FY3/16 (Cumulative)

Business segment	Business description	Sales volume (number of units)	Sales (¥mn)	Sales composition (%)
Real estate sales business	Family condominium sales	1,345	42,020	60.2%
	Studio condominium sales	1,153	18,477	26.4%
	Entire building sales	330	4,053	5.8%
	Other real estate sales	-	1,743	2.5%
	Other housing sales	31	881	1.3%
	Peripheral businesses	-	225	0.3%
Other businesses	Rental of company's properties, etc.	-	2,444	3.5%
Total		2,859	69,846	100.0%

Source: Earning release

(3) Condominium Market Trends

A total of 78,089 condominiums went on the market in major cities around Japan in calendar 2015, down 6.1% YoY. In the company's key Kinki region, 18,930 units were offered, up 0.6% YoY. The average condominium price nationwide was ¥46.18mn, up 7.2% YoY, which was the highest level since price surveys began in 1973. Unit prices continued trending upward, jumping 9.1% in metropolitan Tokyo and rising 3.9% in the Kinki region. Excessive increases in Tokyo are a concern for the health of the market.

Condominium Unit Sales and Prices

	Number of condominiums sold			Condominium prices		
	2014 (Units)	2015 (Units)	Change (%)	2014 (¥10,000)	2015 (¥10,000)	Change (%)
Metropolitan Tokyo	44,913	40,449	-9.9	5,060	5,518	9.1
Kinki region	18,814	18,930	0.6	3,647	3,788	3.9
Other regions	19,478	18,710	-3.9	3,204	3,512	9.6
Nationwide	83,205	78,089	-6.1	4,306	4,618	7.2

Source: Real Estate Economic Institute Co., Ltd.'s materials, FISCO

Solid sales capabilities mean a minimal inventory of unsold units, enabling the company to quickly recoup its investments

(4) Competitive Position

Pressance is a leading condominium supplier in the market. In the Kinki region, it ranked first for the sixth straight year in 2015 in that respect. It was first for four consecutive years through 2015 in the Tokai and Chukyo regions. The company rose to sixth place nationwide that year, rising compared to 2014. The company climbed up the rankings for two key reasons. One is that it has been able to acquire land because it has built solid trust with local real estate agents in the Kinki, Tokai, and Chukyo regions. Another is that it has been able to supply condominiums that match customer needs at appropriate prices. It is worth noting that Pressance family condominiums average unit price of ¥31.2mn, against a national market average of ¥46.1mn and an average of ¥37.8mn in the Kinki region.

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Condominium Supply Rankings in 2015 by Region

Rank	Rankings in Kinki region	Number of units supplied
1	Pressance Corporation	1,669
2	Nihon Eslead	1,377
3	Sumitomo Realty & Development	915
4	Nomura Real Estate Development	856
5	Wada Kousan	838
6	Kintetsu Real Estate	775
7	Nissho Estem	709
8	Tokyu Land	659
9	Mitsubishi Jisho Residence	610
10	Hankyu Realty	595

Rank	Rankings in Tokai and Chukyo regions	Number of units supplied
1	Pressance Corporation	695
2	Nomura Real Estate Development	374
3	Daiwa House Industry	342
4	Daikyo	298
5	Yahagi Jisyo	287
6	Marimo	286
7	Takara Kotsu	234
8	Mitsui Fudosan Residential	201
9	Shizuoka Railway	181
10	Toray Construction	163

Rank	Nationwide rankings	Number of units supplied
1	Sumitomo Realty & Development	5,398
2	Nomura Real Estate Development	4,556
3	Mitsui Fudosan Residential	4,308
4	Mitsubishi Jisho Residence	4,005
5	Daiwa House Industry	2,770
6	Pressance Corporation	2,512
7	Tokyu Land	1,838
8	Tokyo Tatemono	1,501
9	Daikyo	1,440
10	Takara Leben	1,399

Source: Real Estate Economic Institute Co., Ltd.'s materials

(5) Strengths and Edge

Pressance started out by selling studio condominiums, and the solid clout of its sales department underpins the company. It fosters internal competition throughout the department to focus on selling each property within certain timeframes, boosting salesperson morale. One factor enhancing the company's marketing strength is its expert, careful attention to specifications and other details to sell only its own developed and branded condominiums. A minimal inventory of unsold condominiums enables Pressance to recoup its investments quickly, contributing to a virtuous financial cycle. Pressance is outstanding in its industry by two key measures as of FY3/15. One is the equity ratio, at 43.9% at the end of that term. The other is the recurring profit margin, which was 18.4%. Pressance's inclusion in the JPX-Nikkei Index 400 in August 2015 attests to the company's financial strength. Such solidity makes the company confident about buying land and gives it an edge in negotiating with financial institutions and general contractors. Management focuses on maintaining asset values over the long term, which is why it requires properties to be located no more than 10 minutes' walk from major railway stations. The company is well versed in developing condominiums offering high cost performance by providing attractive features at reasonable prices due to use of proprietary design and development.

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Pressance's Strengths and Edge

(1) Sales
- Proprietary centralized sales methodology
- Markets only one brand
- Minimal unsold inventory

(2) Financials
- Healthy financial position
- Negotiating clout with general contractors
- Favorable borrowing terms from banks

(4) Products
- Reasonable prices
- High cost performance
- In-house planning and development

(3) Locations
- Kinki region and Tokai-Chukyo regions
- Urban focus
- Proactive land purchasing

Performance Trends

Set to boost revenues and earnings in 3Q FY3/16 on sales growth in three major cities, centered in the Kansai area

○Q3 FY3/16 results

Pressance posted record revenues and earnings in Q3 FY3/16. Net sales increased 21.8% YoY to ¥69,846mn. Operating income climbed 17.7% to ¥14,418mn, ordinary income was also up 17.7% to ¥14,270mn, and income attributable to owners of the parent gained 21.6% to ¥9,502mn. The main drivers were the real estate sales business's sales of family and studio condominiums in three major regions, centered in the Kinki region.

Business Results for Q3 FY3/16

	Q3 FY3/15		Q3 FY3/16		
	Results (¥mn)	% of net sales (%)	Results (¥mn)	% of net sales (%)	y-o-y (%)
Net sales	57,342	-	69,846	-	21.8
Cost of sales	39,327	68.6	48,611	69.6	23.6
Gross profit	18,015	31.4	21,235	30.4	17.9
SG&A expenses	5,763	10.1	6,817	9.8	18.3
Operating income	12,252	21.4	14,418	20.6	17.7
Ordinary income	12,125	21.1	14,270	20.4	17.7
Net income attributable to owners of the parent	7,814	13.6	9,502	13.6	21.6

Source: Earning release

○Full-year outlook

For the whole of FY3/16, management looks to increase net sales 19.7% to ¥78,540mn, operating income 10.0% to ¥13,492mn, ordinary income 9.7% to ¥13,238mn, and income attributable to owners of the parent 13.4% to ¥8,794mn. Through Q3, Pressance reached 88.9% of its full-year target for net sales and surpassed profit targets, progressing steadily. It should be noted that the company's sales targets are all linked to individual properties, so there is little likelihood of sales climbing even higher because the number of properties delivered will not change.

FY3/16 Full-year Consolidated Results Forecast

	FY3/15 full year	FY3/16 full year (forecast)		Q3 FY3/16	
	Results (¥mn)	Plan (¥mn)	Change (%)	Results (¥mn)	Progress rate (%)
Net sales	65,641	78,540	19.7	69,846	88.9
Operating income	12,262	13,492	10.0	14,418	106.9
Ordinary income	12,065	13,238	9.7	14,270	107.8
Net income attributable to owners of the parent	7,758	8,794	13.4	9,502	108.1

Source: Earning release

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○**Financial position**

Total assets stood at ¥106,215mn at the end of December 2015, up ¥4,666mn from the end of FY3/15. This was due largely to cash and deposits rising ¥3,055mn to ¥23,998mn. Real estate for sale was ¥3,861mn, up ¥1,259mn, demonstrating the company's ability to minimize unsold condominium numbers.

Total liabilities were ¥55,624mn, down ¥1,292mn compared to the end of FY3/15. The main factor was a ¥9,001mn decline in current liabilities. This was mainly due to a ¥7,708mn increase in non-current liabilities, largely caused by an increase in long-term loans. Borrowing is trending toward the long-term.

The company's financial position was even healthier at the end of December 2015. The current ratio was 507.9%, from 328.4% a year earlier. The equity ratio was 47.5%, up from 43.9%.

Consolidated Balance Sheet and Management Indicators

(¥mn)

	End-March 2015	End-December 2015	Change
Current assets	94,070	99,777	5,707
(Cash and deposits)	20,942	23,998	3,055
(Real estate for sale)	2,602	3,861	1,259
(Real estate for sale in progress)	68,854	70,341	1,487
Non-current assets	7,478	6,438	-1,040
Total assets	101,549	106,215	4,666
Current liabilities	28,647	19,646	-9,001
Non-current liabilities	28,269	35,977	7,708
Total liabilities	56,916	55,624	-1,292
Total net assets	44,632	50,591	5,959
Total liabilities and net assets	101,549	106,215	4,666
<Stability>			
Current ratio (current assets ÷ current liabilities)	328.4%	507.9%	-
Equity ratio (equity ÷ total assets)	43.9%	47.5%	-

Source: Earning release

Growth Strategy

Management has pushed ahead with forward acquisitions of land of suitable properties, particularly in the Kinki region

○**Medium-term earnings targets**

Pressance maintains a policy of not disclosing specific numerical targets, as it does not have a policy encompassing medium- and long-term targets. This is because management wishes to be able to respond flexibly to changes in the business climate. That said, we think that the company looks to boost operating profit by more than 10% annually on average in the absence of extraordinary factors that might cloud the operating environment. Such a target would seem realistic given that operating profit grew an average 13.9% in the seven years through FY3/15. It is worth noting that the Lehman Brothers bankruptcy and the Great East Japan Earthquake occurred during that time, so the period was not particularly favorable for condominium developers.

○**Balance of real estate for sale in progress**

Securing land is vital for a condominium developer, so currently rising prices in suitable properties in the Tokyo are a concern. Pressance drew on its ample internal reserves to make forward acquisitions of land in the Kinki region for condominiums. At the end of December 2015, real estate for sale in progress was ¥70,341mn, while real estate for sale was ¥3,861mn. After subtracting prior construction costs from the aggregate of those two figures, acquired land assets were ¥56,846mn. If converted into condominium numbers, real estate for sale in process at the end of December 2015 represented 4,476 family condominiums (3.2 years worth in terms of the target for FY3/16, 4,408 studio condominiums (3.1 years in terms of that target), and sales of 2,352 units in entire buildings (5.8 years in terms of that target). The key enablers for such extensive land purchases are the company's solid financials and information access. Pressance's other strengths include it continuing to acquire land even during the Lehman Brothers bankruptcy and its swift assessments and responsiveness, enabling the company to benefit from securing primary information from local realtors.

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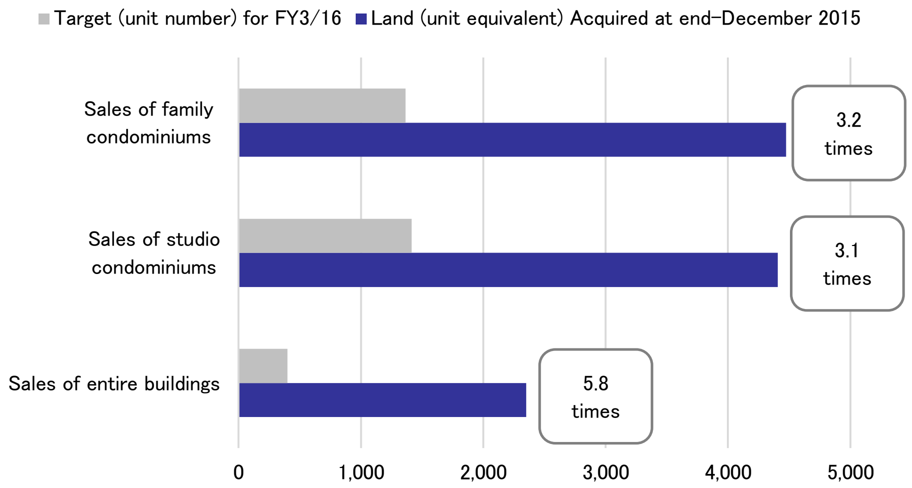
Acquired Land



Source: FISCO, based on company's materials

○**Hotel business initiatives**

Rises in the number of inbound tourists has created severe shortages of hotels, including in the Kinki region. Management accordingly decided to repurpose acquired land near key railway stations in Osaka and Kyoto that could generate higher earnings as hotels. Four properties are already on track for completions (two in Osaka and one in Kyoto in FY3/18 and another in Osaka in FY3/19). The company plans to sell these properties to hotel operators. Over the medium and long terms, management looks to also own and run such facilities.

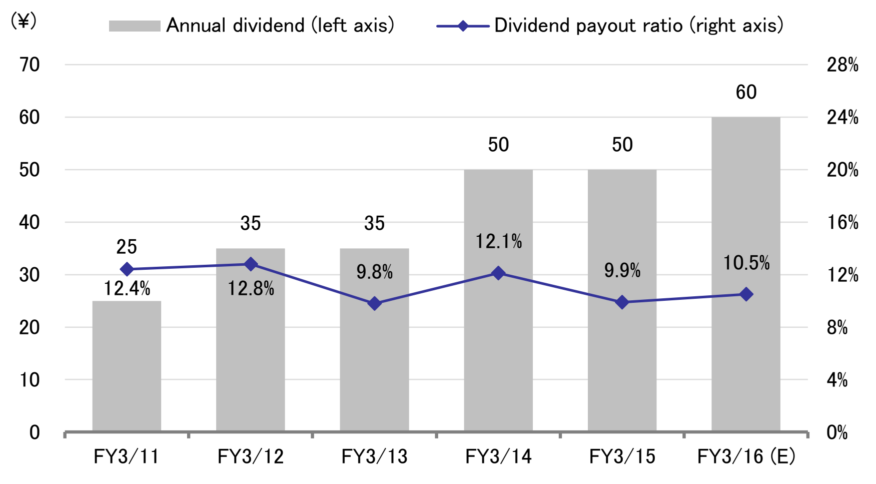
Shareholder Returns

Planning to raise dividends in light of favorable results

Pressance emphasizes securing internal reserves to drive future business development while providing appropriate shareholder returns. For FY3/16, management plans to pay annual cash dividends of ¥60 per share, up ¥10 YoY in light of solid results. The dividend payout ratio has been around 10% over the past few years, and should be approximately that level in FY3/16.

The company offers shareholder benefits in the form of JTB Nice Gift of around ¥5,000 in value for each shareholder holding 100 or more shares at the end of the financial year (March 31).

Dividends and Dividend Payout Ratios



Note: A 200-for-1 share split was implemented on April 1, 2011
Source: Earning release

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