COMPANY RESEARCH AND ANALYSIS REPORT

Pressance Corporation Co., Ltd.

3254

Tokyo Stock Exchange First Section

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Index

Summary

Forecasting FY3/'20 net sales above ¥200bil and higher sales and profits for the tenth consecutive year. Already booked 95.4% of net sales plan for the year. The Braight business (real estate tech) has gotten off to a great start.

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 has been the largest supplier in the Kinki and Tokai-Chukyo areas for the last nine and seven years, respectively, and was in second place nationwide behind only Sumitomo Realty & Development <8830> for the second consecutive year in 2018. The Company offers the Pressance Series of condominiums, conveniently located close to major railway stations at or around the center of cities, 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. In April 2019, the Company launched Pressance Braight, a comprehensive site for investment real estate that utilizes AI, thereby aiming to expand the new customer segments.

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

Nationwide new condominium supply has declined, but indicators are generally solid. Market trends are different between the Tokyo metropolitan and Kinki areas. While supply volume in the Tokyo metropolitan area fell 21.7% YoY to 11,996 units during April–September 2019 (1H), the decline was smaller in the Kinki area, dropping 9.9% to 8,275 units. In the Tokyo metropolitan area, the average condominium price is ¥60.06mil, which is difficult for most households with ordinary income to purchase with a loan, but in the Kinki area the average condominium price is an affordable ¥37.51mil. In condominium contract rates (first month contracted units/supplied units), the Tokyo metropolitan area had a contract rate of 64.6%, while the contract rate was 77.0% in the Kinki area, above the 70% threshold value for healthy conditions. We think this is a favorable market environment for the Company, whose key business region is Kinki area.

2. Strengths

The Company rigorously adheres to a strategy of supplying condominiums with emphasis on the locations with particularly high population growth rates in the Kinki and Tokai-Chukyo areas. In Osaka City, the Company provides concentrated supply of studio condominiums to six wards (Chuo, Kita, Nishi, Fukushima, Naniwa, and Yodogawa) that have higher population growth rates than other wards and the entire Osaka Prefecture (+5.3% over the past three years). The Company utilizes a similar strategy in Aichi Prefecture. Focus areas are located in city centers, have many offices and commercial facilities, and are highly convenient for “living and working.” Their value does not fade even with advances in the “compact city” trend. The strategy of “supplying properties in highly convenient locations in city centers” fits population trends and consumer needs. We think it is one of the factors sustaining the Company’s rapid growth.

3. Results trends

The Company reported an increase in sales and a decline in profits in 1H FY3/’20 consolidated results at ¥125,383mil in net sales (+3.3% YoY), ¥23,669mil in operating profit (-8.2%), ¥23,398mil in ordinary profit (-8.5%), and ¥15,660mil in net profit attributable to owners of parent (-10.0%). However, net sales and operating profit exceeded the 1H plan provided at the start of the fiscal year by 2.7% and 15.5%, respectively, so results have been steady. Sales of mainstay studio condominiums and family condominiums remained at a high level.

Building and hotel sales also progressed as planned, and on the whole net sales were on track with the plan. Gross margin fell slightly YoY. Construction costs stayed slightly higher. As some costs were passed along to prices, gross margin was maintained at normal levels. SG&A expenses increased, reflecting higher sales commissions, advertising costs, real estate tech-related costs, and corporate commercials. All increased SG&A costs proceed future sales. As a result of the above, the Company significantly exceeded the 1H plan it provided at the start of the fiscal year, while maintaining a high operating margin.

For FY3/’20, the Company forecasts sharply higher sales and profits, keeping its initial forecasts unchanged. FY3/’20 consolidated plan is ¥209,219mil in net sales (+30.3% YoY), ¥32,531mil in operating profit (+20.0%), ¥31,429mil in ordinary profit (+18.5%) and ¥21,520mil in net profit attributable to owners of parent (+17.6%). If the Company fulfills this plan, net sales will exceed ¥200bil for the first time, profit will increase at least 10% YoY for ten consecutive year, and net sales and profits will reach new record highs. By product segment, the Company targets a steep rise in studio condominiums, expecting studio condominiums to account for a larger percentage of overall sales. For family condominiums, the largest segment, the Company expects roughly flat sales while it expects building sales to double and hotel sales to be on par with the previous fiscal year. The Company forecasts operating profit to grow by 20.0% YoY, meaning that the Company should easily achieve the management goal of at least 10% growth YoY. In 1H, the Company’s net sales were 59.9% of the full-year plan while operating profit was 72.8% of the full-year plan. Comparing the distribution of net sales, 40.1% of FY3/’20 full year net sales (24.4% in the previous fiscal year) are expected to be posted in 2H. As of the end of 1H the condominium sales business had already booked 95.4% (¥191,545) of the annual sales forecast at as a high rate as in the past, so the Company should easily achieve its full-year plan. We feel that the Company’s outlook is reliable based on its track record of highly-precise achievements and believe that results should end up slightly above plan as usual.

4. Growth strategy and topics

The Company is famous for its hermit crab commercial. While the Company is well-known in Kansai and other areas, that commercial did not function well in order to convey the features of Company's condominiums, such as quality and location. Therefore, the Company renewed corporate commercials that started in 2019 (the first version started in January and the second version started in August), appointing an actress, Kazue Fukiishi, in order to refresh the Company's brand strategy. The commercial highlights a convenient life in a high-quality condominium located in an urban center and aims to improve the Company's brand image, particularly among people looking to purchase a family condominium.

In April 2019, the Company launched Pressance Braight, a comprehensive site for investment real estate that utilizes AI, and thereby began an initiative to accelerate earnings growth using real estate tech. In terms of Braight membership, there were 3,218 members at the end of September 2019, roughly six months after the launch, and the Company is well on its way to achieving the full year target of 4,500 members. Orders totaled ¥1,349mil in 1H, which exceeded the full year sales target of ¥1,320mil. In particular, the site for used condominiums, Braight Vintage, has been performing better than expected. As was the initial aim, these sites are expected to perform as effective tools to cultivate new types of customers, capturing the needs of people who want to buy good condominiums and want to compare properties until they are convinced. The Company forecasts having 75,000 members and looks to generate ¥24,480mil in net sales by FY3/'24, the fifth year of the service. We expect upside in the Company's results when the Braight business is successful because the medium-term management plan does not include sales from this initiative.

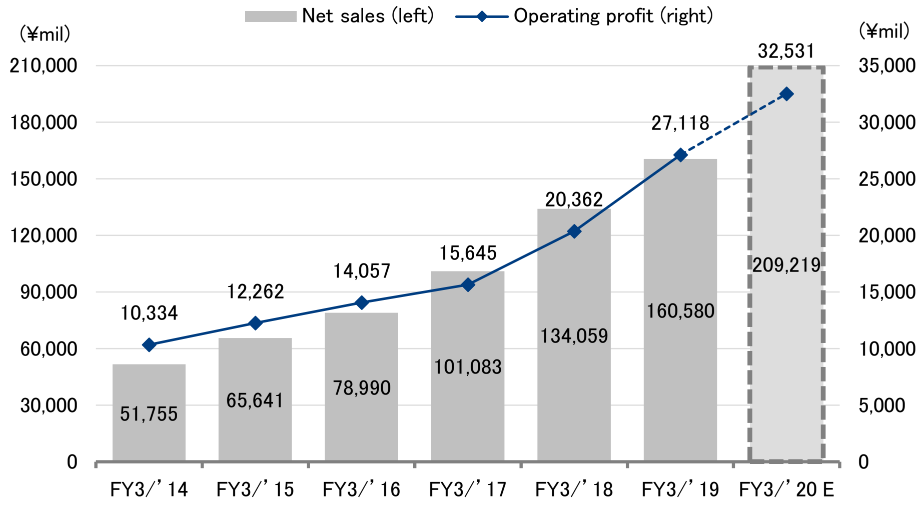
5. Shareholder return policy

The Company regards return of profit to shareholders as an important management issue. Its management targets include "expansion of dividend funds through operating profit growth of at least 10% YoY each year," "incremental increase of the dividend payout ratio to 20% by FY3/'23" and "increase in total dividend payment amount of at least 15% YoY." We thus expect the pace of dividend increases to accelerate over the medium term. The Company has been increasing its dividend at a fast pace. Ten years ago, in FY3/'10 the dividend was ¥6.25 per year, but in FY3/'19 the dividend was ¥40.50 for the year, which was 6.5 times the amount in FY3/'10. In FY3/'20, the Company paid an interim dividend of ¥26.00 and is forecasting a full-year dividend of ¥52.00 (year-end dividend = ¥26.00). This represents a ¥11.5 increase, accelerating dividend increase. The dividend payout ratio is also increasing gradually, and the Company is forecasting a FY3/'20 dividend payout ratio of 15.0% (versus 13.7% in FY3/'19).

Key Points

- Healthier market environment with more affordable average price of new condominiums in the Kinki area than in the Tokyo metropolitan area. The company remains the No. 1 volume supplier in the Kinki and Tokai-Chukyo areas
- Aiming for over ¥200bil sales in FY3/'20 and a 10th consecutive year of sales and profit gains; already secured 95.4% of the annual sales target for real estate sales business as of the end of 1H FY3/'20
- The Braight business (real estate tech) has gotten off to a great start. Productivity is among the highest in the industry
- High dividend hike pace with a combination of profit growth and increase in the dividend payout ratio; lifted the FY3/'20 dividend by ¥11.50 to ¥52.00 YoY

Consolidated full-year business results



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

Company overview

The Company has a dominant presence in the Kinki and Tokai-Chukyo areas and is Japan's No.2 condominium developer. It has two main segments, studios and family condominiums, specialized in the city center location.

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 the largest supplier in the Kinki and Tokai-Chukyo areas for nine and seven years, respectively, and was in the second place nationwide behind only Sumitomo Realty & Development <8830> for the second consecutive year in 2018, 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 product power and highly motivated sales force are strengths and result 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 Tokai-Chukyo 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, maintaining that status thereafter. In April 2019, the Company launched Pressance Braight, a comprehensive site for investment real estate that utilizes AI, thereby aiming to expand the new customer segments.

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	Stared 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	Advanced 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
May 2015	Established Pressance Real Estate Co., Ltd., as a real estate solutions consultancy
Aug. 2015	Selected as a component stock of 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 Lala place Co., Ltd. and made it a wholly-owned subsidiary
July 2017	Established Pressance USA Inc. in the United States
Feb. 2019	Opened an Osaka branch in Kita ward, Osaka City
Apr. 2019	Established Pressance Braight, a comprehensive site for real estate investment that utilizes real estate tech, AI

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 2,161 units sold and generated 34.7% of total sales in 1H FY3/'20. 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 1,402 units and provided 42.1% of 1H FY3/'20 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. Pressance Jyuhan Co., Ltd., a subsidiary, manages sales of family condominiums.

The second largest segment is "Building sales." As studio condominium buildings are developed and sold to condominium sales firms, they provide 7.9% of total sales in 1H FY3/'20. The Company started booking sales in FY3/'18 for the "hotel sales" business, its next largest product segment. It mainly develops business hotels and sells them to hotel firms, REITs and others. It sold 129 units that account for 2.4% of total sales in 1H FY3/'20. The Company also handles leasing, building management, leasing management, and insurance agent services for properties it developed.

Business lineup in 1H FY3/'20 results

Business segment	Business description	1H FY3/'20 results		
		No. of units sold	Net sales (¥mil)	Composition
Real estate sale business (main segments)	Studio condominium sales	2,161	43,462	34.7%
	Family condominium sales	1,402	52,764	42.1%
	Condominium building sales	672	9,965	7.9%
	Hotel property sales	129	3,050	2.4%
	Other housing and real estate sales, etc.	101	12,711	10.1%
Others		-	3,427	2.7%
Total		4,465	125,383	100.0%

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

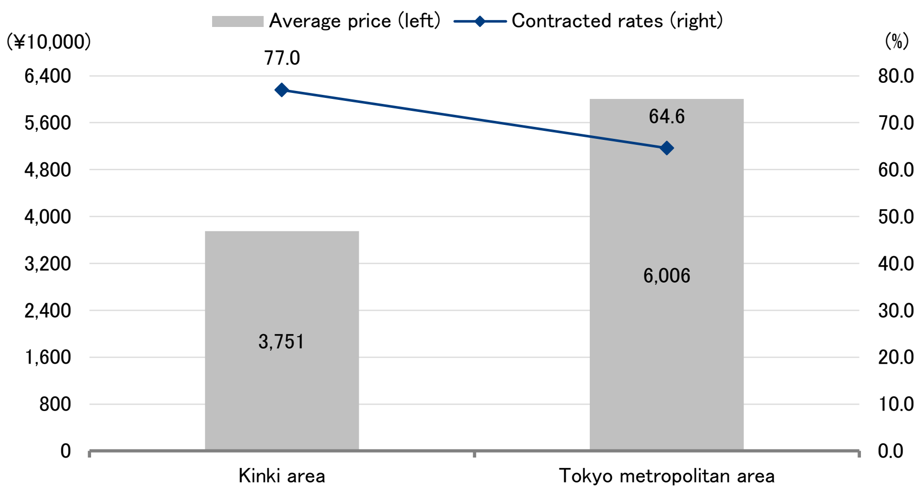
Market trends

Healthy market environment with more affordable average price of new condominiums in the Kinki area than in the Tokyo metropolitan area, remains the No. 1 volume supplier in the Kinki and Tokai-Chukyo areas

1. Condominium market trends

Nationwide new condominium supply has declined, but indicators are generally solid. Market trends differ in the Tokyo metropolitan and Kinki areas. While supply volume in the Tokyo metropolitan area fell 21.7% YoY to 11,996 units during April–September 2019 (1H), the decline was smaller in the Kinki area, dropping 9.9% to 8,275 units. In the Tokyo metropolitan area, the average condominium price is ¥60.06mil, which makes it difficult for most households to purchase a condominium with a loan, but in the Kinki area the average condominium price is an affordable ¥37.51mil. In condominium contract rates (first month contracted units/supplied units), the Tokyo metropolitan area had a contract rate of 64.6%, while the contract rate was 77.0% in the Kinki area, above the 70% threshold value for healthy conditions. We think this is a favorable market environment for the Company, whose key business region is Kinki area.

Comparison of average condominium prices and contract rates (April to September 2019)



Source: Prepared by FISCO from the "Condominium Market Trends in the Tokyo metropolitan and Kinki areas" report issued by the Real Estate Economic Institute

2. Condominium supply ranking

In the for-sale condominium supply ranking (announced by the Real Estate Economic Institute in February 2019), the Company holds the No.1 position in the Kinki area for the ninth consecutive year with a 19.7% share (2018). It also has the No.1 spot in the Tokai-Chukyo area in the seventh consecutive year with a 19.9% share (2018). These results show that it continues to have a dominant business foundation in both major urban markets besides the Tokyo metropolitan area. Key drivers of its high rankings in the Kinki and Tokai-Chukyo areas include strength in land acquisition based on reliable relationships with local real estate firms over many years, provision of condominiums that fit customer needs at reasonable prices, and advertisement and promotions using the familiar hermit crab and actress Kazue Fukiishi. Nationwide it ranks second after Sumitomo R&D. We think the Company's advances, despite fierce competition for top market positions by zaibatsu-affiliate developers, deserve notice.

Company's market position

(units)

Area	Kinki	Tokai-Chukyo	Nationwide
Pressance's ranking	No.1 in nine consecutive years	No.1 in seven consecutive years	No.2 in two consecutive years
Pressance's supply results	4,133	1,019	5,267
Supply results for the entire area	20,958	5,115	80,256
Company's ranking market share	19.7%	19.9%	6.6%

Note: Condominium supply (release) results in FY3/'19 calculated by the Company based on the "Nationwide Condominium Market Trends" report issued by the Real Estate Economic Institute
Source: Prepared by FISCO from the Company's results briefing materials

Ranking of the top five firms and supply volumes

(units)

Position	Kinki		Tokai-Chukyo		Nationwide	
1	Pressance Corporation	4,133	Pressance Corporation	1,019	Sumitomo Realty & Development	7,337
2	Nihon Eslead	2,401	Nomura Real Estate Development	425	Pressance Corporation	5,267
3	Nissho Estem	1,053	Daikyo Incorporated	270	Nomura Real Estate Development	5,224
4	Hankyu Hanshin Properties	966	Shizuoka Railway	253	Mitsubishi Jisho Residence	3,614
5	Kintetsu Real Estate	734	Takara Leben	228	Mitsui Fudosan Residential	3,198

Note: Condominium supply (release) results in FY3/'19 calculated by the Company based on the "Nationwide Condominium Market Trends" report issued by the Real Estate Economic Institute
Source: Prepared by FISCO from the Company's results briefing materials

Strengths

Making strong advances with a location strategy that focuses on popular areas in city centers; provides high compensation to salespeople with high performance and ranks fourth in the Kinki area's annual salary ranking

1. Location Strategy

Osaka and Aichi Prefecture are urban areas, but population trends vary depending on locations within these areas. The Company rigorously adheres to a strategy of supplying condominiums with emphasis on locations with particularly high population growth rates in the Kinki and Tokai-Chukyo areas. In Osaka City, the Company focuses on the supply of studio condominiums to six wards (Chuo, Kita, Nishi, Fukushima, Naniwa, and Yodogawa) that have higher population growth rates than other wards and the entire Osaka Prefecture (+5.3% over the past three years). In Nagoya, it primarily supplies studio condominiums in four wards (Naka, Higashi, Chikusa, and Nakamura) that have higher population growth rates than other wards and Aichi Prefecture (+2.5% over the past three years). Focus areas are located in city centers, have many offices as well as commercial facilities and are highly convenient for both "living and working." Their value does not fade even with advances in the "compact city" trend. The strategy of "supplying highly convenient locations in city centers" fits population trends and consumer needs. We think it is one of the factors sustaining the Company's rapid growth.

Population trends

(People)

Area	January 2016	January 2019	Growth rates (2016/2019, %)
Osaka City (Pressance's six focus wards*)	630,075	663,480	105.3
Osaka City (other 18 wards)	2,063,164	2,063,775	100.0
Osaka Prefecture (besides Osaka City)	6,146,069	6,096,630	99.2
Nagoya City (Pressance's four focus wards*)	459,742	471,277	102.5
Nagoya City (other 12 wards)	1,837,957	1,850,450	100.7
Aichi Prefecture (besides Nagoya City)	5,190,943	5,221,666	100.6

*Focus wards out of Osaka's 24 wards (Chuo, Kita, Nishi, Fukushima, Naniwa, and Yodogawa) and out of Nagoya's 16 wards (Naka, Higashi, Chikusa, and Nakamura)
Source: Prepared by FISCO based on various municipal government websites

2. Strong sales capabilities

The sales division with robust sales capabilities is a key source of the Company's strength. It promotes internal competition to drive the motivation of salespeople as part of concentrated efforts by the entire division to sell a single property within a certain amount of time. The Company also has a longstanding education system in which managers provide on-site plan for young employees to help build success experiences. An evaluation system that allows for wage hikes and promotions based on results (twice a year) unrelated to age and career history also contributes to higher motivation. As a result, the Company maintains high sales productivity. Employees who deliver results earn high wages. The Company ranked fourth among the large company category for the ranking of estimated average annual salary paid to 40-year old in the Kinki area in 2019 (Toyo Keizai Online). Its high salary level is well known in the job market. This enables the Company to hire ambitious qualified employees even in the real estate industry that reportedly struggles with manpower shortages.

Estimated annual salary ranking for 40-year olds (Kinki area, 2019)

Position	Company	Estimated salary for 40-year olds (¥10,000)	Headquarters location
1	Keyence	2,299	Osaka Prefecture
2	ITOCHU	1,471	Osaka Prefecture
3	Nippon Commercial Development	1,458	Osaka Prefecture
4	Pressance Corporation	1,147	Osaka Prefecture
5	Takeda Pharmaceutical	1,067	Osaka Prefecture
6	Nihon Eslead	1,034	Osaka Prefecture
7	Daibiru Corporation	964	Osaka Prefecture
8	Daiwa House Industry	930	Osaka Prefecture
9	OKUMURA CORPORATION	921	Osaka Prefecture
9	Iwatani Corporation	921	Osaka Prefecture

Source: FISCO from Toyo Keizai Online (October 1, 2019)

Results trends

For 1H FY3/’20, net sales increased YoY. All profit lines were down YoY, but remained at high levels and were solid versus Company plan

1. Overview of financial results for 1H FY3/’20

In 1H FY3/’20 consolidated results, Pressance reported net sales of ¥125,383mil (+3.3% YoY), operating profit of ¥23,669mil (-8.2%), ordinary profit of ¥23,398mil (-8.5%), and net profit attributable to owners of parent of ¥15,660mil (-10.0%), resulting in higher sales with lower earnings YoY. This illustrates that the Company is making steady progress on track with the initial plan for 1H FY3/’20 with net sales (+2.7% YoY) and operating profit (+15.5%).

In sales, studio condominium sales rose to 2,161 units (+31.9% YoY) while family condominium sales declined to 1,402 units (-14.5% YoY). Sales in both segments remained at high levels. In 1H FY3/’19, units of the Company’s largest family condominium (Legend Biwako – 486 units) were sold, making it a big year for family condominium sales. Building sales were solid at 672 units (+33.6% YoY). Hotel sales totaled 129 units (-86.8% YoY) as planned. Consequently, overall net sales were on track with plan.

Gross margin was down by 1.0ppt YoY to 27.5% (versus 28.5% in 1H FY3/’19 and 27.3% in 1H FY3/’18). Construction costs continued to increase somewhat, but gross margin was maintained at normal levels, as some costs were passed along to prices. SG&A expenses increased by 22.8% YoY, reflecting higher sales commissions, advertising costs, real estate tech-related costs, and corporate commercials. All costs are up-front costs. As a result of the above, the Company significantly exceeded the 1H forecasts made at the start of the fiscal year, while maintaining a high operating margin of 18.9%.

Financial results for 1H FY3/'20

(¥mil)

	1H FY3/'19		1H FY3/'20		
	Results	Composition	Results	Composition	YoY
Net sales	121,350	100.0%	125,383	100.0%	3.3%
Cost of sales	86,788	71.5%	90,929	72.5%	4.8%
Gross profit	34,562	28.5%	34,453	27.5%	-0.3%
SG&A expense	8,784	7.2%	10,783	8.6%	22.8%
Operating profit	25,777	21.2%	23,669	18.9%	-8.2%
Ordinary profit	25,583	21.1%	23,398	18.7%	-8.5%
Net profit attributable to owners of parent	17,402	14.3%	15,660	12.5%	-10.0%

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

The Company's strong procurement capabilities are evident by the more than ¥230bil in real estate for sales in process. Financial soundness is also being maintained

2. Financial position and management indicators

Gross asset value increased by ¥11,309mil YoY to ¥313,251mil. The increase mainly came from ¥11,654mil of current assets including ¥6,204mil in real estate for sales in process, ¥3,048 mil in real estate for sales, and ¥2,074mil in cash and deposits. Real estate for sales in process, a barometer of future sales, has reached a high level at ¥231,506mil. The real estate for sales (finished inventory), meanwhile, is a much smaller amount than annual net sales (ongoing forecast of ¥209,219mil). This difference highlights the Company's success in steadily selling supplied condominiums.

Total liabilities declined ¥3,052mil YoY to ¥204,271mil. Of these, current liabilities declined ¥6,955mil, mainly due to a ¥4,576mil drop in current portion of long-term loans payable and a ¥2,455mil decline in short-term loans. Fixed liabilities increased ¥3,903mil, primarily due to an increase in long-term loans. Interest-bearing debt is comprised of ¥163,952mil in long-term loans (including current portion of long-term loans payable) (95.6% of all interest-bearing debt) and ¥7,465mil of short-term loans payable (4.4% of all interest-bearing debt). The Company raises funds with low cost by interest-bearing debt and is acquiring sites that provide the basis for future increases in sales. We think the Company is in healthy financial shape, including low levels of finished inventory.

In management indicators, the current ratio is 384.7%, significantly higher than the 200% threshold for short-term soundness. The 34.2% equity ratio is on par with the industry average. These values show that the Company maintains financial soundness and is achieving strong growth with emphasizing on procurement.

Consolidated balance sheet and management indicators

(¥mil)

	As of March 31, 2019	As of September 30, 2019	Change
Current assets	280,591	292,246	11,654
Cash and deposits	41,990	44,064	2,074
Real estate for sale	9,603	12,651	3,048
Real estate for sale in process	225,302	231,506	6,204
Non-current assets	21,350	21,005	-345
Total assets	301,942	313,251	11,309
Current liabilities	82,916	75,960	-6,955
Current portion of long-term loans payable	44,547	39,971	-4,576
Short-term loans payable	9,920	7,465	-2,455
Non-current liabilities	124,407	128,310	3,903
Long-term loans	120,119	123,981	3,862
Total liabilities	207,323	204,271	-3,052
Total net assets	94,618	108,980	14,361
Total liabilities and net assets	301,942	313,251	11,309
Stability			
Current ratio (current asset/current liabilities)	338.4%	384.7%	-
Equity ratio (equity/total assets)	30.7%	34.2%	-

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

Business outlook

Aiming for over ¥200bil in FY3/'20 sales and a 10th consecutive year of sales and profit gains; already secured 95.4% of the annual sales target for real estate sales business

Pressance retained FY3/'20 consolidated forecast of ¥209,219mil in net sales (+30.3% YoY), ¥32,531mil in operating profit (+20.0%), ¥31,429mil in ordinary profit (+18.5%) and ¥21,520mil in net profit attributable to owners of parent (+17.6%), projecting a significant increase in sales and profits. Fulfillment of the forecast means sales at over ¥200bil for the first time and ten consecutive years of at least 10% growth YoY in profits as well as all-time high results.

In the product segment sales plan, the Company targets a steep rise in studio condominiums to ¥70,901mil (+64.8% YoY). For family condominiums, the largest segment, meanwhile, it expects ¥74,757mil (-3.4%). Other targets are building sales at ¥24,715mil (+¥98.4%) and hotel sales at ¥18,292mil (+3.8%), on par with the previous year. A steep increase in sales of studio units and hence a bigger sales portion for this business are expected. The projected 20.0% YoY rise in operating profit means that the Company should easily exceed the management goal of "at least 10% growth YoY."

In 1H, the Company's net sales were 59.9% of the full-year plan while operating profit was 72.8% of the full-year plan. Comparing the distribution of net sales by quarter to the previous year, 40.1% of FY3/'20 full year net sales (against 24.4% in the previous fiscal year) are expected to be posted in 2H. As of the end of 1H the condominium sales business had already booked 95.4% (¥191,545) of the annual sales forecast at as a high rate as in the past. So, the Company should easily achieve its full-year plan. Considering the Company's track record of providing highly-precise plan, we feel that the Company's outlook is reliable and that results should end up slightly above plan, as usual.

Outlook for FY3/'20 consolidated earnings

(¥mil)

	FY3/'19		FY3/'20			
	Results	Composition	Forecast	Composition	YoY	1H progress rate
Net sales	160,580	100.0%	209,219	100.0%	30.3%	59.9%
Operating profit	27,118	16.9%	32,531	15.5%	20.0%	72.8%
Ordinary profit	26,531	16.5%	31,429	15.0%	18.5%	74.4%
Net profit attributable to owners of parent	18,296	11.4%	21,520	10.3%	17.6%	72.8%

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

Medium- to long-term topics

Braight business (real estate tech) has gotten off to a great start. Productivity is among the highest in the industry

1. New commercial featuring actress Kazue Fukiishi aims to boost the brand image

The Company is famous for its hermit crab commercial. Most people in Kansai and other areas remember the funny commercial with a hermit crab and a Hawaiian song. Although the Company has strong name recognition, that commercial did not function well in order to convey the features of Company's condominiums, such as quality and location. For this reason, the Company renewed corporate commercials that started in 2019 (the first version started in January and the second version started in August) featuring actress Kazue Fukiishi in order to refresh the Company's brand strategy. The commercial highlights a convenient life in a high-quality condominium located in a city center and aims to improve the Company's brand image particularly among people who may buy a family condominium.

Corporate commercial

Source: Prepared from the Company's website

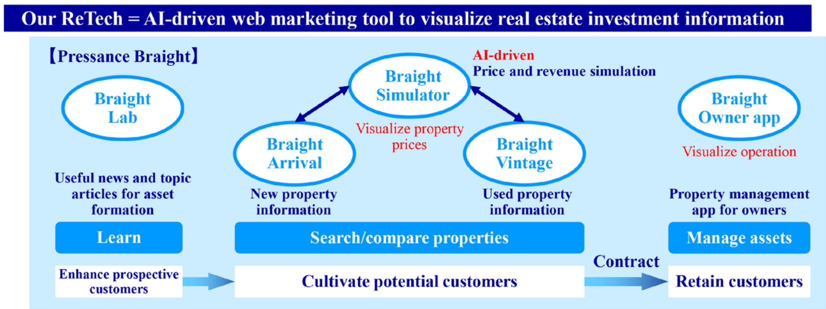
2. Strengthening real estate tech: Braight business has gotten off to a great start

The Company started operating Pressance Braight, a comprehensive site for real estate investment that utilizes AI, in April 2019 and thereby began an initiative to accelerate profit growth using real estate tech. The Company launched five sites that offer information and services that extend from the stage of customers expressing interest in real estate investment to property comparison reviews and post-sale services. The sites are Braight Lab that provides a wide range of information to potential customers, Braight Simulator that estimates property prices and incomes in the future with AI from big data, Braight Arrival that carries the Company's newly built properties, Braight Vintage that carries used properties (including ones built by other companies) and Braight Owner app for confirming occupancy and contract content of properties purchased by the owner.

The Company hopes to bring "transparency" to real estate prices, which had often been unclear, by providing property pricing, income forecasts and other information simulated by AI via Pressance Braight. This service supports straightforward comparison with properties from other companies and therefore clarifies the high market value of the Company's properties. Also, the Company aims to develop totally new customer segments, such as those who prefer digital communications and people living abroad, and expand sales. Accordingly, moving this online and systemizing should improve customer service quality and raise work efficiency, too. And the Company plans to accelerate growth by adding income from Braight business on the top of the income from its existing businesses.

The number of Braight members was 3,128 as of September 30, about six months later since it was started. Solid progress has been made towards the full year target of 4,500 members. ¥1,349mil orders have been acquired during 1H of FY3/'20 and exceeded the full-year sales target of ¥1,320mil. Braight Vintage, the site specializing in used properties, has performed better than expected. The order volume for used properties was ¥1,049mil, which is already much higher than the full year sales target of ¥600mil, and the aim is to boost the result even higher. As was the initial aim, these sites are expected to be used as the tools to cultivate new customer segments, capturing the needs of people who want to buy good condominiums and want to compare condominiums until they are convinced with the right one. The Company forecasts having 75,000 members, and looks to generate ¥24,480mil in net sales (¥7,200 in used properties and ¥17,280mil in newly built properties) by FY3/'24, the fifth year of service. We expect upside in the Company's results when the Braight business is successful because the medium-term management plan's targets do not include sales from the Braight business.

Initiatives and progress utilizing real estate tech



Braight's achievements during the April-September period * Figures in ( ) are for 2Q only.

	New properties	Used properties	Total
# of memberships	3,218 (2,147)		
Orders in amount (million yen, excluding tax)	299 (166)	1,049 (551)	1,349 (718)
# of orders	15 (8)	77 (40)	92 (48)

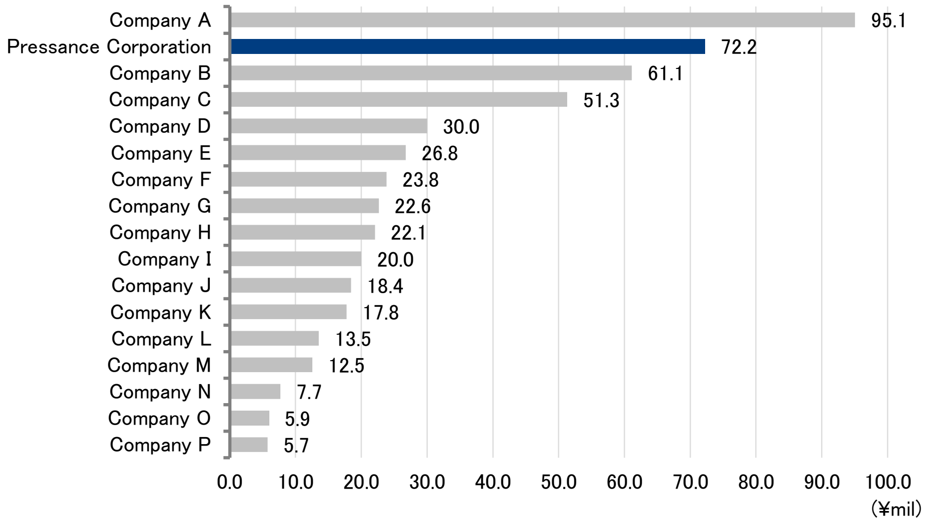
Made a good start with orders increasing as memberships increases

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

3. Productivity is among the highest in the industry

The Company boasts top-class productivity (gross profit/number of employees, an alternative indicator for productivity) in the real estate industry. The Company's productivity in FY3/'19 was ¥72.2mil (gross profit: ¥44,201 mil, number of employees: 612). This positions it as a leading group in the condominium development-related real estate industry. Looking at the rankings, developers who mainly operate in the Tokyo metropolitan area and companies who engage in a wide range of businesses (property leasing, commercial real estate, etc.) tend to have lower productivity. The Company focuses on new condominium development centered on the Kinki and Tokai-Chukyo areas and has put together a prominent sales division. These have helped the Company establish a business model with industry-leading productivity.

Productivity (gross profit per employee)



Source: Prepared by FISCO from each company's annual securities report

Shareholder return policy

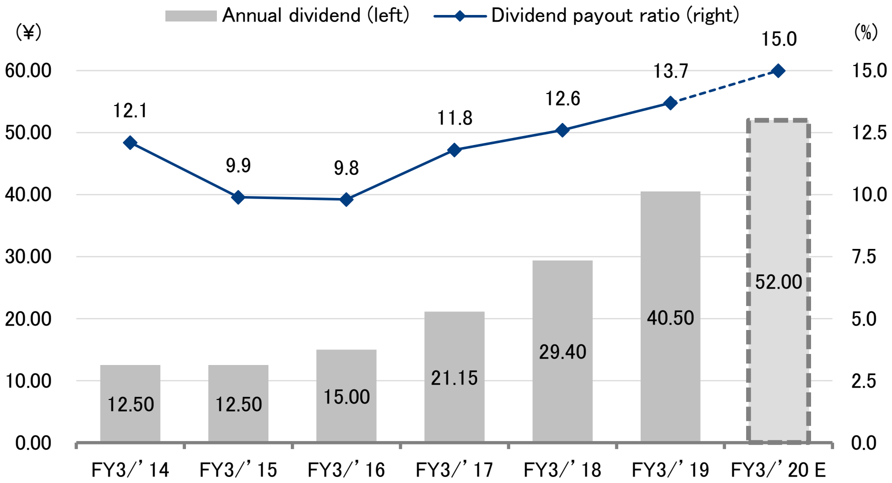
High dividend hike pace with a combination of profit growth and increase in the dividend payout ratio; lifted the FY3/'20 dividend by ¥11.50 to ¥52.00 YoY

The Company recognizes return of profit to shareholders via dividends as an important management subject. Its fundamental management objectives are "expansion of dividend funds through operating profit growth of at least 10% YoY each year," "incremental increase of the dividend payout ratio to 20% by FY3/'23," and "increase in total dividend payment amount of at least 15% YoY." And we thus expect acceleration of the dividend hike pace over the medium term.

The Company has been increasing its dividend at a fast pace. Ten years ago, the annual dividend in FY3/'10 was ¥6.25 but was ¥40.50 in FY3/'19 which is 6.5 times as much as the amount in FY3/'10. In FY3/'20, the Company paid an interim dividend of ¥26.00 and is forecasting a full-year dividend of ¥52.00 (year-end dividend = ¥26.00). This represents a ¥11.5 increase, and the pace of the dividend increase will be accelerated. The dividend payout ratio is also increasing gradually, and the Company is forecasting a FY3/'20 dividend payout ratio of 15.0% (versus 13.7% in FY3/'19).

As a shareholder benefit, the Company gives VJA gift cards worth ¥5,000 to shareholders with over 400 shares (five cards with a face value of ¥1,000 each) the fiscal year-end (the end of March 2020).

Annual dividends and dividend payout ratios



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

Disclaimer

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