COMPANY RESEARCH AND ANALYSIS REPORT

Pressance Corporation Co., Ltd.

3254

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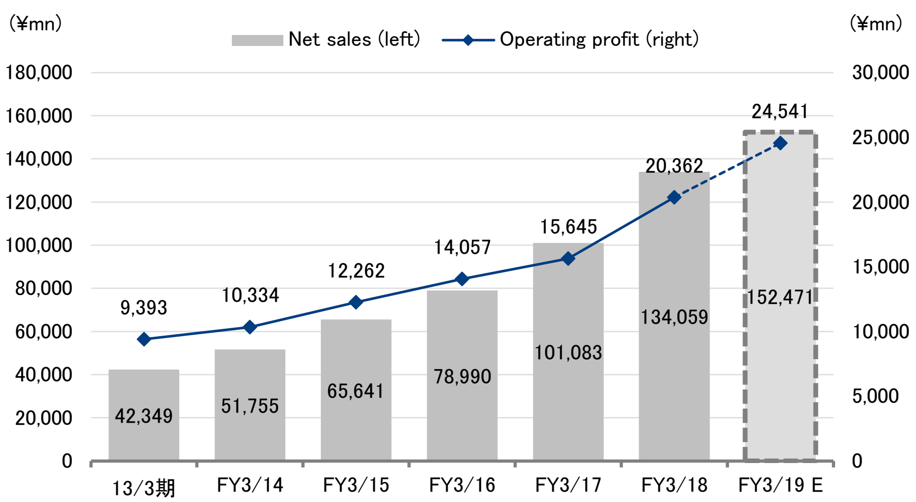
Summary

Pressance is the second largest domestic condominium developer in units supplied. It specializes in supply to central urban areas and has a diverse product portfolio that ranges from studio and family condominiums to hotels. It is a market leader in terms of growth potential and profitability.

Key Points

- Specializes in supply to central urban areas and has a diverse product portfolio that ranges from studio and family condominiums to hotels
- Is a market leader in terms of growth potential, profitability, efficiency and productivity
- Posted sharply higher sales and profits in 1Q FY3/'19 by sales growth of studio and family condominiums plus hotel sales; driven by Pressance Legend Biwako (486 units) and others
- Heading for over ¥150bn in sales and nine consecutive years of record-high sales and profit in FY3/'19. As of the end of 1Q, secured 93% of annual sales targeted in FY3/'19.

Consolidated annual business results



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

Company overview

No.2 domestic condominium developer in supplied units and ranked consecutively as No.1 in Kinki and Tokai-Chukyo areas; specializes in supply to central urban areas and has a diverse product portfolio that ranges from studio and family condominiums to hotels, distinguished from competitors

1. Company overview

Pressance Corporation Co., Ltd. <3254> (hereafter, also "the Company") is an independent developer of family and studio condominiums that handles planning, development and sales. It is the biggest supplier in the Kinki area and Tokai-Chukyo areas with eight and six consecutive years respectively and has risen to the second place in 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. As the Company has kept growing even after 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, 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 businesses that ranges from studio, family condominiums and building (studio condominium wholesale business) to hotel sales. The wide-ranging product line-up enables optimal use of sites when land information is acquired and expands procurement volume. Consequently, the Company can purchase lands more effectively than competitors.

Pressance's market position (units supplied in 2017)

Area	Kinki	Tokai/Chukyo	Nationwide
Pressance's ranking	No.1 in eight consecutive years	No.1 in six consecutive years	No.2
Pressance's supply results	3,845 units	1,322 units	5,267 units
Supply results for the entire area	19,560 units	4,753 units	77,363 units
Pressance's market share *	19.7%	27.8%	6.8%

Ranking of the top five firms and supply volumes	No. 1	Pressance Corporation	3,845 units	Pressance Corporation	1,322 units	Sumitomo Realty & Development	7,177 units
	No. 2	Nihon Eslead	2,017 units	Yahagi Real Estate	272 units	Pressance Corporation	5,267 units
	No. 3	Sumitomo Realty & Development	968 units	Nomura Real Estate Development	262 units	Nomura Real Estate Development	5,158 units
	No. 4	Nomura Real Estate Development	769 units	Daiwa House Industry	244 units	Mitsui Fudosan Residential	3,787 units
	No. 5	Nissho Estem	759 units	Daikyo Incorporated	227 units	Mitsubishi Jisho Residence	3,101 units

* Calculated by Pressance using data compiled by Real Estate Economic Institute Co., Ltd.
Source: Prepared by FISCO from the Company's results briefing materials

2. Sales trends by main products

Studio condominium sales business sold 1,388 units in 1Q FY3/’19 and provided 30.6% of overall sales. The Company builds 20-50 square meters units for exclusive living space in highly convenient locations that are five minutes on foot from major train stations in urban centers and sells them under the Pressance brand. Studio condominiums are primarily purchased for the purpose of the investment in real estate. Target customers include not only high-income earners and wealthy people but also average-income earners with stable incomes. With its strategy of targeting the largest market segment in the number of customers, the Company has a certain level of demand even when economic and financial conditions change, resulting in stable achievements.

Family condominium sales booked 1,164 units and provided 55.0% of 1Q FY3/’19 sales. This business consists of building construction and sales of 50-100 square meters condominiums, surrounded by attractive environments and conveniently located within 10 minutes on foot from major train stations in urban area under Pressance Loger and other brands. Subsidiary Pressance Jyuhan Co., Ltd. manages sales of family condominium.

Building sales business involves wholesale of studio condominiums developed by the Company and generated 5.6% of sales in 1Q FY3/’19. Hotel sales business is a segment that ramped up in FY3/’18 and mainly develops and sells business hotels. The Company delivered two hotels to buyers with 240 units and provided 5.6% of sales in 1Q FY3/’19.

Business lineup in 1Q FY3/’19 results and full year plan

Business segments	Business description	FY3/’19 plan		1Q FY3/’19 results		
		Sales (¥mil)	Sales composition (%)	Sales volume (number of units)	Sales (¥mil)	Sales composition (%)
Real estate sale business	Studio condominium sales	41,951	27.5%	1,388	24,979	30.6%
	Family condominium sales	74,027	48.6%	1,164	44,857	55.0%
	Condominium building sales	13,083	8.6%	297	4,568	5.6%
	Hotel property sales	15,429	10.1%	240	4,601	5.6%
	Others	0	0.0%	20	787	1.0%
Other business	Rental of Company’s properties, etc.	0	0.0%	0	1,719	2.1%
Total	Total	152,471	100.0%	3,109	81,514	100.0%

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

Market trends and competitive advantages

A market leader in terms of growth potential, profitability, efficiency and productivity

1. Condominium market trends

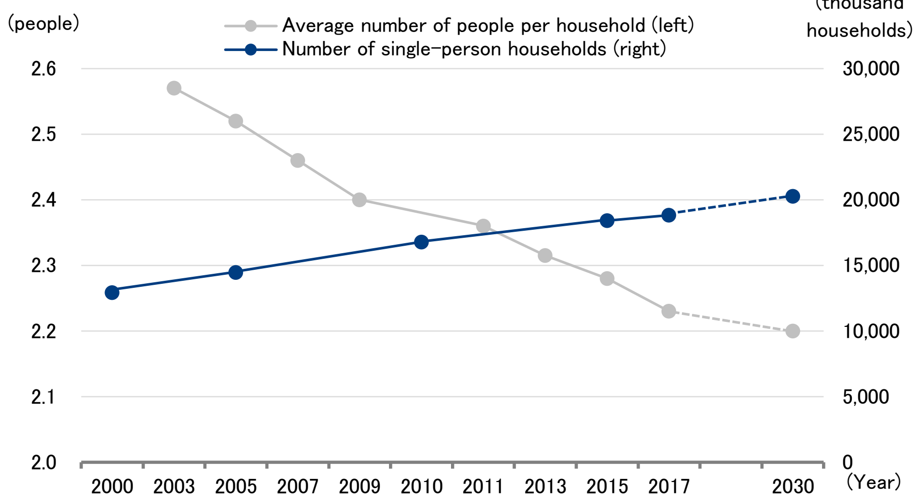
New condominium supply is vibrant nationwide. Nevertheless, market trends differ between Tokyo Metropolitan area and Kinki area. In Tokyo Metropolitan area, supply volume was only up 1.1% YoY to 36,837 units between April 2017 and March 2018* while supply volume may be approaching to a peak, and prices are overheated at ¥60.48mil (assuming 70 square meters at ¥864,000 per square meter)*. On the other hand, in Kinki area, the Company's main region, supply is still growing with an 8.1% increase to 19,849 units between April 2017 and March 2018 while price remains affordable at ¥44.52mil (assuming 70 square meters at ¥636,000 per square meter)*.

Similar conditions are evident in condominium contract rates (first-month contracted units/offered units; April 2017 through March 2018)*. The Kinki area exceeded 70%, the threshold level between healthy and sluggish conditions, throughout the year and averaged 76.6%, comparing to 68.8% in Tokyo Metropolitan area. The price of condominiums in Kinki area is more affordable for consumers than the one in Tokyo Metropolitan area. The market conditions in Kinki area, where the Company mainly do business, seem to be favorable.

* Source: Real Estate Economic Institute Co., Ltd., FISCO estimates

The growing population in central urban areas causes large impacts on both studio and family-type condominium markets with the decrease in the number of people in households and the increase in the needs for convenient living circumstances. A wide range of households increasingly seeks the convenience of their home as younger people prefer shorter commute time and seniors prefer easy access for shopping, entertainment, medical and governmental services. Demands for the condominiums in city centers hence have been expanding. The awareness and popularity of real estate investment on studio condominiums have been growing as well. Pressance has been steadily achieving earnings growth along with these market trends. Since the sales prices of Pressance condominiums differ from the price range of tower condominiums, Pressance targets the market segments clearly different from major zaibatsu groups. Pressance's strong position as a market leader in its market segment also contributes to healthy sales. Because studio condominiums are a financial product, lending stances of financial institutions and other factors affect future sales. However, we think underlying rental demand is firm.

Trends in the average number of people per household and the number of single-person households

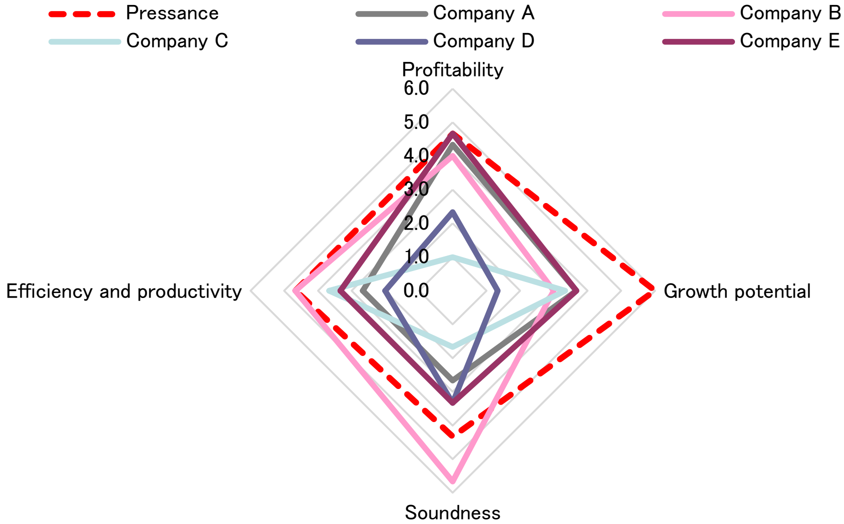


Source: Prepared by FISCO from the Ministry of Health, Labour and Welfare website

2. Business indicator benchmarks to competitors

There are five competitors that build and sell new condominiums and apartments in Western Japan – Samty Co., Ltd. (3244), Nihon Eslead Corporation (8877), Wadakohsan Corporation. (8931), Nomura Real Estate Holdings, Inc. (3231), and Shinoken Group Co., Ltd. (8909). From four standpoints (profitability, growth potential, soundness as well as efficiency and productivity), Pressance stands out in growth potential, is the leader in profitability as well as efficiency and productivity and ranks second in soundness. It offers solid management while putting emphasis on growth as well. In growth potential, Pressance overwhelms competitors not only in past sales and asset growth but also in volumes of real estate for sale and real estate for sale in process that are the sources of future growth. In profitability, it generates top-class results in return on equity and operating margin. Soundness is rigid with its 300% over liquidity ratio as an indicator of short-term soundness and the 29.8 % capital ratio as an indicator of longer-term soundness as of March 31, 2018. In efficiency and productivity as well, Pressance delivers top-class results in gross capital turnover, transaction real estate turnover and labor productivity.

Business indicator benchmarks



Source: Prepared by FISCO using disclosed information from the various companies; converted order within the six companies to an index (maximum of six points, minimum of one point)

Business indicator benchmarks (detailed values)

			Pressance	Company A	Company B	Company C	Company D	Company E
Profitability	Return on assets (ROA)	%	9.2	5.5	10.9	3.0	4.2	14.9
	Return on equity (ROE)	%	20.8	15.8	11.7	8.0	9.4	37.8
	Operating profit to sales ratio	%	15.2	16.8	14.0	9.4	12.3	12.2
Growth potential	Sales increase rate	%	32.6	15.4	23.0	12.0	9.5	30.3
	Gross asset increase rate	%	32.4	17.9	6.3	14.9	5.1	25.9
	(Real estate for sale + real estate for sale in process)/sales	Times	1.43	1.18	0.62	1.28	0.58	0.45
Soundness	Current ratio	%	337.7	251.5	321.0	181.8	309.4	201.6
	Quick assets ratio	%	46.6	66.8	151.8	42.9	33.6	73.6
	Equity ratio	%	29.8	23.4	61.3	24.0	30.0	29.0
Efficiency and productivity	Total assets turnover ratio	Times	0.55	0.36	0.76	0.40	0.37	1.16
	Real estate for sale turnover ratio	Times	11.9	1.6	29.0	9.6	6.1	3.7
	Labor productivity	¥mil per person	61.7	80.7	47.3	60.4	27.4	34.3

First (among the six firms) Second (among the six firms)

Source: Prepared by FISCO using disclosed information from the various companies; utilizing full-year results values for periods closing in November 2017 to March 2018

Results trends and outlook

Posted sharply higher sales and profits in 1Q FY3/'19 by sales growth of studio and family condominiums plus hotel sales; driven by Pressance Legend Biwako (486 unit) and others

1. Financial results for 1Q FY3/'19

For the first three months of FY3/'19, Pressance reported net sales of ¥81,514mil (+127.7% YoY), operating profit of ¥19,274mil (+182.6%), ordinary income of ¥19,158mil (+183.9%), and net profit attributable to owners of parent of ¥13,111mil (+186.6%), with significant YoY growth for sales and earnings at every level.

Strong earnings were generated significantly from healthy progress in sales (deliveries) of family-type condominiums, such as Pressance Legend Biwako (470 units sold in 1Q) and studio condominiums, such as Pressance Osaka Fukushima Ciel (124 units sold in 1Q). Additionally, Pressance delivered two buildings to buyers in the hotel business in 1Q, as planned. The FY3/'19 sales forecasts shows results with large deviation; quarterly breakdown of 1Q at 53.5% (actual), 2Q at 19.7%, and 2H at 26.8%. Results become often uneven quarterly, depending on land procurement timing and project length, and accounting sales at the time of delivery of products to the customer, rather than at contract signing.

The cost of sales ratio slightly improved by 0.2 point YoY. While SG&A expense amount has increased, the SG&A expenses ratio decreased by 4.4 points YoY, covered by greater sales growth. Profits and incomes increased by almost three times YoY as a result.

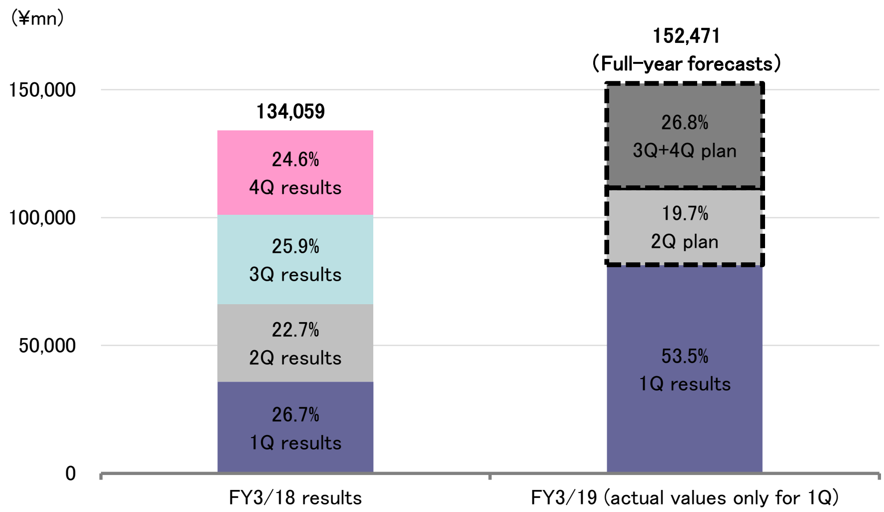
Business results for 1Q FY3/'18

(¥mil)

	1Q FY3/'18		1Q FY3/'19		
	Results	Composition	Results	Composition	YoY
Net sales	35,799	100.0%	81,514	100.0%	127.7%
Cost of sales	25,235	70.5%	57,285	70.3%	127.0%
Gross profit	10,564	29.5%	24,229	29.7%	129.3%
SG&A expenses	3,744	10.5%	4,954	6.1%	32.3%
Operating profit	6,819	19.0%	19,274	23.6%	182.6%
Ordinary income	6,749	18.9%	19,158	23.5%	183.9%
Net profit attributable to owners of parent	4,575	12.8%	13,111	16.1%	186.6%

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

Sales growth rate by quarter



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

Heading for over ¥150bn in sales and nine consecutive years of sales and profit gains in FY3/'19, having secured 93% of sales targeted in FY3/'19 at the end of 1Q

2. Outlook for FY3/'19 full-year results

Pressance retained FY3/'19 consolidated financial forecast of ¥152,471mil in net sales (+13.7% YoY), ¥24,541mil in operating profit (+20.5%), ¥23,661mil in ordinary income (+19.1%) and ¥16,132mil in net profit attributable to owners of parent (+17.3%).

By product segment, the Company expects sales growth to ¥74,027mil (+4.0% YoY) in family condominiums (the largest segment), ¥41,951mil in studio condominiums (+41.2%), and ¥15,429mil in hotel sales (+462.3%). The Company has already secured sales and contracted orders equal to 93.1% of planned sales in condominium sales business segment (¥144,492mil) up to 1Q and seems to achieve full-year sales forecast with considerable probability even at this point of time.

Outlook for FY3/'19 consolidated results

(¥mil)

	FY3/'18		FY3/'19			
	Results	Composition	Forecast	Composition	YoY	1Q progress rate
Net sales	134,059	100.0%	152,471	100.0%	13.7%	53.5%
Operating profit	20,362	15.2%	24,541	16.1%	20.5%	78.5%
Ordinary income	19,858	14.8%	23,661	15.5%	19.1%	81.0%
Net profit attributable to owners of parent	13,757	10.3%	16,132	10.6%	17.3%	81.3%

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

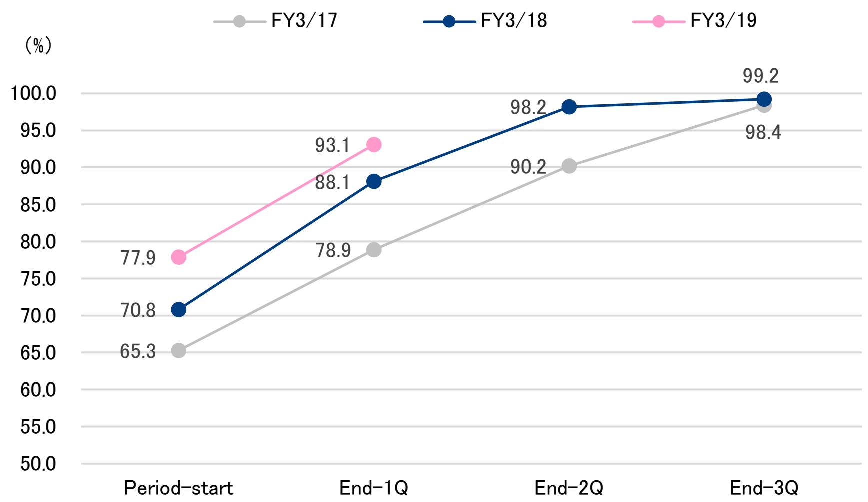
Topic

"Early progress on receiving orders" and "advance land acquisitions" generate expanding results of the following fiscal years

1. High progress on future sales

The Company is known for the accuracy of its forecasts. One of the reasons is that the Company can receive contracted orders and secure future sales at early point of time. In FY3/'19, it already had 77.9% of contracted orders for full-year forecast at the beginning of the FY and then booked 93.1% of sales and contracted orders at the end of 1Q. This pace is faster than the previous two fiscal years, reflecting robust sales conditions. With this pace, contracted orders necessary for the annual sales of FY3/'19 seem to be almost completed at the end of 2Q, and the Company can focus on acquiring orders for the sales of FY3/'20 and following years. Securing sales in advance with early contracted orders facilitates a favorable cycle of highly accurate forecasts and strong growth for the following fiscal year.

Trends in sales progress ratios



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

2. Progress on land acquisitions – Already acquired land equivalent to the next three year sales for studio and family condominiums

Pressance has actively purchased lands for condominium. It reported ¥157,614mil in real estate for sale in process and ¥15,549mil in real estate for sale as of June 30, 2018. Asset value of lands comes to ¥119,255mil, calculated by subtracting construction costs and other expenses from the total of ¥157,614mil and ¥15,549mil. On a condominium unit basis, this corresponds to 6,894 family condominium units and 6,951 studio condominium units that are equivalent to the worth of the next three year sales respectively. The Company's active land procurement stems from not only ample capital resources but also information gathering capabilities. Since the Company has kept buying lands even during and after the Lehman bankruptcy and also exceled in quick assessment as well as fast decision making, it now experiences a competitive advantage from obtaining primary land information from numerous local real estate firms.

Shareholder return policy

New dividend policies of "payout ratio at 20% within five years" and "increasing total dividend amount by at least 15% YoY"

Existing dividend policy called for "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 from FY3/'19.

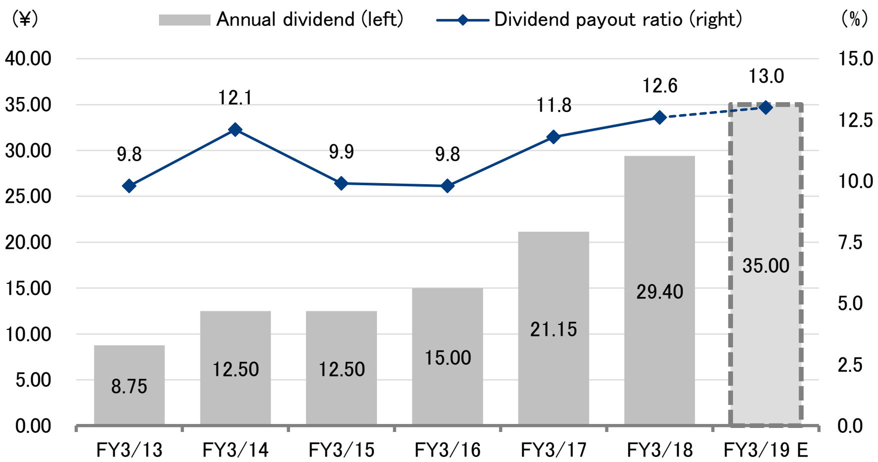
1) Incrementally raising the payout ratio to 20% within five years
2) Increasing total dividend amount by at least 15% YoY

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

The Company plans to pay ¥35.00 dividend per share in FY3/'19 (¥17.50 at end-1H, ¥17.50 at end-2H) with expected dividend payout ratio at 13%.

Pressance also announced the scope of its shareholder gift program; Visa Gift Card worth ¥2,000 to the shareholders owning 100 or more shares and less than 400 shares and also a Visa Gift Card worth ¥5,000 to the shareholders owning 400 or more shares.

Annual dividends and dividend payout ratios



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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