COMPANY RESEARCH AND ANALYSIS REPORT

Pressance Corporation Co., Ltd.

3254

Tokyo Stock Exchange First Section

5-Jul.-2019

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Summary

Posted higher sales and profits in a ninth consecutive year in FY3/'19 with gains of over 30% in all profit categories; raised goals in the medium-term management plan through FY3/'21 and started operating Braight, a real-estate tech service that utilizes AI

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 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.

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 remains healthy, though market trends differ in Tokyo metropolitan and Kinki areas. While supply volume in the Tokyo metropolitan area rose 3.4% YoY to 37,132 units (during Jan-Dec 2018), it grew at a stronger pace in the Kinki area of 7.1% to 20,958 units. In condominium contract rates (first month contracted units/supplied units; Jan-Dec 2018) too, the Tokyo metropolitan area was at 62.1% versus the Kinki area's 74.5%, which exceeded the 70% threshold value for healthy conditions throughout the year. We think this is favorable market environment for the Company with its business activity centered in the 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 area and Tokai and Chukyo area. 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 sharply higher sales and profits in FY3/'19 consolidated results at ¥160,580mil in net sales (+19.8% YoY), ¥27,118mil in operating profit (+33.2%), ¥26,531mil in ordinary profit (+33.6%), and ¥18,296mil in net profit attributable to parent shareholders (+33.0%). These results were the ninth consecutive year of higher sales and profits and set new all-time highs. In sales, studio condominium sales rose sharply to 2,363 units (+36.9%) and family condominium sales increased at a healthy pace to 2,078 units (+11.7%). Hotel sales climbed dramatically in the second year after beginning sales to 980 rooms (+435.5%). Gross margin was up by 1.8ppt YoY to 27.5% thanks to a large share for studio units with relatively high margin. Despite a 0.1ppt rise in the percentage of SG&A expenses (mainly sales fees and personnel costs), operating margin improved by 1.7ppt to 16.9%, a strong level. Additionally, operating profit recorded robust growth at a 33.2% increase.

The Company forecasts sharply higher sales and profits in FY3/'20 consolidated guidance at ¥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 parent shareholders (+17.6%). If it realizes guidance, net sales will exceed ¥200bil for the first time, profit will post a double-digit increase in a 10th consecutive year, and net sales and profits will reach new all-time highs. In the product sales plan by segment, the Company targets a steep rise in studio condominiums to ¥70,901mil (+64.8% YoY). For family condominiums, the largest segment, meanwhile, it expects roughly flat sales at ¥74,757mil (-3.4%). The projected 20.0% YoY rise in operating profit means that the Company should easily exceed the management goal of "at least 10%." The Company implements business with an outlook of 1-2 years and already acquired orders totaling 73.3% of the sales target (¥147,102mil) at the start of FY3/'20. We think the Company's outlook is highly reliable with very low possibility of shortfall, considering its excellent planning precision.

The Company revised its target upward for the three-year medium-term management plan that lasts through FY3/'21. It lifted FY3/'20 profit targets to FY3/'21 levels from the plan before revisions, attaining the goals one year ahead of time. It also boosted FY3/'21 goals to ¥250,960mil in net sales (+20.0%), ¥36,434mil in operating profit (+12.0%), ¥35,108mil in ordinary profit (+11.7%), and ¥23,984mil in net profit attributable to parent shareholders (+11.4%). This updated plan forecasts continuation of profit growth at over 10%.

4. Growth strategy and topics

The Company started operating Braight, a comprehensive site for investment real estate that utilizes AI, in April 2019 and thereby began an initiative to accelerate income growth using real estate tech. The "Braight" name combines AI (artificial intelligence) and bright with a message of wanting a bright future for the real estate investment market. Now, the Company has launched five sites and offers information and services that extend from the stage of customers expressing interest in real estate investment to property comparison reviews and post-sale services. It aims to expand the new customer base and boost efficiency by closely linking real estate tech to business. The Company is targeting 75,000 Braight members by FY3/'24, the fifth year of service, and hopes to generate ¥24,480mil in FY3/'24 sales (¥7,200mil in used properties and ¥17,280mil in new-construction properties). We expect upside in the Company's results if Braight business is successful because goals in the medium-term management plan, which has arrived at the second year, do not contain sales from this initiative.

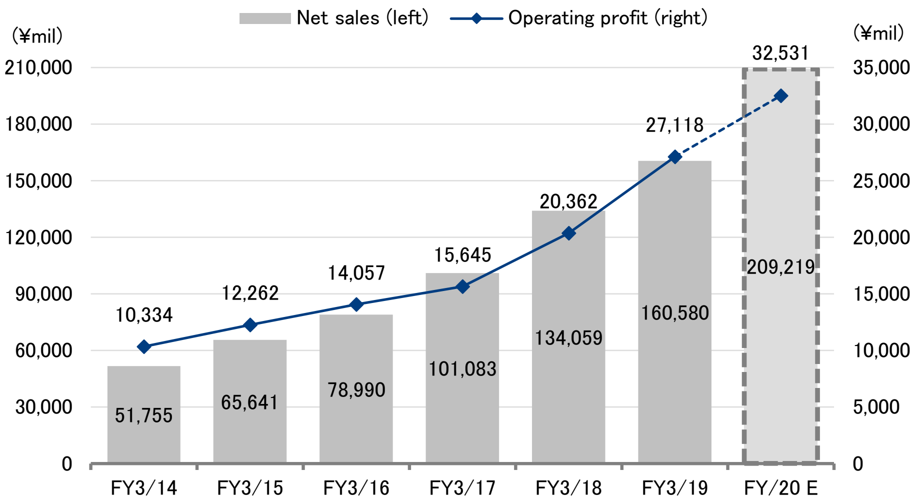
5. Shareholder return policy

The Company regards return of profit to shareholders via dividends as an important management topic. Its fundamental policies 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 value of at least 15% YoY," and we thus expect acceleration of the dividend hike pace over the medium term. In FY3/'19, the Company paid a ¥40.50 dividend (¥17.50 at end-1H and ¥23.00 at end-2H; raising it ¥11.10 or 37.8% YoY) with the dividend payout ratio at 13.7%. After targeting ¥35.00 (¥17.50 at end-1H, ¥17.50 at end-2H) at the start of the fiscal year, the Company increased the dividend at period-end in light of upbeat earnings. In FY3/'20, it guides for a ¥52.00 dividend (¥26.00 at end-1H, ¥26.00 at end-2H) with a 15.0% dividend payout ratio.

Key Points

- Healthy market environment with solid demand in the Kinki area; making strong advances with a location strategy that focuses on popular areas in city centers
- Posted higher sales and profits in a ninth consecutive year in FY3/'19 with a rise in studio condominium sales and profit growth of over 30% in all categories
- Raised goals in the three-year medium-term management plan that lasts through FY3/'21; expects to realize pre-revision FY3/'21 profit goals a year ahead of time in the second year and further sustained profit growth of over 10% in the third year too
- Asset value surpassed ¥300bn on increase in real estate for sale in process; maintains financial soundness
- Full-fledged rollout of real estate tech using AI. Braight, a comprehensive site for investment properties, started operating
- Accelerating the dividend hike pace with a combination of profit growth and increase in the dividend payout ratio plus upward revision of the medium-term plan; lifted the FY3/'19 dividend by 37.8% YoY

Consolidated annual business results



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

Company overview

The Company has a dominant presence in the Kinki area and Tokai and Chukyo area and is Japan's No.2 condominium developer. It specializes in city centers and possesses strength with a diverse product portfolio that ranges from studios and family condominiums to hotels.

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.

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

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 2,363 units sold and generated 26.8% of total sales in 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 2,078 units and provided 48.2% of 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. Pressance Jyuhan Co., Ltd., a subsidiary, manages sales of family condominiums.

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. With a completion rush in FY3/'19, it sharply expanded business to 980 units in FY3/'19 and 11.0% of total sales in FY3/'19. "Building sales" are mainly wholesale transfers of studio condominium buildings to condominium sales firms and provide 7.8% of total sales in FY3/'19. The Company also handles leasing, building management, leasing management, and insurance agent services for sites it developed.

Business lineup in FY3/'19 results

Business segment	Business description	FY3/'19 full-year results		
		No. of units sold	Net sales (¥mil)	Composition
Real estate sale business (main segments)	Studio condominium sales	2,363	43,011	26.8%
	Family condominium sales	2,078	77,375	48.2%
	Condominium building sales	880	12,459	7.8%
	Hotel property sales	980	17,625	11.0%
	Other housing and real estate sales, etc.	98	4,572	2.8%
Others		-	5,535	3.4%
Total		6,399	160,580	100.0%

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

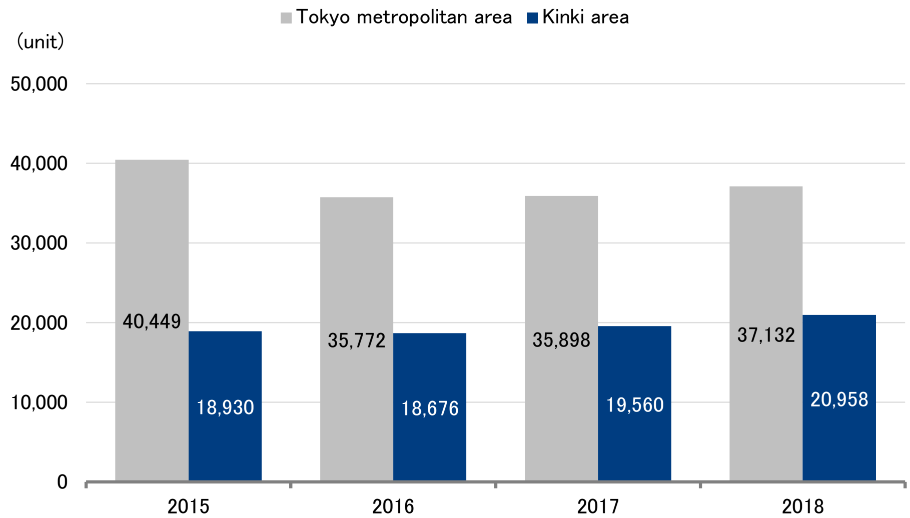
Market trends

Healthy market environment with solid demand in the Kinki area, remains the No. 1 volume supplier in the Kinki area and Tokai and Chukyo area

1. Condominium market trends

New condominium supply has been healthy nationwide, though market trends differ for the Tokyo metropolitan area and Kinki area. While supply rose 3.4% YoY to 37,132 units in the Tokyo metropolitan area (Jan-Dec 2018), it grew at a much faster pace of 7.1% to 20,958 units (same) in the Kinki area.

New Condominium Units supplied



Source: Prepared by FISCO from the "Nationwide Condominium Market Trends" report issued by the Real Estate Economic Institute

In condominium first month contracted rates (first month contracted units/initially supplied units; Jan-Dec 2018) too, the Tokyo metropolitan area was at 62.1% versus the Kinki area's 74.5%, which exceeded the 70% threshold value for healthy conditions throughout the year. We think this is favorable market environment for the Company as, compared to the Tokyo metropolitan area, it is easier to reach consumers in the Kinki area where its business activity is centered.

2. Condominium supply ranking

In the for-sale condominium supply ranking (announced by the Real Estate Economic Institute on February 20, 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 and 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 area and Tokai and Chukyo area include strength in land acquisition based on trust relationships with local real estate firms built 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 area	Tokai-Chukyo area	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 producing results and ranks fifth in the Kinki area's annual salary ranking

1. Location Strategy

Osaka and Aichi Prefecture are largely 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 area and Tokai and Chukyo area. 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). 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 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 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. Strengthening 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 guidance 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 motivation. Employees who deliver results earn high pay. The Company ranked fifth with the large company category for the ranking of estimated average annual salary paid to 40-year olds in the Kinki area in 2018 (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, 2018)

Position	Company	Estimated salary for 40-year olds (¥10,000)	Headquarters location
1	Keyence	2,226	Osaka
2	ITOCHU	1,423	Osaka
3	Nippon Commercial Development	1,331	Osaka
4	Asahi Broadcasting Group Holdings	1,330	Osaka
5	Pressance Corporation	1,114	Osaka
6	Takeda Pharmaceutical	1,027	Osaka
7	Nihon Eslead	1,012	Osaka
8	Daibiru Corporation	942	Osaka
9	Hirose Tsusho	940	Osaka
10	Nintendo	936	Kyoto

Source: FISCO from Toyo Keizai Online (September 21, 2018)

Results trends

Achieved sales and profit growth in a ninth consecutive year in FY3/’19; increased studio condominium share and profit were up by over 30% in all categories

1. Financial results for FY3/’19

For FY3/’19, Pressance reported net sales of ¥160,580mil (+19.8% YoY), operating profit of ¥27,118mil (+33.2%), ordinary profit of ¥26,531mil (+33.6%), and net profit attributable to owners of parent of ¥18,296mil (+33.0%), with significant YoY growth for sales and earnings. This was a record performance, being the ninth consecutive year of increased sales and earnings.

In sales, studio condominium sales rose sharply to 2,363 units (+36.9%) and family condominium sales increased at a healthy pace to 2,078 units (+11.7%). Building sales dropped to 880 units (-29.4%), though this was on track with the plan. Hotel sales climbed dramatically in the second year after beginning sales to 980 rooms (+435.5%). Primary drivers of the Company’s ¥8,109mil in sales upside, versus the period-start plan, were upbeat sales of family condominiums and healthy hotel sales.

Gross margin was up by 1.8ppt YoY to 27.5% thanks to a large share for studio condominiums with relatively high margin. Despite a 0.1ppt rise in the percentage of SG&A expenses (mainly sales fees and personnel costs), operating margin improved by 1.7ppt to 16.9%, a strong level. Additionally, operating profit recorded robust growth at a 33.2% increase.

Despite multiple cases of improper behavior in the investment real estate industry by other companies, these conditions do not appear to have directly affected the Company’s results in FY3/’19. Financial institutions have not altered review standards and loan terms for the customers of the Company’s investment studio condominiums. In fact, they take even more aggressive lending stances in new products (45-year loan, loan for 105% of the property price, etc.).

Business results for FY3/'19

(¥mil)

	FY3/'18		FY3/'19		
	Results	Composition	Results	Composition	YoY
Net sales	134,059	100.0%	160,580	100.0%	19.8%
Cost of sales	99,575	74.3%	116,378	72.5%	16.9%
Gross profit	34,484	25.7%	44,201	27.5%	28.2%
SG&A expense	14,121	10.5%	17,082	10.6%	21.0%
Operating profit	20,362	15.2%	27,118	16.9%	33.2%
Ordinary profit	19,858	14.8%	26,531	16.5%	33.6%
Net profit attributable to owners of parent	13,757	10.3%	18,296	11.4%	33.0%

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

Increase in real estate for sales in process (semi-finished properties under construction), a barometer of future sales, and asset value above ¥300bn, maintaining financial soundness too

2. Financial position and management indicators

Gross asset value increased by ¥56,543mil YoY to ¥301,942mil. The main addition was ¥53,430mil to current assets with contributions of ¥44,840mil in real estate for sale in process and ¥10,615mil in cash and deposits. Real estate for sales in process, a barometer of future sales, has reached a high level at ¥225,302mil. Real estate for sales (finished inventory), meanwhile, totaled ¥9,603mil (-¥1,672mil YoY), a much smaller amount than real estate for sale in process. This discrepancy highlights the Company's success in steadily selling supplied condominiums.

Total liabilities value rose by ¥37,096mil YoY to ¥207,323mil. Current liabilities were up by ¥15,379mil, mainly on a ¥12,040mil increase in long-term loans slated for repayment within one year. Fixed liabilities climbed by ¥21,717mil, primarily due to a ¥24,497mil rise in long-term loans.

In this way, the Company mainly obtains funds as interest-bearing debt at a low capital cost and is acquiring sites that provide the basis for future sales. We think it is in healthy financial shape, including low finished inventory.

In management indicators, the current ratio is 338.4%, significantly higher than the 200% threshold for short-term soundness. The 30.7% 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 March 31, 2019	Change
Current assets	227,161	280,591	53,430
Cash and deposits	31,374	41,990	10,615
Real estate for sale	11,275	9,603	-1,672
Real estate for sale in process	180,461	225,302	44,840
Non-current assets	18,237	21,350	3,112
Total assets	245,399	301,942	56,543
Current liabilities	67,537	82,916	15,379
Current portion of long-term loans payable	32,507	44,547	12,040
Short-term loans payable	7,965	9,920	1,954
Non-current liabilities	102,689	124,407	21,717
Long-term loans	95,621	120,119	24,497
Total liabilities	170,226	207,323	37,096
Total net assets	75,172	94,618	19,446
Total liabilities and net assets	245,399	301,942	56,543
Stability			
Current ratio (current asset/current liabilities)	336.4%	338.4%	-
Equity ratio (equity/total assets)	29.8%	30.7%	-

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 booked orders for 73.3% 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 earnings. Fulfillment of the forecast means sales at over ¥200bil for the first time and ten consecutive years of double-digit profit growth 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. The overall sales outlook is ¥5,148mil more than the second-year value from the medium-term business plan announced a year ago and factors in a steep increase in sales of studio units with high margin and hence a bigger sales portion for this business. 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."

The Company always implements business with an outlook of 1-2 years and already acquired orders totaling 73.3% of the sales target (¥147,102mil) of ¥200,702mil for real estate sales business and other housing and real estate sales business at the start of FY3/'20. We think the Company's outlook is highly reliable with very low possibility of shortfall, considering its excellent planning precision in the past as well.

Outlook for FY3/'20 consolidated earnings

(¥mil)

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

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

Medium-/long-term topics

Upward revision of the medium-term management plan through FY3/'21; sustained high profit growth

1. Raised goals in the medium-term management plan

Compared to the three-year medium-term management plan disclosed in May 2018, first-year FY3/'19 sales and profits overshot, including net sales by 5.3% and operating profit by 10.5%. The Company raised second-year FY3/'20 and third-year FY3/'21 goals in light of upbeat first-year results and likely continuation of healthy sales. The second-year FY3/'20 operating profit goal of ¥32,531mil surpassed the pre-revised third-year goal (¥32,028mil) one year ahead of time. Furthermore, the Company increased the FY3/'21 operating profit goal to over 10% more than the updated FY3/'20 goal.

Revisions to the medium-term management plan

(¥mil)

		FY3/'19 (Medium-term plan – 1st year)	FY3/'20 (Medium-term plan – 2nd year)	FY3/'21 (Medium-term plan – 3rd year)
Prior to revisions	Net sales	152,471	204,070	247,858
	Operating profit	24,541	28,088	32,028
Results	Net sales	160,580	-	-
	Against plan	5.3%	-	-
	Operating profit	27,118	-	-
	Against plan	10.5%	-	-
After revisions	Net sales	-	209,219	250,960
	% change	-	2.5%	1.3%
	Operating profit	-	32,531	36,434
	% change	-	15.8%	13.8%

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

2. Strengthening real estate tech: Launched Braight service

The Company started operating Braight, a comprehensive site for investment real estate that utilizes AI, in April 2019 and thereby began an initiative to accelerate income growth using real estate tech. The “Braight” name combines AI (artificial intelligence) and bright with a message of wanting a bright future for the real estate investment market. The Company launched five sites and offers 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 income 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, and conducting chat interaction with the rental management company.

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 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 new types of customers, 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. The Company plans to accelerate growth by adding income from Braight business to income from its existing businesses.

Overview of Braight-related sites

Source: From company releases

The Company is targeting 75,000 Braight members by FY3/’24, the fifth year of service, and hopes to generate ¥24,480mil in FY3/’24 sales (¥7,200mil in used properties and ¥17,280mil in new-construction properties). Furthermore, these levels assume current Braight service content, and the Company is likely to boost sales with future releases of new Braight services. We expect upside in the Company’s results if Braight business is successful because goals in the medium-term management plan do not contain sales from this initiative.

Braight sales plan for current service

(¥mil)

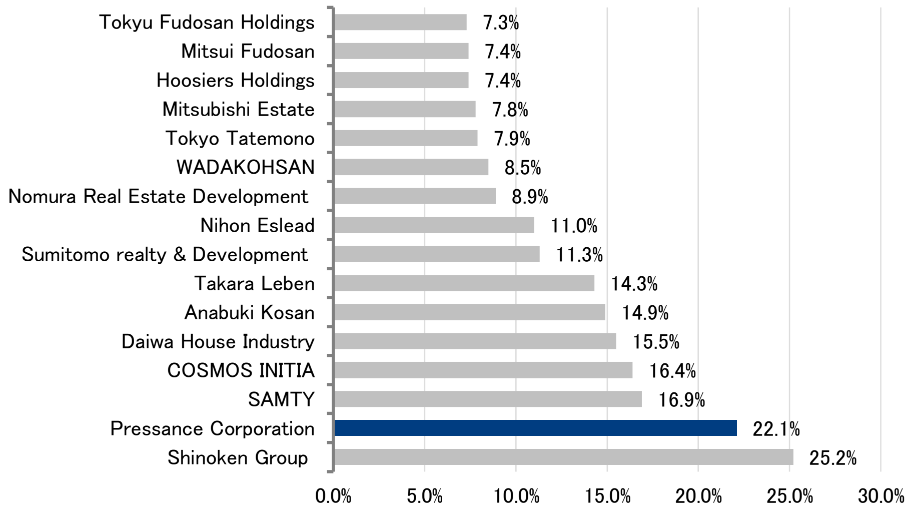
	FY3/'20	FY3/'21	FY3/'22	FY3/'23	FY3/'24
Braight members (period-end, people)	4,500	15,000	35,000	55,000	75,000
Sales from used properties	600	2,160	4,320	5,760	7,200
Sales from newly built properties	720	3,600	6,480	10,800	17,280
Net sales total	1,320	5,760	10,800	16,560	24,480

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

3. ROE comparison in the real estate industry

The Company generates top-class ROE (ratio of net profit to capital) in the real estate industry. It boosted ROE by 1.3ppt YoY to 22.1% in FY3/'19 and has been steadily raising ROE annually in recent years. Just a few companies in the real estate industry surpass 20% in ROE, and Pressance is one of them. In the ROE ranking, ROE at developers focused on the Tokyo metropolitan area is peaking out, and ROE at companies with large stock (rental properties, etc.) ratios has been trending lower. While multiple trouble incidents related to investment properties have occurred in other companies since 2018, the Company has sustained and lifted growth potential and profitability without any negative impact from industry problems.

ROE (ratio of net profit to capital; latest results)



Source: Prepared by FISCO from each company's website

Shareholder return policy

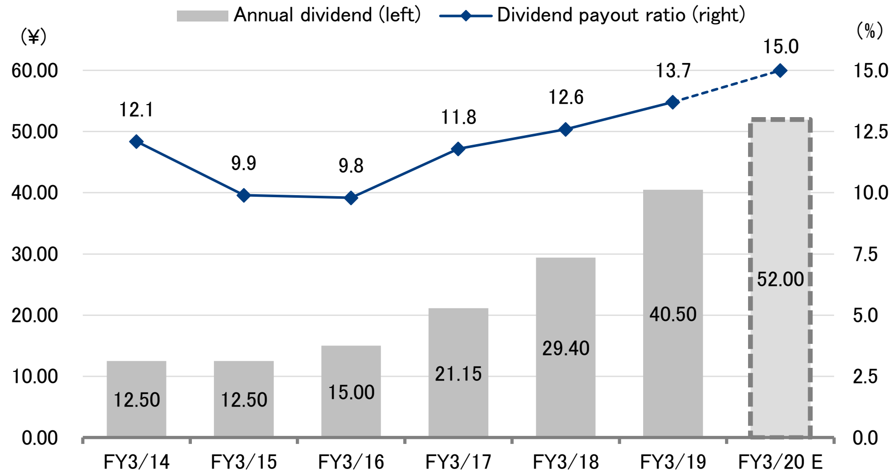
Accelerating the dividend hike pace with a combination of profit growth and increase in the dividend payout ratio plus upward revision of the medium-term plan; lifted the FY3/’19 dividend by 37.8% YoY

The Company recognizes return of profit to shareholders via dividends as an important management topic. Its fundamental policies 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 value of at least 15% YoY.” And we thus expect acceleration of the dividend hike pace over the medium term.

In FY3/’19, the Company paid a ¥40.50 dividend per share (¥17.50 at end-1H and ¥23.00 at end-2H; raising it ¥11.10 or 37.8% YoY) with the dividend payout ratio at 13.7%. After targeting ¥35.00 (¥17.50 at end-1H, ¥17.50 at end-2H) at the start of the fiscal year, the Company increased the dividend at period-end in light of upbeat earnings. In FY3/’20, it guides for a ¥52.00 dividend (¥26.00 at end-1H, ¥26.00 at end-2H) with a 15.0% dividend payout ratio.

As a shareholder benefit, the Company gave VJA gift cards worth ¥2,000 to shareholders with 100 shares to less than 400 shares (two cards with a face value of ¥1,000 each) and 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 (last day of March 2019).

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

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