COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange Prime Market

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Summary

Hotel REIT listing rescheduled to FY11/23 or later due to impact of the coronavirus pandemic. Meanwhile, the leasing apartments market is performing strongly, and income gains also increasing steadily as Group's assets grow

1. Company profile

Samty Co., Ltd. <3244> (hereafter, also "the Company") is a comprehensive real estate company that operates not only in the Kansai region and Tokyo metropolitan area but in major cities nationwide. It features a business structure that balances growth and stability as well as a business model that handles all aspects of the property business, with a Real Estate Business (including development and sales of leasing apartments*1 and hotels for real estate funds) and Real Estate Leasing Business (including owning leased apartments), as well as being involved in the hotel leasing and management business and other related operations. Moreover, it entered the J-REIT business*2 in 2015, and it has prepared a structure for further business expansion as it has continued to achieve high growth over the past few years through expansion of its area of operations and aggressive investment.

*1 "Leasing apartments" and "residential properties" used in this report are synonymous.
*2 Samty Residential Investment Corporation <3459> (hereafter, "SRR"), was established in March 2015 and listed on the Tokyo Stock Exchange (TSE) J-REIT market. In November 2021, the Company established a hotel specialized REIT, Samty Japan Hotel Investment Corporation, with the goal of listing it on the stock exchange in FY11/23 or later.

Due to the impact of the coronavirus pandemic, the hotel business continued to see harsh conditions for occupancy rates. However, leasing apartments, which are not easily affected by economic fluctuations, are performing strongly, and the Company is rapidly moving forward with its strategic investments for the future (land procurement and acquisition of income properties). Furthermore, under the Samty Toughening Plan (post-COVID version), the medium-term management plan (hereinafter, "medium-term management plan (post-COVID version)") announced in January 2021, the Company is aiming to achieve sustainable growth under the changing business environment going forward by switching to an asset-holding type of business model and strengthening the overseas business, as well as taking initiatives in the hotel business from a long-term perspective.

In consideration of the market environment, a hotel REIT listing has been rescheduled to FY11/23 or later. However, the Company has taken initiatives to develop new axis of growth. Its residential condominium business in Vietnam is now fully operational, and, thanks to a collaboration with an influential partner, the Company has also entered the theme park business which has a high affinity with the hotel business.

2. Business results for FY11/22 1H

In FY11/22 1H, net sales increased 49.7% YoY to ¥36,224mn, operating income decreased 23.5% to ¥2,753mn, ordinary income decreased 29.0% to ¥1,993mn, and profit attributable to owners of parent decreased 72.6% to ¥1,666mn, reporting an increase in revenue but a decrease in profit. The continued impact of the coronavirus pandemic has slightly delayed the full-scale operation of newly-opened hotels, etc., but there has been strong appetite for acquisitions of leasing apartments, mainly from overseas investors, leading especially to significant expansion of the Real Estate Solution Business. The Company steadily increased Group's assets through the switch to an asset-holding type of business, expanding income gains*, which is a key focus. For profit, the main causes of the temporary decline were the expenses burden of newly opened hotels, and upfront expenses for the Overseas Business, for which the Company expects to record earnings from 2H. The program of strategic investment for expanding the Group's assets is proceeding rapidly, and the development pipeline has also built up steadily.

* The total net sales of the Real Estate Leasing Business, the Hotel Business, and the Real Estate Management Business.

3. FY11/22 forecasts

In its earnings forecast for FY11/22, the Company revised its initial forecasts downward due to the delayed timing of a hotel REIT listing (it left the bottom-line forecasts unchanged). Even after the downward revision, the Company is forecasting increases in sales and profits, with net sales of ¥123,000mn, up 35.9% YoY, operating income of ¥13,000mn, up 37.4%, ordinary income of ¥13,500mn, up 66.5%, and profit attributable to owners of parent of ¥10,200mn, up 1.9%. Despite rescheduling the listing of the hotel REIT and sale of owned hotels to FY11/23 or later, the Company's forecasts assume increased net sales and profit from its shift in strategy of switching to sales of leasing apartments. Its Overseas Business is also expected to expand with the delivery of THE SAKURA PJ, a residential condominium project (scheduled for November 2022) in Vietnam. In terms of income gains, which is a key focus, the Company is expecting growth of 35.8% YoY, to ¥19,800mn.

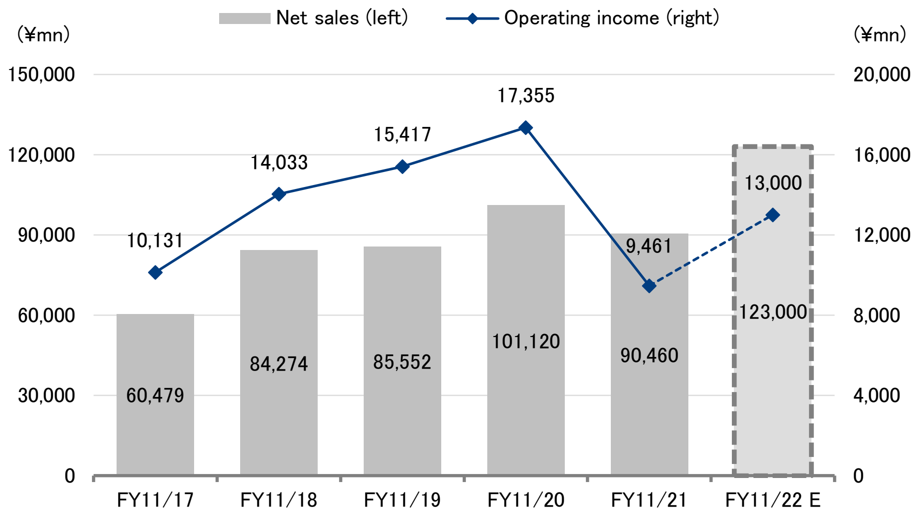
4. Medium-term management plan, Samty Toughening Plan (post-COVID version) overview

In the five-year medium-term management plan (post-COVID version), announced in January 2021, the Company's basic policies are (1) Switch to asset-holding type of business (grow stable earnings), (2) Efforts toward listing of a hotel REIT, (3) Strategic investments in regional metropolitan areas, and (4) Building a profit base in overseas business. The five-year investment plan is for approximately ¥750.0bn and the results targets for the plan's final fiscal year (FY11/25) are net sales at a level of ¥220.0bn, operating income of at least ¥35.0bn, ROE at a level of 15.0%, ROA at a level of 7.0%, and an equity ratio of at least 30.0%. In particular, the Company intends to expand Group's assets (including REIT) to a scale of ¥1tn and switch to an earnings structure in which 50% of operating income is from income gains (leasing income, etc.), and 15% of operating income is from the overseas business.

Key Points

- In FY11/22 1H, leasing apartments performed steadily, but profits temporarily declined from the replacement of sales assets caused by the REIT listing rescheduling
- FY11/22 results forecasts were revised downward due to the rescheduling of the listing of a hotel REIT and sales of owned hotels to FY11/23 or later due to the impact of factors such as the coronavirus pandemic. However, the forecasts assume an increase in net sales and profit from the Company's strategy of switching to sales of leasing apartments
- Under the medium-term management plan (post-COVID version), the Company aims to achieve sustainable growth through a switch to an asset-holding type of business (expansion of income gains) and strengthening of the overseas business, as well as initiatives with a long-term perspective in the Hotel Business

Results trends



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

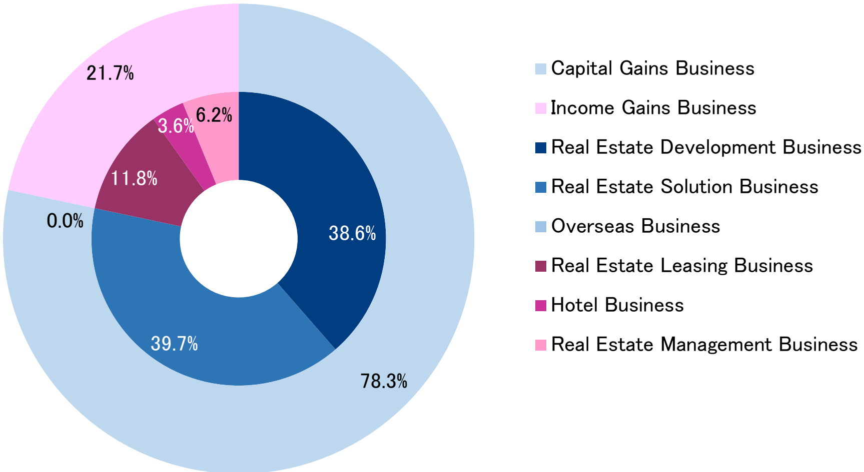
Company profile

Business structure that balances growth and stability. Aims to expand stable source of earnings with switch to the asset-holding type of business model

1. Business overview

The Company's business segments are 1) Real Estate Development Business, 2) Real Estate Solution Business, 3) Overseas Business, 4) Real Estate Leasing Business, 5) Hotel Business, and 6) Real Estate Management. The Company further groups segments 1)-3) as the capital gains business and segments 4)-6) as the income gains business, and with the switch to the asset-holding type of business model, aims to expand the income gains businesses as a stable source of earnings.

Composition of net sales by business in FY11/22 1H (Before adjustment)



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

Also, in March 2015, the Company established SRR, which was listed on the TSE J-REIT market in June of the same year. The Samty Group plays the role of SRR's sponsor (supplying it with properties) and is responsible for subsequent asset management and other operations. SRR continues to steadily expand and currently owns 178 properties with a combined value of ¥162.6bn (as of August 2, 2022). In November 2021, the Company established a hotel specialized REIT, and is moving ahead with preparations to list it on the stock exchange.

For its sales bases, in addition to its Osaka Head Office / Osaka Sales Department (Yodogawa-ku)*1, it has branch offices in Tokyo Head Office / Tokyo Branch (Chiyoda-ku)*2, Sapporo Branch (Chuo-ku), Nagoya Branch (Nakamura-ku), Hiroshima Branch (Naka-ku), and Fukuoka Branch (Hakata-ku) and it is establishing a nationwide system centered on the major regional cities.

*1 Houses the Kobe Sales Office.
*2 Newly opened an East Kanto office (opened August 1, 2022) and a North Kanto office (opened July 4, 2022) under the Tokyo branch, and now operates four offices in the Tokyo metropolitan area (Tokyo Office, East Kanto Office, North Kanto Office and Yokohama Sales Office).

As of the end of May 2022, the Samty Group is comprised of the Company and 24 consolidated subsidiaries and 1 equity-method affiliate*, including 16 SPC and general incorporated associations that were established or received investment in connection with schemes to acquire, own, and develop land, properties, and trust beneficiary rights. The main consolidated subsidiaries include Samty Asset Management Co., Ltd. (asset management, etc.), Samty Hotel Management Co., Ltd. (hotel management, etc.), Samty Property Management Co., Ltd. (property management, etc.) and SAMTY ASIA INVESTMENTS PTE. LTD. (its Singapore subsidiary).

* Wealth Management, Inc. <3772> (WM), which has strengths in hotel renovation and development. On May 25, 2021 the Company entered into a capital and business alliance, with the aim of collaborating on the hotel development projects and so forth. WM has become an equity-method affiliate.

2. Overview of each business

(1) Real Estate Development Business

In the Real Estate Development Business, the Company is involved in 1) planning, development, and sales of the Samty brand S-RESIDENCE series (leasing apartments for real estate funds) and 2) planning, development and sales of hotels and offices (hereinafter "hotels and other").

The core 1) "S-RESIDENCE" series of apartments are based on the concepts and design needs in each area and targeted to people living alone and dual-income couples with no children, as they feature spacious entrances and inside hallways, and have sophisticated designs and a high level of comfort. The Company has granted SRR preferential negotiating rights, and primarily supplies properties to SRR. Since FY11/20, the Company has dramatically expanded its development pipeline with a view to switching to the asset-holding type of business model. At the same time, its policy is to sell each residential property after holding it for a certain period (around three years), which also contributes to the expansion of the Real Estate Leasing Business. Given the market trend of strong acquisitions mainly by overseas funds, the Company intends to agilely and flexibly develop business taking into account individual properties and market trends, while focusing on the concept of promoting ownership after development.

S-RESIDENCE series

Source: The materials supplied by the Company

In 2) "hotels and other," the Company will primarily supply properties to the hotel REIT, which is preparing to list on the stock exchange, through planning and development of the in-house brand S-PERIA series of hotels and joint business with foreign hotel chains, also contributing to the expansion of the Hotel Business.

(2) Real Estate Solution Business

In the Real Estate Solution Business, the Company engages in the acquisition, renovation, and sales of profitable real estate. The Company aims to improve occupancy rates by utilizing its leasing capabilities and expertise for income properties and upgrading properties through renovating facilities, which generates earnings over the period of ownership. The Company's objectives are to secure earnings while the properties are owned and ultimately to capture gains on sales by selling them as investment properties to SRR, real estate funds, and business companies. Recently, there has been an increase in forward commitment deals, in which properties under construction are acquired from outside developers. Furthermore, the Company also carries out warehousing* for SRR. During the ownership period, rental income is recorded in the Real Estate Leasing Business.

* Acquiring properties to incorporate into a REIT.

(3) Overseas Business

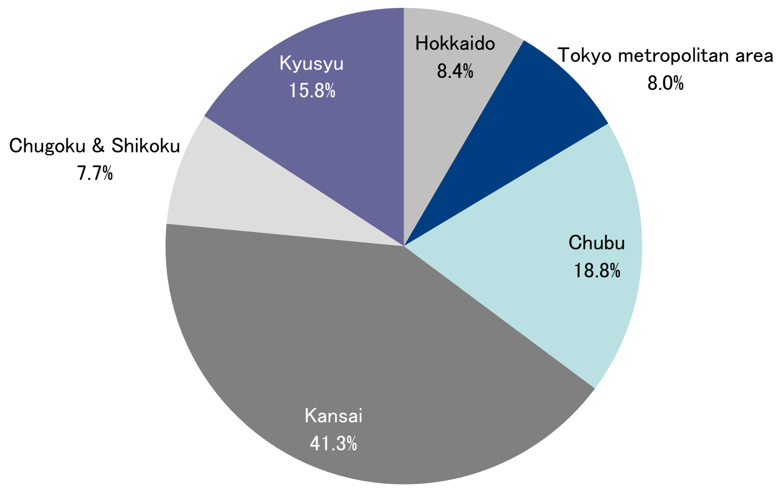
The Company conducts investment and residential condominium business overseas. In 2016 the Company invested in a real estate company (development and leasing business) in Ho Chi Minh through a fund. Since 2020, the Company has been conducting THE SAKURA PJ*2, a residential condominium project in the western part of Hanoi City started jointly with VINHOMES JOINT STOCK COMPANY (hereinafter "VHM")*1, the largest real estate developer in Vietnam.

*1 VHM was founded in 2008 and is a core company within Vingroup, which is Vietnam's largest corporate conglomerate. Among real estate companies in Vietnam, it ranks first for sales, profits, and market capitalization.
*2 Participating in a residential condominium project for four buildings (total of 3,620 units) out of the total of 58 buildings in VinHomes Smart City.

(4) Real Estate Leasing Business

The Company leases condominiums, office buildings and commercial facilities. This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 175 properties nationwide (inventory assets, non-current assets), centered on the Kansai region, Tokyo metropolitan area and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. It also conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. In particular, the Company has a high percentage of condominiums that are largely unaffected by economic fluctuations and utilizes its leasing expertise to realize stable occupancy rates around 95% when averaged over the year. While the scale of the real estate it owns amounts to around ¥180.0bn (book value), this is divided into ¥113.0bn in inventory assets that it intends to eventually sell (real estate for sale) and ¥67.0bn in non-current assets that it intends to continue to own (all results are as of the end of May 2022).

Distribution of assets owned by areas for FY11/22 1H (based on book value)



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

(5) Hotel Business

In the Hotel Business, the Company engages in leasing and operation of 18 hotels (as of the end of May 2022), including 10 hotels developed by the Company. The purpose of this business is to expand the assets of the hotel REIT, which is preparing to list on the stock market, and to build up earnings.

Hotels in which the Company participates

No.	Area	Hotel name	No. of rooms	Remarks
1	Tokyo metropolitan area	Center Hotel Tokyo	108	Owned
2	Kansai	Amano Hashidate Hotel (including Auberge)	86	Owned
3	Tokyo metropolitan area	Hotel Sunshine Utsunomiya	160	
4	Kyushu	S-PERIA HOTEL Nagasaki	155	
5	Kansai	GOZAN	21	Owned
6	Kyushu	S-PERIA HOTEL Hakata	287	Developed
7	Tokyo metropolitan area	S-PERIA INN Nihombashihakozaki	114	Developed
8	Kansai	S-PERIA INN Osaka Hommachi	125	Developed
9	Kansai	S-PERIA HOTEL Kyoto	165	Developed and Owned
10	Chugoku	NEST HOTEL Hiroshima Hatchobori	126	Owned
11	Chugoku	NEST HOTEL Hiroshima Station	84	Owned
12	Kansai	Mercure Kyoto Station	225	Developed
13	Chubu	Ibis Styles Nagoya	284	Developed and Owned
14	Kansai	Agora Kyoto Karasuma	140	Developed
15	Kansai	Agora Kyoto Shijo	80	Developed
16	Kansai	Aloft Osaka Dojima	305	Owned
17	Kyushu	S-PERIA Hotel Fukuoka Nakasu	87	Developed
18	Kansai	Oakwood Hotel Oike Kyoto	120	Developed and Owned
Total		18 hotels	2,672	

Note: In order of acquisition and development. As of the end of May 2022
Source: Prepared by FISCO from the Company's financial results briefing materials

(6) Real Estate Management Business

In the Real Estate Management Business, the Company manages condominiums, office buildings, and commercial facilities. Specifically, the Company undertakes commissioned operation and management services as an asset manager and receives commission income (asset management ("AM") fees), while also conducting condominium management, construction, and renovation, etc., through its subsidiary Samty Property Management. The balance of assets under management ("AUM") is ¥317.8bn (as of the end of May 2022)*. In addition, the number of units under management is 20,000 units (as of the end of May 2022), mainly for SRR.

* Total figure for SRR and private placements for hotel REIT formation.

3. Features

(1) A superior business model

A feature of the Company's business model is that every phase of the property business, including the development of income properties, sales, property management, and fund operation such as REITs, are conducted seamlessly within the Group, and by connecting these respective functions, it creates value (a value chain) that is unique to the Company. In particular, it utilizes its sophisticated leasing expertise, which it has cultivated in the Real Estate Leasing Business, in the Real Estate Development Business and Real Estate Solution Business. In addition to improving the value of income properties, this has positive effects on its superiority in purchasing land, relationships of trust with customers and negotiating power with buyers.

The Company also has a competitive advantage in its business model, centered on SRR. While SRR will become a stable supply destination, the expansion of the after-sales fee business (commissioned AM operations and contract property management ("PM") operations) can be expected to become a stable source of revenue in the future. Moreover, the addition of the hotel REIT will strengthen and enhance the business foundation even further.

(2) Profit structure as a strength

The Company has responded flexibly to changes in its business environment by balancing accelerated growth in its Real Estate Development Business and Real Estate Solution Business (capital gains business) with stable income from its Real Estate Leasing Business (income gains business). From FY11/21, as new strategic initiatives in the situation after coronavirus (the new normal), it is aiming to maximize income gains by growing the Group's total asset scale and strengthening acquisitions of leasing income and fee income and it is working to build a more stable earnings foundation. In addition, its ability to withstand periods of recession is strengthened by the fact that it minimizes fixed costs by not having an in-house sales team and instead utilizing external resources. On of the reasons its results deteriorated comparatively little amid financial crises up to the present time (such as following the collapse of the bubble economy and from the impact of the 2008 global financial crisis) is due to support from its Real Estate Leasing Business and minimizing fixed costs.

(3) Status of human capital

The consolidated number of employees (excluding non-permanent employees) as of the end of May 2022 stood at 456 (up 65 from the end of the previous fiscal year). The Company is aiming to dramatically increase the headcount ahead of business expansion by constantly recruiting new graduates* and proactively hiring mid-career employees with immediate capabilities. In particular, the opening of sales offices nationwide also appears to have a positive impact on securing talent through local hiring and increased brand strength. Breaking down the number of employees by business, the Real Estate Development Business and the Real Estate Solution Business combined has 98 employees (up 19 from the end of the previous fiscal year), the Overseas Business 13 (no change), the Real Estate Leasing Business 14 (down 3), the Hotel Business 117 (up 16), the Real Estate Management Business 162 (up 26), and companywide (corporate) employees' number 52 (up 7). The company's policy is to continue increasing employee numbers for business growth. The Company has long declared its goal of "realizing a company that values people," and it has focused on increasing employee engagement (this will be stated again in the "Basic Policy on Sustainability" below). Going forward, the Company will remain committed to increasing its corporate value by continuing to utilize the enthusiasm and abilities of each team member, increasing retention rates and contributing to local employment, and enhancing the creativity of each team member in their work.

* 9 new graduates joined the Company in April 2022 (nonconsolidated basis).

4. History

The Company was established in December 1982 in Higashiyodogawa-ku, Osaka, as Samty Development Co., Ltd. (changed to current company name in June 2005). Centered on three people, Mr. Shigeru Moriyama (current chairman), Mr. Ichiro Matsushita, and Mr. Kiyoharu Taniguchi, it launched a real estate sales, leasing, and management business. It initially started from consignment sales of condominiums, but subsequently it steadily accumulated results in areas such as sales of entire condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of studio-type condominiums for investment, in March 2005, it launched sales of its S-RESIDENCE series of leasing properties for real estate funds, which spurred on its business expansion. In July 2007, it was listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market) (merged with the TSE JASDAQ in 2010), and moved to the TSE Prime Market in April 2022 as a result of the TSE market reorganization.

Next, to further expand and disperse its business throughout different regions, it opened branch offices in Tokyo in February 2011, in Fukuoka in June 2012, in Sapporo in May 2015, in Nagoya in March 2016, and in Hiroshima in December 2019, and it steadily expanded the regions in which it does business.

The Company is actively broadening its business scope. In August 2006, it acquired the shares of Suntoa Co., Ltd. (currently, Samty Hotel Management), which owns and manages business hotels, to enter the hotel business; In December 2011, it established Samty Kanri Co., Ltd. (currently, Samty Property Management) to enter the property management business; in November 2012, it made SUN Asset Management Co., Ltd. (currently, Samty Asset Management) a wholly owned subsidiary to enter the asset management business; and in June 2015, SRR was listed on the TSE J-REIT market. In such ways, it established a system for growth to accelerate in the future. Its listing was changed to the TSE First Section in October 2015. (It has moved to the TSE Prime Market in April 2022). In May 2019, it concluded a capital and business alliance agreement with Daiwa Securities Group <8601>, and collaboration is moving ahead in such ways as formation of hotel REIT, overseas development and crowdfunding.

Results trends

In FY11/22 1H, while sales increased, profits declined temporarily due to the absence of hotel sale made in the previous fiscal year. On the other hand, income gains increased steadily as Group's assets grew

1. Overview of FY11/22 1H results

In FY11/22 1H, net sales increased 49.7% to ¥36,224mn, operating income decreased 23.5% to ¥2,753mn, ordinary income decreased 29.0% to ¥1,993mn, and profit attributable to owners of parent decreased 72.6% to ¥1,666mn, leading to an increase in revenue and a decrease in profit.

The continued impact of the coronavirus pandemic has slightly delayed the full-scale operation of newly-opened hotels, etc., but there has been strong appetite for acquisitions of leasing apartments, mainly from overseas investors, leading especially to significant expansion of the Real Estate Solution Business. For income gains, which is a key focus, the Company steadily expanded the Group's assets through the switch to an asset-holding type of business, resulting in a 31.6% increase YoY to ¥7,975mn.

On the other hand, the fall in profit was mainly caused by 1) the sale of owned hotels (two hotels developed by the Company) which significantly contributed to earnings in the same period of the previous fiscal year, resulting in a reactionary fall, 2) the expense of newly developed hotels, and 3) upfront expenses for the Overseas Business which expects a project delivery in 2H, and does not represent a fundamental fall in profitability.

The Company was very successful concerning purchases that will lead to future growth, making progress with the acquisition of 30 development sites (acquisition price of ¥15.9bn) and 30 income properties (acquisition price of ¥18.9bn). The Company is making broadly solid progress towards its full-year targets*.

* The progress rate for the acquisition of development sites was 35.3% of the full-year target of ¥45.0bn, but the progress rate would be 66.7% if those scheduled for settlement were included. The progress rate for income property acquisitions was 38.2% of the full-year target of ¥49.5bn, but if those scheduled for settlement were included, this figure would be 60.5%.

Regarding the Company's financial condition, total assets grew significantly by 13.5% compared to the end of the previous fiscal year to ¥396,295mn. This was in line with the Company's policy of switching to an asset-holding type of business, as well as proactively acquiring development sites and income properties. Meanwhile, shareholders' equity remained almost unchanged from the end of previous fiscal year at ¥94,722mn, so the equity ratio fell to 23.9% (compared to 27.0% at the end of the previous fiscal year). Moreover, interest-bearing debt increased by 19.0% to ¥275,088mn, however the ratio of long-term debt is approximately 73%, so the Company appears to be maintaining financial stability even while expanding its assets.

FY11/22 1H results

(¥mn)

	FY11/21 1H		FY11/22 1H		Change	
	Results	% of net sales	Results	% of net sales	Amount	% of change
Net sales	24,193		36,224		12,030	49.7%
Real Estate Development Business	14,756	60.2%	14,205	38.6%	-551	-3.7%
Real Estate Solution Business	3,595	14.7%	14,628	39.7%	11,033	306.9%
Overseas Business	99	0.4%	-	-	-99	-
Real Estate Leasing Business	3,709	15.1%	4,352	11.8%	643	17.3%
Hotel Business	790	3.2%	1,339	3.6%	549	69.4%
Real Estate Management Business	1,562	6.4%	2,284	6.2%	721	46.2%
Adjustment	-320	-	-586	-	-266	-
Cost of sales	16,444	68.0%	28,617	79.0%	12,173	74.0%
SG&A expenses	4,149	17.2%	4,853	13.4%	703	17.0%
Operating income	3,599	14.9%	2,753	7.6%	-845	-23.5%
Real Estate Development Business	5,478	37.1%	2,349	16.5%	-3,129	-57.1%
Real Estate Solution Business	349	9.7%	2,563	17.5%	2,213	634.4%
Overseas Business	-50	-	-174	-	-124	-
Real Estate Leasing Business	1,683	45.4%	2,120	48.7%	437	26.0%
Hotel Business	-1,488	-	-1,562	-	-74	-
Real Estate Management Business	175	11.2%	390	17.1%	214	122.9%
Adjustment	-2,550	-	-2,934	-	-383	-
Non-operating income	906	3.7%	2,016	5.6%	1,109	122.5%
Non-operating expenses	1,697	7.0%	2,775	7.7%	1,078	63.5%
Ordinary income	2,808	11.6%	1,993	5.5%	-814	-29.0%
Extraordinary income	4,307	17.8%	-	-	-	-
Extraordinary loss	132	0.5%	7	0.0%	-124	-94.7%
Profit attributable to owners of parent	6,076	25.1%	1,666	4.6%	-4,410	-72.6%

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

Financial position at the end of FY11/22 1H

(¥mn)

	End of FY11/21	End of FY11/22 1H	Change	
			Amount	% of change
Current assets	225,094	261,449	36,355	16.2%
Cash and deposits	41,646	34,910	-6,735	-16.2%
Real estate for sale	107,875	123,346	15,471	14.3%
Real estate for sale under construction	71,075	99,447	28,372	39.9%
Non-current assets	124,048	134,717	10,668	8.6%
Property and equipment	91,306	104,692	13,386	14.7%
Intangible assets	426	432	6	1.4%
Investments and other assets	32,315	29,591	-2,723	-8.4%
Total assets	349,194	396,295	47,101	13.5%
Current liabilities	54,618	59,987	5,368	9.8%
Short-term borrowings	12,325	15,948	3,623	29.4%
Current portion of long-term debt	32,197	33,892	1,694	5.3%
Non-current liabilities	191,547	230,495	38,947	20.3%
Long-term debt	165,709	200,317	34,607	20.9%
Net assets	103,028	105,813	2,784	2.7%
Total assets	349,194	396,295	47,101	13.5%
Interest-bearing debt	231,231	275,088	43,856	19.0%
Shareholders' equity	94,296	94,722	426	0.5%
Equity ratio	27.0%	23.9%	-3.1pt	-

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

The results for each business are as follows.

(1) Real Estate Development Business

Net sales fell 3.7% YoY to ¥14,205mn, and segment profit fell 57.1% to ¥2,349mn. The Company's sale of owned hotels (two hotels developed by the Company) which significantly contributed to earnings in the same period of the previous fiscal year, resulting in a reactionary fall in both sales and profit. The Company sold a total of 14 properties (compared to 2 properties in the same period in the previous fiscal year), comprised of 13 residential properties* and 1 property for investment unit sales in lots.

* Of which two properties were supplied to SRR.

(2) Real Estate Solution Business

Net sales increased 306.9% YoY to ¥14,628mn, and segment profit increased 634.4% to ¥2,563mn, resulting in a significant increase to both sales and profit. The Company sold 16 leasing apartments* (7 properties in the same period in the previous fiscal year) on the back of stronger appetite for acquisitions of leasing apartments, mainly from REITs and overseas investors, pushing profit margins to high levels.

* Of which one property was supplied to SRR.

(3) Overseas Business

The business posted no sales, and higher upfront expenses resulted in a segment loss of ¥174mn (a ¥50mn loss in the same period in the previous fiscal year). For its residential condominium project, THE SAKURA PJ in Vietnam, the delivery of the completed V8 building (684 units and 19 shop houses) is scheduled for 2H, so net sales were not recorded in 1H. Applications are also growing steadily for the V9 building (1,103 units) for which sales commenced in May 2022.

(4) Real Estate Leasing Business

Net sales expanded steadily 17.3% YoY to ¥4,352mn, and segment profit increased 26.0% to ¥2,120mn. Assets owned centering on residential properties increased to 175 properties (152 properties at the end of the previous fiscal year), while occupancy rates of residential properties remained near 95%.

(5) Hotel Business

Net sales increased 69.4% YoY to ¥1,339mn, and there was segment loss of ¥1,562mn (loss of ¥1,488mn in the same period in the previous fiscal year). Net sales were boosted by a full 1H contribution from 18 hotels the Company owns and operates, as well as from a rise in occupancy rate. However, for profit, the business is still in an upfront investment phase, with expenses being incurred for newly opened hotels.

(6) Real Estate Management Business

Sales and profits increased as net sales rose 46.2% YoY to ¥2,284mn, and segment profit increased 122.9% to ¥390mn. Results partly reflect an expansion in AUM with the expansion of SRR's assets and the formation of the hotel REIT and an expansion in number of units under management by PM. Both are expanding steadily with AUM (as of the end of January 2022) at ¥317.8bn and the number of units under management (as of the end of January 2022) at 20,000 units.

2. Development plan (pipeline) situation

In development of residential buildings (S-RESIDENCE), the Company completed construction of 24 buildings (57 buildings are planned for FY11/22) and retaining ownership of 34 (9 buildings are added since the end of the previous fiscal year). Furthermore, in terms of buildings to be completed from FY11/23 onward, the Company is proceeding with development of a total of 143 buildings (10,413 units) in cities nationwide, planning completion of 71 buildings in FY11/23 and 39 buildings in FY11/24*, and has managed to steadily build up the development pipeline with a view to expanding its assets. Meanwhile, in hotel and office developments, the Company is currently developing seven buildings, including five hotels and two offices.

* The Company is currently making purchases for FY 11/24 and thereafter, and is aiming to add even more properties.

3. Summary of FY11/22 1H

To summarize FY11/22 1H, despite the impact of the coronavirus pandemic extending for longer than expected in the hotel business, the Company is broadly progressing according to its targets, due to 1) strong acquisition appetite from investors for leasing apartments with their stable cash flows, 2) steady growth of income gains, and 3) the inclusion of scheduled settlements for acquisitions of development sites and income properties. From a strategic perspective, the Company should be viewed positively for steadily advancing initiatives with a view toward the post-coronavirus period, such as the development of a luxury hotel and entry to the theme park business jointly with an influential partner (more details below).

Main topics

Acquired management rights for Nesta Resort Kobe in collaboration with an influential partner, and also entered the theme park business which has a high affinity with the hotel business

1. Entry into theme park business

As of June 30, 2022, the Company established a new company to own the management rights to Nesta Resort Kobe*1, a major resort with accommodation facilities including a hotel, through joint investment with Katana Inc. ("Katana")*2, and entered the theme park business. Including acquisition expenses, the Company intends to invest ¥10.0bn in the resort over a five-year period, rebranding the hotel and improving attractions to increase its appeal and enable it to grow as a location for inbound tourism in Kansai, while also focusing on its co-existence with local society. The Company intends to use this opportunity to develop the theme park business as its third pillar after its leasing apartments and hotel businesses.

*1 Japan's first "nature adventure theme park" concept. Spanning 2.3 million m^2 (for reference, this is roughly 60 times the size of Hanshin Koshien Stadium, and Tokyo Disney Resort is roughly 2 million m^2), Nesta Resort Kobe is Kansai's foremost resort and entertainment facility, containing over 40 different activities offering "thrills that jolt the instincts" that cannot be experienced on a daily basis. Katana Inc. became involved in brand design and construction in 2018. The resort is also well-known as a V-shaped recovery success story in attracting customers. From a profit perspective, it has been operating in the black before depreciation even during the coronavirus pandemic.

*2 Katana Inc's CEO and representative director Tsuyoshi Morioka (strategist, marketer) introduced a series of "Morioka Method" such as marketing theories, and spectacularly succeeded in the management reorganization of the crisis-hit Universal Studios Japan in just a few years. He founded Katana Inc., an elite group of marketing experts in 2017, and under the principle of "Cheering up Japan through marketing and entertainment," has undertaken various projects, including the Seibuen Amusement Park 70th anniversary celebration re-opening, and a theme park business in northern Okinawa.

2. Development of luxury hotels

The Company is also continuing to develop luxury hotels as an initiative looking ahead to the post-coronavirus period. Specifically, for hotel projects being developed in Hida Takayama and Haneda, it has decided to open them under the global French hotel chain Accor's Mercure brand*. In addition to recovery and development of the tourist sector in urban areas, the Company also aims to contribute to increasing the appeal of regional areas based on their characteristics.

* Accor is a hotel chain headquartered in Paris, France. It operates over 5,300 hotels and residential properties in 110 countries worldwide, as well as over 10,000 restaurants and bars. Mercure is a mid-scale brand hotel, which is suitable for business and leisure, combining the strength of its international network, and a true hospitality experience that reflects the local characteristics and culture.

3. Renewal of corporate logo

The Company selected a new corporate logo with a view to further growth ahead of the Company's 40th anniversary. The logo design motif is a pair of wings taking flight. Based on the Company group's corporate statement and new slogan of "Samty, Beyond real estate," this illustrates the appearance of taking flight to a future beyond conventional thinking. The Company also changed its company name into English in line with the expected growth of its Overseas Business.

New corporate logo

Source: The Company's financial results briefing materials

Earnings outlook

Although results forecasts for FY11/22 were revised downward due to the rescheduling of the listing of a hotel REIT to FY11/23 or later, the Company forecasts assume increased net sales and profit from its strategy of switching to sales of leasing apartments

1. FY11/22 forecasts

For the FY11/22 results forecast, the Company revised its initial forecasts downward due to the rescheduling of a hotel REIT listing (it did not revise the bottom-line forecasts). However, even after the downward revision, the Company is forecasting increases in sales and profits, with net sales of ¥123,000mn (a revised reduction of ¥17,000mn), up 35.9% YoY, operating income of ¥13,000mn (a revised reduction of ¥5,000mn), up 37.4%, ordinary income of ¥13,500mn (a revised reduction of ¥1,500mn), up 66.5%, and profit attributable to owners of parent of ¥10,200mn, up 1.9% (no revision).

Despite rescheduling the listing of a hotel REIT and sale of owned hotels to FY11/23 or later, based on factors such as the impact of the coronavirus pandemic, the Company's forecasts assume increased net sales and profit from its shift in strategy of switching to sales of leasing apartments. In terms of sales plans, the Company plans to sell 53 properties in the Real Estate Development Business and 40 properties in the Real Estate Solution Business. The Overseas Business is expected to make a significant contribution with the delivery of THE SAKURA PJ V8 buildings (scheduled for November 2022) in Vietnam. In terms of income gains, which is a key focus, the Company is expecting growth of 35.8% YoY, to ¥19,800mn, due to expansion in the scale of the Group's assets and an increase in occupancy rates in the Hotel Business.

On the profit front, despite continued expenses for newly opened hotels, improved earnings from an increase in net sales to prompt a large increase in profit. Ordinary income margin is forecast to improve 11.0% (9.0% in the previous fiscal year).

FY11/22 forecast

(¥mn)

	FY11/21		FY11/22				Change	
	Results	% of net sales	Initial forecast	% of net sales	Revised forecast	% of net sales	Amount	% of change
Net sales	90,460		140,000		123,000		32,540	35.9%
Real Estate Development Business	38,863	42.6%	47,000	33.2%	67,400	54.2%	28,537	73.4%
Real Estate Solution Business	37,128	40.7%	53,600	37.9%	29,300	23.6%	-7,828	-21.1%
Overseas Business	595	0.7%	18,500	13.1%	7,900	6.4%	7,305	1227.7%
Real Estate Leasing Business	7,949	8.7%	9,400	6.6%	8,900	7.2%	951	12.0%
Hotel Business	2,784	3.1%	8,100	5.7%	6,400	5.1%	3,616	129.9%
Real Estate Management Business	3,845	4.2%	5,000	3.5%	4,500	3.6%	655	17.0%
Adjustment	-707	-	-1,600	-	-1,400	-	-693	-
Operating income	9,461	10.5%	18,000	12.9%	13,000	10.6%	3,539	37.4%
Real Estate Development Business	9,863	25.4%	11,000	23.4%	11,900	17.7%	2,037	20.7%
Real Estate Solution Business	3,042	8.2%	6,000	11.2%	4,000	13.7%	958	31.5%
Overseas Business	298	50.1%	500	2.7%	200	2.5%	-98	-32.9%
Real Estate Leasing Business	3,779	47.5%	5,000	53.2%	4,300	48.3%	521	13.8%
Hotel Business	-2,596	-	800	9.9%	-1,900	-	696	-
Real Estate Management Business	550	14.3%	1,100	22.0%	500	11.1%	-50	-9.1%
Adjustment	-5,475	-	-6,400	-	-6,000	-	-525	-
Ordinary income	8,105	9.0%	15,000	10.7%	13,500	11.0%	5,395	66.5%
Profit attributable to owners of parent	10,012	11.1%	10,200	7.3%	10,200	8.3%	188	1.9%

Note: The revised forecasts for FY11/22 are figures announced on July 28, 2022
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

2. FISCO's opinion

At FISCO, we believe the rescheduling of a hotel REIT listing to FY11/23 or later is rational given the current market environment. We also think the revised results forecasts are attainable based on 1) the strong level of inquiries for leasing apartments from investors, 2) the property delivery (earnings posting) in the Overseas Business scheduled for 2H, and 3) steady increase of income gains as assets owned grow. Meanwhile, increasing competition for development sites and income properties, not just in the Tokyo metropolitan area but also in regional metropolitan areas, means this and progress of future strategic investment will need to be kept under observation. The Company is also taking initiatives such as newly opening offices and increasing personnel to bolster a structure dedicated to purchasing. We intend to monitor the outcomes of these initiatives.

Progress on medium-term management plan, Samty Toughening Plan (post-COVID version)

Policy of aiming to grow stable earnings through switching to asset-holding type of business. Over 50% of the investment plan investments were made in the first year and a half since the start of the plan

1. Overview of medium-term management plan

Looking at the impact of the coronavirus pandemic and future changes in the business environment, in January 2021 the Company released a new five-year medium-term management plan (post-COVID version). The plan's four basic policies are as follows: 1) Switch to asset-holding type of business, 2) Efforts toward listing of a hotel REIT, 3) Strategic investments in regional metropolitan areas, and 4) Building a profit base in overseas business. Points 1) and 4) are particularly different from the previous policies. As an asset-holding type of developer, the Company has worked out a new direction of striving to stabilize revenue and launching overseas businesses as a future growth axis.

(1) Switch to asset-holding type of business

Up to the present time, in order to recoup investment income at an early stage and acquire cash flow, the Company has conducted its business by quickly selling completed properties. However, on considering a response to the revised consumption tax* and factors such as a favorable sentiment for rental unit fees and sales prices, it has reviewed its approach to obtaining the highest income gains (leasing income, etc.) possible by owning the properties for a period of three years in principle.

* Due to the revision to the consumption tax system in 2020, consumption tax for buildings can no longer be included in the payment of consumption tax for the year of acquisition. However, if the sale takes place within three years, including the acquisition and construction-transfer periods, it is possible to receive a tax benefit (partial refund of the tax payment). Therefore, in principle, the sale will be made within three years of completion.

(2) Efforts toward listing of a hotel REIT

The Japanese government is firmly implementing policies to realize national tourism, and in this situation, in order to capture the recovery of demand after the coronavirus pandemic has settled down and to ascertain movements in the industry reorganization, the Company will aim to strengthen the earnings capabilities of existing hotels, while continuing measures toward listing a hotel REIT (established in November, 2021). It will also continue to carefully select and invest in development projects in the future, and its policy is to contribute to the accumulation of REIT assets from a medium- to long-term perspective.

(3) Strategic investments in regional metropolitan areas

The Company intends to continue to increase investment in regional metropolitan areas nationwide, while monitoring demand. Going forward, it will accelerate the pace of development and aim to increase stable leasing income by holding properties for a certain period of time after they are completed.

(4) Building a profit base in overseas business

Using the opportunity provided by the joint business with VHM in Vietnam, the strategy is to utilize the experience that the Samty Group has cultivated over many years to capture residential demand alongside the economic growth of ASEAN countries and the increases in the populations of cities. This business has been positioned as the growth driver of the future. In particular, with regards to Vietnam, where economic growth is remarkable, the Company's policy is to mitigate development risk and benefit from the local tax rates through collaboration with a leading local developer. As discussed above, the V8 building (703 units) has sold out (delivery scheduled for November 2022), while applications are also growing steadily for the V9 building (1,103 units) for which sales commenced in May 2022. A V10 building (delivery scheduled for fall 2023) and a V7 building (delivery scheduled for fall 2023) are also planned.

2. Investment plan

The five-year investment plan (FY11/21 to FY11/25) is for approximately ¥750.0bn. Breaking this down, ¥300.0bn will be for residential property development, ¥120.0bn for hotel and office building development, and ¥250.0bn to acquire income properties, while ¥80.0bn will be allocated to overseas business, which is a new theme. Also, through switching to asset-holding type of business and the growth of the SRR and hotel REIT, the Company's policy is to increase the Group's assets to ¥1tn (¥500.0bn for total assets on a consolidated basis) by FY11/25. The cumulative investment amount (for a year and a half) is about ¥384.4bn (progress rate of 51.3%). The Group's assets have already exceeded ¥500.0bn, half of the targeted amount, and are advancing steadily, as they grew approximately ¥63.5bn from the end of the previous fiscal year to ¥559.0bn.

Investment plan (five year) progress

(Unit: ¥bn)

Investment field	Investment plan target amount through FY11/25	As of FY11/21 1H-end	
		Cumulative investment amount	Progress rate
Residential property development	3,000	1,362	45.4%
Hotel/office building development	1,200	1,068	89.0%
Income property acquisition	2,500	1,059	42.4%
Overseas business	800	354	44.3%
Total	7,500	3,844	51.3%

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

3. Results targets

The results targets for the plan's final fiscal year of FY11/25 are for net sales at a level of ¥220.0bn (of which, ¥45.0bn from leasing income, etc.), operating income of at least ¥35.0bn, ROE at a level of 15.0%, ROA at a level of 7.0%, and an equity ratio of at least 30.0%. Also, by converting the revenue structure, the percentage of operating income provided by income gains (leasing income, etc.) will be increased to 50% (around 15% using FY11/20 as a reference fiscal year), while the percentage from overseas business is forecast to be 15%. In other words, the Company will shift the focus of the income model from the conventional domestic capital gains (development profits, etc.) to income gains (leasing income, etc.), which are stable sources of income, and acquire capital gains overseas as a new growth driver.

Status of Progress on KPIs in the Medium-Term Management Plan (Post COVID Version)

	FY11/20 Results	FY11/21 Results	FY11/22 Plan	FY11/23 Numerical target	FY11/25 Numerical target
Net sales	¥101.1bn	¥90.4bn	¥123.0bn	¥170.0bn level	¥220.0bn level
(of which, leasing income, etc.)	(¥12.1bn)	(¥13.8bn)	(¥19.8bn)	(¥35.0bn)	(¥45.0bn)
Operating income	¥17.3bn	¥9.4bn	¥13.0bn	At least ¥20.0bn	At least ¥35.0bn
ROE	14.3%	11.7%	10.6%	12.0% to 15.0% level	15.0% level
ROA	7.4%	3.2%	3.3%	6.0% to 7.0% level	7.0% level
Equity ratio	30.7%	27.0%	23.4%	27.0% to 30.0% level	30.0% level or higher

Note: ROA = operating income ÷ total assets (average of the balances at the beginning and end of the fiscal year)
Source: Prepared by FISCO from the Company's financial results briefing materials

4. Points of attention for FISCO analysts

At FISCO, we view the switch to an accumulation-type revenue model and overseas business development as strategies that make sense in order to further expand business and realize sustainable growth going forward, and we view the Company as being in the midst of a period of transformation toward its next stage. However, in advancing the conversion of the revenue structure, as it is conceivable that for the time being it will prioritize accumulating assets held (reducing sales of properties), to evaluate the strategic progress made, it would seem appropriate to focus on the pace of expansion of assets held and the growth of income gains (leasing income, etc.). However, in principle, the plan is to sell properties within three years, so it is anticipated that net sales growth will recover after three years, at the latest. We can also expect potential for the overseas business (Vietnam) through the collaboration with a leading local developer. Using the opportunity of the current project, the key points will be how the Company will utilize the expertise it has cultivated up to the present time and its speedy management decision-making, and how it will connect this to further development. We view the Company's entry into the theme park business, which has a high affinity with the hotel business, as a strategy that signifies a new direction. In particular, the collaboration with an influential partner, including the development of luxury hotels with brand power, may enable the co-creation of value that combines both soft and hard aspects. Based on this, from a medium- to long-term perspective, we will be focusing on (1) developments toward the strengthening of the hotel business, including the listing of the hotel REIT and alliances with other companies (foreign-capital operators, etc.), (2) progress made in strategic investment in regional urban areas, (3) the movements and future development of overseas business (Vietnam), and (4) the possibilities of new value creation through collaboration with partners.

Sustainability initiatives

Established ESG investment fund, as well as resolving to investment in a Green Bond as the first project

1. Sustainability Basic Policy

The Company has set forth four issues including “environmental consideration,” “coexistence with local communities,” “realization of companies that value people,” and “strict implementation of corporate ethics,” as basic policies on sustainability. The Company is also based on the idea of contributing as a leader in solving social issues through business activities by enhancing sustainability management. In January 2022, a total of 11 S-RESIDENCE properties*1 acquired the DBJ Green Building Certification*2 for real estate that is environmentally and socially conscious, an external evaluation of the results of the Company’s initiatives through its business activities.

*1 Including sold properties.
*2 This system was established by the Development Bank of Japan in April 2011 with the goal of acting as a bridge between business operators and financial institutions and investors through the evaluation of socially and environmentally conscious real estate (Green Building). In addition to the environmental performance of buildings, it includes a comprehensive evaluation of various stakeholder responses, including disaster readiness and community consideration to evaluate and certify real estate that meets the demands of society and the economy.

2. Establishment of ESG investment fund

In April 2022, the Company established an ESG investment fund at subsidiary SAMTY ASIA INVESTMENTS PTE. LTD., as well as deciding to invest in a Green Bond as the first project. The ESG investment fund will comprise of green bonds, social bonds and impact investment in businesses that contribute to the environment and a sustainable society. The Green Bonds are for investment in renewable energy generation businesses centering on a wind-power energy generation project in Italy.

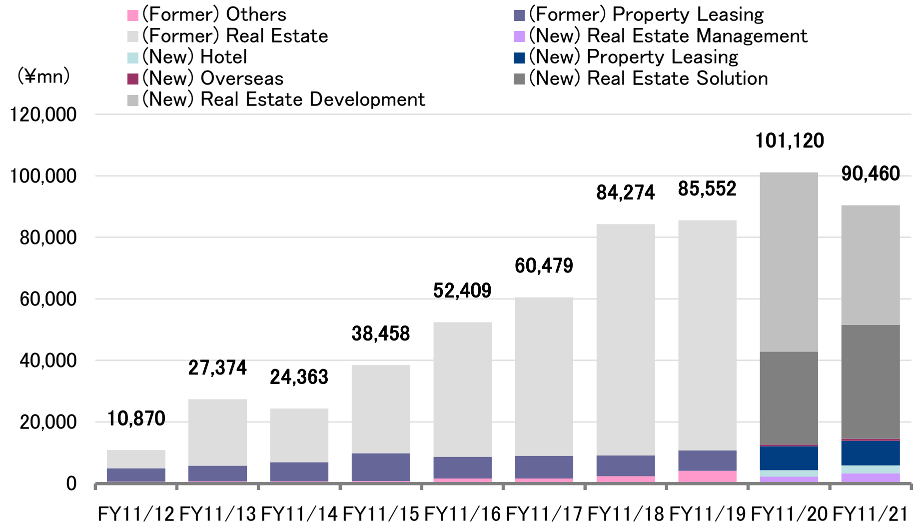
Results trends

Substantial growth in the Real Estate Business amid strong real estate market

Looking back on the Company’s results, immediately after it listed on the Osaka Stock Exchange Hercules market (merged with the TSE JASDAQ in 2010) in FY 11/07, it was immediately impacted by the 2008 global financial crisis and results trended at a low level for a period of time. The major contraction of the Real Estate Business due to the credit tightening by financial institutions had a particularly adverse impact on its results. However, the points we should focus on are that results in the Real Estate Leasing Business have trended stably even under a severe industry environment, which has supported the results of the Company as a whole. The fact that it does not have its own in-house sales team and has minimized fixed costs has also had a positive effect, and it can be highly evaluated on the point that it has secured profits in every fiscal year expect FY11/08, when it recorded a net loss due to declaring impairment.

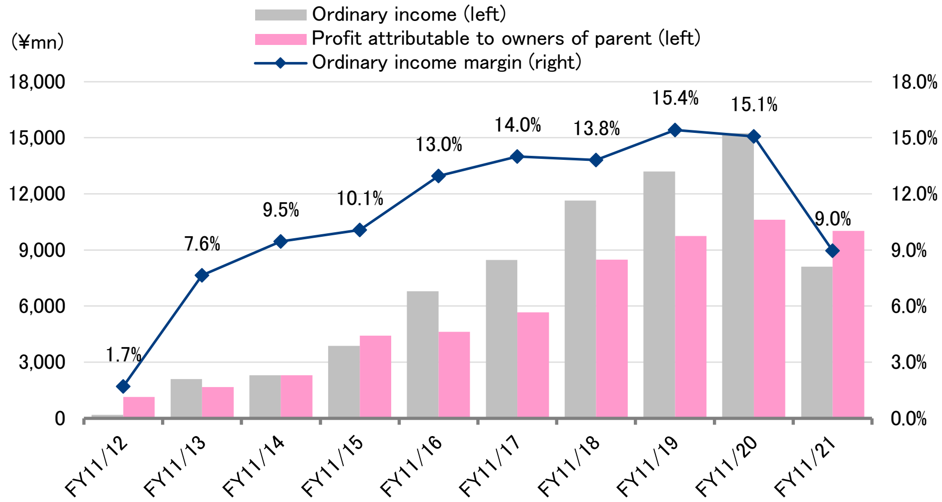
Since FY11/13, the Real Estate Business has greatly recovered due to the change in financial institutions' attitude toward financing, which has occurred against the backdrop of the recovery of the domestic economy and monetary easing, and the Company's results have entered an expansion phase. In particular, the Company has achieved a significant expansion in business over the past few years, aided by the establishment of a business model centered on SRR which listed on the stock market in June 2015, as well as increased demand from overseas investors. Despite a temporary decrease in sales associated with a change of business model in FY11/21, from FY11/22 the Company is forecasting a return to a growth trajectory. Furthermore, in terms of profit and loss, the ordinary income margin has been improving year by year thanks to progress in highly profitable of Real Estate Development Business. However, the ordinary income margin decreased to 9.0% in FY11/21, mainly due to widening losses in the Hotel Business caused by the impact of the coronavirus pandemic.

Trends in net sales (by business)



Note: Excluding internal sales. New segment classification applies from FY11/20 onward.
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Trends in ordinary income, profit attributable to owners of parent, and the ordinary income margin



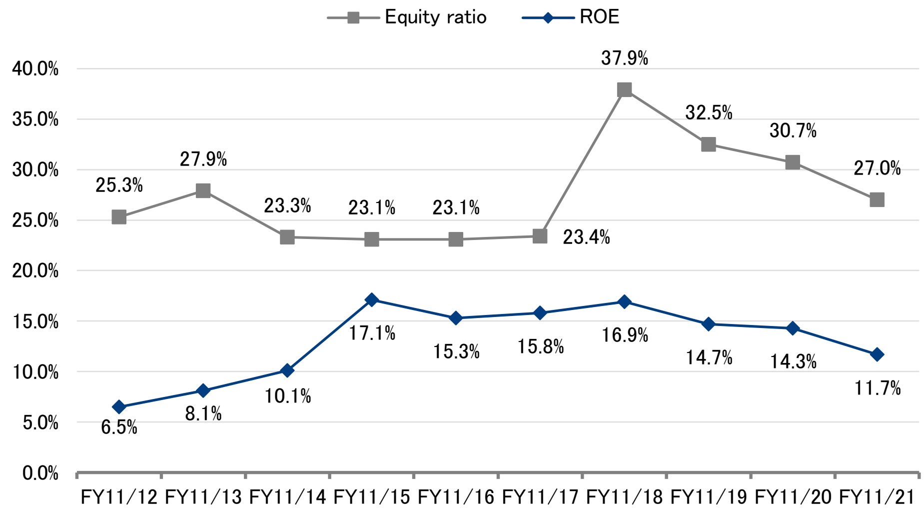
Source: Prepared by FISCO from the Company's financial results

Although the equity ratio increased to 27.9% in FY11/13 following the implementation of a capital increase through a public offering (approximately ¥2.0bn), it has been at a level of around 23% since FY11/14 due to the Company's active accumulation of assets and other factors. However, it moved in a positive direction as a result of issuing new shares (approximately ¥15.0bn) through a rights offering* in October 2018 and disposing of treasury shares (approximately ¥2.7bn) in May 2019 following the capital and business alliance with the Daiwa Securities Group, and the Daiwa Securities Group's conversion of convertible bonds (¥10.0bn) in 2021, at the end of FY11/21, the Company was maintaining an equity ratio at the 27.0% level, while aiming to grow assets.

* The Company issued new shares by allotment of stock acquisition rights without consideration to existing shareholders.

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. Even in FY11/21 when profit margins declined, it maintained a level of 11.6%.

Trends in the equity ratio and ROE



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

Industry environment

Residential property development has been performing strong even amid the coronavirus pandemic. For hotels, there is some selection of players looking ahead to the post-coronavirus period

1. J-REIT market

The J-REIT market will have a significant impact on the Company's growth strategy going forward. As of the end of June 2022, the market capitalization of the J-REIT market was around ¥16,316.0bn (-1.4% from the end of the previous fiscal year), and there were 61 J-REITs listed. Looking back, although there was a phase in which the market was temporarily weak due to the impact of tightening credit and related factors following the 2008 global financial crisis, the market has been growing since 2012 thanks to the recovery of the domestic economy and the effects of prolonged monetary easing, along with other factors. However, since the start of 2020, concerns about overall economic stagnation due to the coronavirus pandemic and other factors resulted in a large decline in the market centered on hotels and commercial facilities, but residential properties and distribution centers, etc., which are largely unaffected by economic fluctuations, have remained firm. Also, the market has recently been recovering significantly based on expectations for the economy to normalize due to progress on vaccinations as well as the outlook for the low interest rate environment to continue, and 2021 has generally followed a trend of recovery.

The TSE REIT index trended firmly due to a robust domestic real estate market (rising rents, etc.). In particular, investment appetite for J-REITs from domestic and overseas institutional investors remains vibrant because they generate yield and have relatively stable cash flow against a backdrop of the sustained monetary easing policy by the Bank of Japan (BOJ) and healthy office demand up to now. Due to the impact of the coronavirus pandemic, investment saw a temporary significant decline in March 2020, but recovered in 2021 to record high pre-coronavirus levels. However, since the start of 2022, investment has been somewhat muted due to projected interest rate rise in the United States and the spread of the omicron variant in Japan, among other factors.

Trends in the TSE REIT index

Source: Prepared by FISCO from various materials

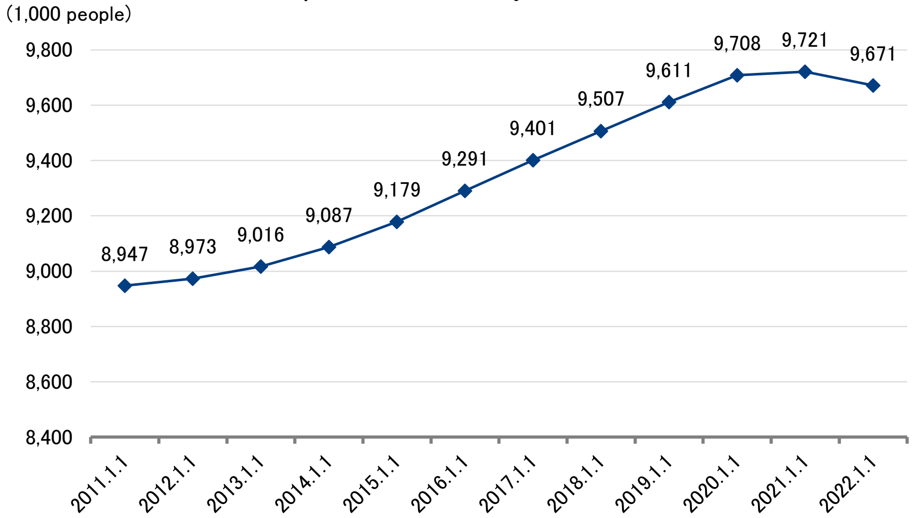
2. Residential (rental apartments)

The market for rental apartments is strong, supported by robust demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government's Bureau of General Affairs, the population of Tokyo's 23 wards, which accounts for most of the region to which the Company supplies properties, has continued to increase against the backdrop of a net increase in people moving to Tokyo.*1 In particular, there has been a noticeable increase in the number of single-person households, including among the young, which is occurring in the context of later marriages and the increase in the divorce rate, and it is thought that this will also support lease demand for studio-type apartments in the future. This trend can also be seen not only in Osaka and Nagoya, but also in regional metropolitan areas such as Fukuoka and Sapporo, and although the population of Japan is declining, on the other hand the population is becoming increasingly concentrated in cities. Also, recently there has been a trend of rising demand for small-size apartments that are suitable for working from home. The background for this is the stable growth in average rent levels and occupancy rates in Japan's five largest cities*2, as well as the fact that this market has been strong amid the coronavirus pandemic. Meanwhile, on the investor side, there has been a high level of inquiries from overseas investment funds and other investors for buying entire buildings in Tokyo's prime locations.

*1 However, since April 2020, when the coronavirus pandemic came into full swing, the monthly trends of inflows and outflows changed to an excess outflow as people postponed moving to Tokyo and working at home increased. As a result, at the end of December 2021, the population (of Tokyo's 23 wards) had switched to a decrease YoY. Though if looking to the medium to long term, the appeal of metropolitan Tokyo remains as high as before considering aspects such as employment opportunities and urban functions, and the opinion is that once the coronavirus pandemic settles down, this trend toward avoiding densely populated areas will also settle down.

*2 Tokyo (23 wards), Osaka, Nagoya, Sapporo, Fukuoka.

Population trend in Tokyo's 23 wards



Source: Prepared by FISCO based on materials issued by the Tokyo Metropolitan Government's Bureau of General Affairs

3. Hotels and office buildings

Looking at hotels, prior to the coronavirus pandemic, hotel occupancy rates were high against a backdrop of increasing inbound demand. Recently, with the protracted impact of the coronavirus pandemic, hotel occupancy rates have been low, but looking over the medium to long term, occupancy rates are expected to recover as the number of vaccinated people increases and due to the Japanese government's tourism promotion strategy and structural supply-demand balance. The selection of players looking ahead to the post-coronavirus period has already begun, and it is believed that momentum for capturing business opportunities will increase going forward. In office building development as well, despite the need to pay attention to the impact of changes in work styles (such as wider use of remote work and satellite offices), major regional urban areas where the Company develops properties face severe office shortages and this suggests that sufficient business opportunities exist.

Returns to shareholders

The Company plans to pay ¥90 per share, the same amount as the previous fiscal year for the FY11/22 dividend

The Company is aware that returning profits to shareholders is one of its most important management issues. Its policy is to pay dividends that reflect its business results and are based on a comprehensive consideration of its future business plans and financial condition.

Regarding the annual dividend amount for FY11/21, the Company paid a dividend of ¥90 per share (a ¥39 interim dividend and ¥51 year-end dividend), an increase of ¥8 per share from the previous fiscal year. The Company plans to pay the same amount for the annual dividend for FY11/22 as FY11/21. The Company targets a dividend payout ratio of around 30%, but at FISCO, we think there is considerable room for the dividend to be increased in the future based on profit growth.

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