

B-lot

3452 TSE Mothers

5-Apr.-16

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hideo Kakuta

■ An emerging real estate investment and development company that is moving to the next growth stage by developing inbound demand

B-Lot <3452> (hereafter, also “the Company”), is an emerging real estate investment and development company. Its main business involves improving the values of the office and condominium buildings it has invested in, and then selling them to domestic and international investors and the wealthy. It has gone ahead of its industry peers and advanced its business not only into Kanto, but also into Hokkaido and Kyushu, and handles properties for various uses, such as hotels and nursing facilities. It is also responding to customer needs, and one of the features of the Company is its diversified business development from its flexible planning capabilities. In December 2014, B-Lot quickly listed on the Tokyo Stock Exchange (TSE) Mothers market, and armed with name recognition and financial strength, the Company is further accelerating growth.

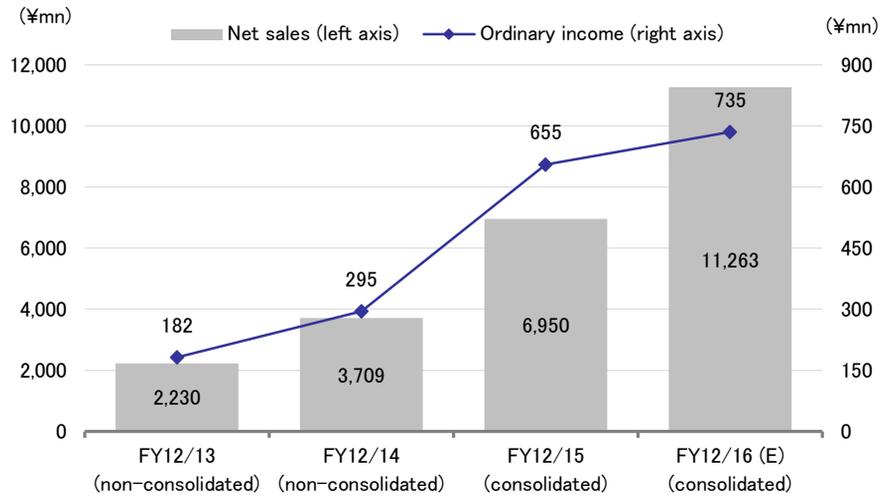
The Company made a major leap forward in its recent results. The FY12/15 full year net sales were ¥6,950mn (up 87.4% year-on-year (YoY)) and operating income was ¥800mn (up 111.5%), so both net sales and operating income greatly exceeded the previous fiscal year’s results. The main factor behind this performance was that after it was listed, the unit price of the properties handled in the Real Estate Investment and Development Business rose greatly. In addition, the stable growth of the Real Estate Management Business supported earnings. In this fiscal year, the Company is continuing to diversify its fund raising and has substantially strengthened its financial base. In the FY12/16 full year also, with the Real Estate Investment and Development Business as the main pillar, it is expecting to further accelerate growth and achieve increases in both sales and profits for the sixth consecutive fiscal year. The balance of real estate for sale had reached ¥6,069mn (at the end of FY12/15) and purchases are also proceeding steadily.

The Medium-term Management Plan (2 years) describes the Company’s measures for developing inbound demand. The Company has already started the regeneration and development of hotels within cities, and some are producing results. The lot sales of hotel condos in Hokkaido for wealthy international investors is one of its measures to develop inbound demand. What makes it possible for B-Lot to realize diversified developments and developments in various regions is its expertise in real estate and its planning capabilities, and also that the Company is actively forming partnerships with other companies. The fact that B-Lot has strengthened its financial base and has ample funds to purchase and hold properties will have a positive effect on its results in the future. We think that the numerical targets set in the Medium-term Management Plan are highly achievable. The Company’s profitability compares favorably with any of its industry peers and in this context B-Lot’s PER is low, and we expect there to be a phase in the future in which this is reconsidered.

■ Check Point

- A group of real estate investment and development professionals that is diversifying its properties’ uses and regions through a strategy of active collaborations
- A dramatic increase in sales in the FY12/15 full year (up 87.4% YoY), and each income item also doubled
- Announced a Medium-term Management Plan to develop inbound demand and is currently regenerating and developing hotels and other real estate

Trends in full fiscal year results



■ Company profile

A group of real estate professionals established in 2008, which quickly listed in 2014

(1) Company history

B-Lot is an emerging real estate investment and development company established in 2008 by a group of professionals with many years of experience in the real estate industry, including President Makoto Miyauchi. When it was first founded, its main businesses were real estate brokerage and rental management, but as the Company improved its fund-raising capacity, the percentage of its results provided by the Real Estate Investment and Development Business increased. The Company has entered not just into Kanto, but also into Hokkaido and Kyushu, and handles properties nationwide. In addition, while it mainly handles offices and condominiums, it is actively pursuing measures for properties like hotels and nursing facilities. B-Lot quickly listed on the TSE Mothers markets in December 2014, which was only six years and two months after its foundation, and it is accelerating growth while strengthening its financial base. In 2015, it founded an asset management company and a Singapore subsidiary (both are consolidated subsidiaries).

The Real Estate Investment and Development Business is the main business

(2) Business overview

The Company's main business is the Real Estate Investment and Development Business, which provides 88.3% of net sales and 71.1% of operating income, with these percentages have risen in recent years alongside the strengthening of its fund raising capacity. There are two types of operations within this business; the regeneration type, of investing in office and condominium buildings, improving their value, and then selling them, and the development type, of acquiring land and constructing new buildings. The Real Estate Consulting Business is mainly real estate brokerage operations, and in a growing number of cases involves consultations on inherited properties. Since its foundation, the Company has conducted this business as part of its services to the wealthy and to investors, and it provides 2.5% of Company-wide net sales and 4.9% of operating income. The Real Estate Management Business involves the management of real estate, such as following a sale, and the management of real estate for rental. Its level of contribution to results is high, providing 9.2% of net sales and 24% of operating income, and it can be described as an essential business in terms of securing stable earnings.

Business descriptions and percentages (consolidated, FY12/15 full year)

Business segments	Descriptions of main businesses	% of sales	% of operating income
Real Estate Investment and Development Business	1. Real estate regeneration 2. Real estate development	88.3%	71.1%
Real Estate Consulting Business	1. Real estate brokerage 2. Real estate consulting	2.5%	4.9%
Real Estate Management Business	1. Leasing management 2. Property management	9.2%	24.0%
		100%	100%

Source: prepared by FISCO from Company materials

* Income before adjustments

Developing a real estate regeneration and development business for properties with diverse uses in various regions

(3) The Real Estate Investment and Development Business

The Company deploys two models: real estate regeneration and real estate development. In the real estate regeneration model, the Company itself acquires properties that are undervalued due to problems in terms of profitability and legal compliance, utilizes its planning capabilities and expertise in regeneration to improve their asset value, and then sells them. B-Lot's expertise in regeneration includes in increasing revenues, reducing costs, correcting illegalities, and converting buildings to their most appropriate use. In the last three years, it has held properties for an average of 7.7 months. In the real estate development model, the Company itself implements an integrated framework, from acquiring the land through to the planning, development, administration, and management of properties, and highly original projects are possible. The FY12/15 net sales were ¥6,137mn (up 89.6% YoY), and segment income was ¥839mn (up 80.8%). The average sale unit price of the 13 properties for which it concluded contracts was ¥471mn (up 220.7%), which is a major increase on the previous fiscal year. According to usage, the properties B-Lot handles are mainly office buildings (4 properties) and condominium buildings (7 properties), but a characteristic of the Company is its rapid diversifying the use of the properties it handles, such as for hotel developments, store developments, and nursing facilities, as well as diversifying the price range.

Business models: real estate regeneration and real estate development



Source: Company information

A brokerage business responding to the inheritance needs of wealthy customers

(4) The Real Estate Consulting Business

B-Lot's customer are investors and the wealthy, and asset consultations are important in order to maintain points-of-contact with customers. Typical customer needs include the conversion of assets and inheritance-related measures. In both cases, the real estate brokerage is the main business. The Company's strength is in property development and the yield on its regional properties, such as in Hokkaido and Kyushu, are excellent, and they are well suited to diversified investment. Breaking down the 29 properties for which contracts were concluded, 15 properties were in Kanto and 14 properties were for projects outside of Kanto. By proposing to customers diverse plans as a real estate specialist with expertise and planning capabilities, the number of inheritance consultations in this business is increasing solely from introductions and repeat business. The FY12/15 net sales were ¥171mn (down 13.1% YoY) and segment income was ¥57mn (down 26.5%).

Long-term and continuous follow-up business from the wealthy, re-evaluated as a stable source of earnings

(5) The Real Estate Management Business

The real estate sold in the Real Estate Investment and Development Businesses requires long-term and continuous management (such as to find tenants, collect rent, and maintenance). The Company provides outsourcing management services with the aim of obtaining long-term, continuous follow-up business from investors and the wealthy. The average annual occupancy rate of its outsourcing-services properties is 91.4% (2015) and it is maintaining a high level of performance. This business also includes the rental income from the Company's own properties. From the perspective that the Real Estate Investment and Development Business is easily affected by the external environment, the Company's strategy is to increase investment in real estate for rental to stabilize results. In addition to a store building in Tokyo that B-Lot has owned since the past, the Company acquired two new properties in 2015, a bridal facility in Kanazawa and a condominium building in Kanagawa. The FY12/15 net sales were ¥642mn (up 133.2% YoY) and segment income was ¥283mn (up 219.9%).

■ Results trends

Major leaps forward in net sales and each income item

○Trends in the FY12/15 full year results

In the FY12/15 full year, net sales were ¥6,950mn (up 87.4% YoY), operating income was ¥800mn (up 111.5%), ordinary income was ¥655mn (up 122.1%), and net income was ¥400mn (up 126.8%), and the results for both net sales and the income items greatly exceeded those of the previous fiscal year. The main reason for this was the growth in the number of sales contracts against the backdrop of the strong performance for purchases in the Real Estate Investment and Development Business. The results were also supported by the stable growth in earnings in the Real Estate Management Business.

FY12/15 full year results

	FY12/14 full year		FY12/15 full year		
	Result (¥mn)	Percentages (%)	Result (¥mn)	Percentages (%)	YoY (%)
Net sales	3,709	100.0	6,950	100.0	87.4
Gross profit	936	25.3	1,556	22.4	66.1
SG&A expenses	558	15.1	756	10.9	35.4
Operating income	378	10.2	800	11.5	111.5
Ordinary income	295	8.0	655	9.4	122.1
Net income	176	4.8	400	5.8	126.8

Source: Company materials

Targeting a sixth consecutive year of increases in sales and profits

○FY12/16 full year results forecast

The FY12/16 targets are for net sales of ¥11,263mn (up 62.1% YoY), operating income of ¥974mn (up 21.8%), ordinary income of ¥735mn (up 13.2%), and net income attributable to the owners of the parent company of ¥482mn (up 20.4%).

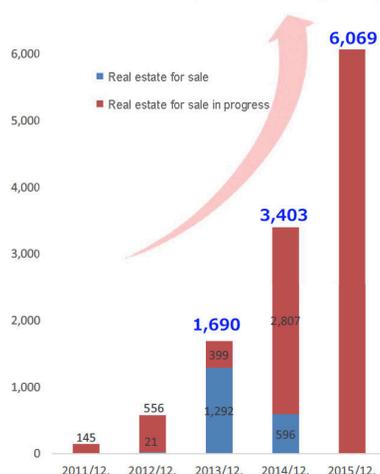
FY12/16 full year (consolidated, forecast)

	FY12/15 full year		FY12/16 full year (forecast)		
	Result (¥mn)	Percentages (%)	Forecast (¥mn)	Percentages (%)	YoY (%)
Net sales	6,950	100.0	11,263	100.0	62.1
Operating income	800	11.5	974	8.6	21.8
Ordinary income	655	9.4	735	6.5	13.2
Net income attributable to the owners of the parent company	400	5.8	482	4.3	20.4

Source: the financial results summary

The increase in net sales will mainly be from the Real Estate Investment and Development Business. At the end of FY12/15, the real estate for sale balance was ¥6,069mn, and this will form the basis for making sales in FY12/16. Profitability is expected to slightly decrease in FY12/16, but this is because of the forecast of a temporary decline in the profit margin from the anticipated increase in the price range of a large project to develop transactions with various REIT companies. In addition, the forecast that the period in which a hotel development project and the subsidiaries that have only just been established (an asset management company and a Singapore subsidiary) will contribute significantly to earnings will be from FY12/17.

☒ Trends in the real estate for sale balance at the end of the fiscal year (unit: ¥mn)



Source: the financial results briefing materials

Diversifying its fund raising and strengthening its financial base

○Financial position

At the end of FY12/15, total assets were ¥9,984mn, which is an increase of ¥4,716mn from the end of FY12/14. The biggest factor behind this was the increase in real estate for sale (including in progress) of ¥2,666mn. Cash and deposits were ¥2,106mn (up from ¥1,098mn at the end of FY12/14), and the Company has plenty of cash on hand.

Liabilities were ¥7,553mn (up from ¥3,262mn at the end of FY12/14). This was mainly due to a rise of ¥4,512mn in non-current liabilities and increases in both long-term debt and corporate bonds. The main decrease factors were a reduction in current liabilities of ¥1,249mn and a decline in short-term debt. At the times it acquires the real estate for sale, the Company has been making progress toward strategically diversifying its fund raising and shifting it to long term.

The management indicators (at the end of FY12/15) had greatly improved, with a current ratio of 454.3% (162.5% at the end of FY12/14) and an equity ratio of 24.4% (18.6%), solidifying the financial base.

Consolidated balance sheet, management indicators

(unit: ¥mn)

	FY12/14 (non-consolidated)	FY12/15 (consolidated)	Change
Current assets	5,014	8,343	3,329
(cash and deposits)	1,008	2,106	1,098
(real estate for sale, including in progress)	3,403	6,069	2,666
Non-current assets	254	1,632	1,378
Total assets	5,268	9,984	4,716
Current liabilities	3,085	1,836	-1,249
Non-current liabilities	1,204	5,716	4,512
Total liabilities	4,290	7,553	3,262
Net assets	977	2,431	1,453
Total liabilities and net assets	5,268	9,984	4,716
<Financial stability>			
Current ratio (current assets + current liabilities)	162.5%	454.3%	-
Equity ratio (shareholders' equity + total assets)	18.6%	24.4%	-

Source: Company materials

B-lot

3452 TSE Mothers

5-Apr.-16

Profitability is comparable to any industry peer and the share price is undervalued

○ Industry peers

Due to their similar business characteristics, the industry peers that can be used for a comparison include A.D. Works. Co., Ltd. <3250>, Kenedix, Inc. <4321>, and Ichigo Inc. <2337>. While the Company compares favorably to each of them in terms of profitability indicators, its PER ranks low, and it is anticipated that there will be a phase in the future when the share price's sense of being undervalued will be reconsidered.

■ Growth strategy

Announcement of Medium-term Management Plan (2 years)

○ Has strengthened its financial base and is entering a new growth stage

The Company announced its Medium-term Management Plan on February 12, 2016, in which it set the targets for two years later, FY12/17, of net sales of ¥12,354mn (up 77.7% compared to FY12/15) and ordinary income of ¥1,100mn (up 67.9%). On considering the points that through its listing it has diversified its fund raising and strengthened its financial base, that it is steadily accumulating stock in real estate for sale, and that demand is increasing for hotels, residences, and other properties from the active inbound demand, it seems reasonable to consider that there remains room for the actual results to exceed the numerical targets set in the Medium-term Management Plan.

Medium-term (two year) consolidated results targets

	FY12/15 full year	FY12/16 full year	FY12/17 full year	
	Result (¥mn)	Forecast (¥mn)	Target (¥mn)	vs. FY12/15 Percentage change (%)
Net Sales	6,950	11,263	12,354	77.7
Operating Income	800	974	1,361	70.1
Ordinary Income	655	735	1,100	67.9
Net income attributable to the owners of the parent company	400	482	714	78.3

Source: financial results briefing materials

Medium-term plan priority measures the central pillar of its strategy is responding to inbound demand

○Setting five priority measures

The first priority measure is “Monetizing measures for inbound demand.” Against the backdrop of the increase in the number of overseas tourists in recent years, the shortage of hotels in Japan has become a serious problem. B-Lot, which was quick to embark on measures for this issue, has been engaged in hotel conversions (offices converted for use as hotel facilities) and securing land for the building of new hotels. The Company intends to accelerate these developments across the period of the Medium-term Management Plan and monetize them. The second priority measure is “Strengthening the external cooperative network.” The Company has been diversifying its investment projects, from hotels through to condominiums and nursing facilities, and regionally also they are widely distributed, from Sapporo down to Fukuoka. B-Lot has professionals in each respective field for design and operations, and regionally it is a strong player. The Company is actively collaborating with its partner companies and is efficiently and smoothly progressing projects. The third priority measure is “Strengthening the financial base.” Progress has already been made toward diversifying fund raising and shifting to long-term financing. In the future also, the plan is to actively acquire real estate for rental to secure stable earnings. The fourth priority measure is “Training young and new graduate employees.” As it is accelerating the expansion of its businesses, it must recruit and train new young employees. In April 2016, 4 inaugural new graduates joined the Company. The fifth priority measure is “Establishing a system of corporate governance,” and the policy is to appoint outside directors who are very familiar with the industry and management.

The five priority measures

1.Monetizing measures for inbound demand

Build and realize measures for inbound demand that take advantage of the business opportunities arising from Japan's tourism-oriented nation strategy, such as hotel conversions, development solutions, and investment coordination for the wealthy from overseas.

2.Strengthening the external cooperative network

Form business partnerships with promising companies to achieve efficient and smooth area development and build new business models, and strengthen these partnerships.

3.Strengthening the financial base

Prepare for market fluctuations and aim to diversify fund raising, including by shifting to long-term financing. Continue to acquire real estate for rental toward securing stable earnings.

4.Training young and new graduate employees.

Alongside the increase in the number of business opportunities, train new graduates and aim to stimulate the organization by, for example, appointing young employees to management positions.

5.Establishing a corporate governance system

Strengthen the governance system, including by appointing independent directors familiar with management and the industry.

Source: financial results briefing materials

Currently developing a variety of products for inbound demand

○From hotels to condominiums and from Hokkaido to Kansai and Kyushu

The Company is already progressing the commercialization of 5 properties in order to respond to inbound demand. One of them is IMANO TOKYO, a hotel in Shinjuku (simple lodgings). The room fee is reasonable, starting at 3,000 yen, and it is mainly popular with overseas guests (percentage of overseas guests, 81.3% in FY12/15). In this project, the Company purchased an office building and then converted it into a hotel, and it is a case study that fully demonstrates the planning capabilities of the Company and its partner companies. Other than this, B-Lot has also decided to commercialize a project to build a new compact hotel at a site a 2 minute walk from Shin-Okubo Station, while it is also acquiring land for a hotel in Kyoto. For wealthy overseas investors, the Company is planning lot sales of hotels condominiums in Niseko Town, Hokkaido. Based on its partnerships with local collaborating companies, B-Lot has already embarked on projects in cooperation with its Hokkaido branch office and Singapore subsidiary.

B-lot

3452 TSE Mothers

5-Apr.-16

Inbound demand case study 1: a hotel conversion

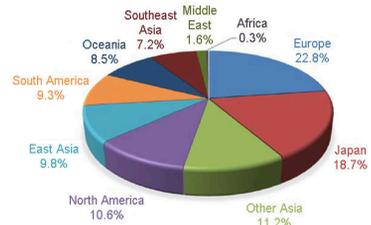
Optimized use

Own and manage accommodation in a building converted from offices!

B-lot
3452 TSE Mothers

5-Apr.-16

Ratio of overseas guests reached 81.3% in FY12/15



Source: financial results briefing materials

Inbound demand case study 2: a condominium development in Hokkaido

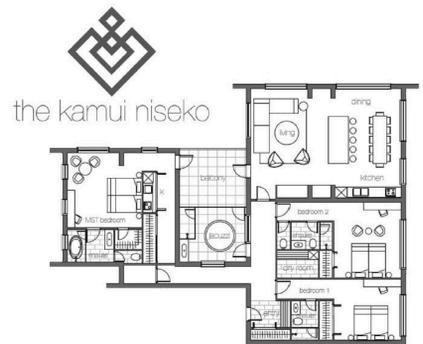
Building development

Planned development of condominiums in Niseko Town, Hokkaido, for wealthy overseas investors

A lot-sales condominium project is underway in a partnership system with collaborating companies



The Niseko area is one of the most famous powder-snow ski resorts in the world and is visited by many overseas tourists. Based on the brand concept of "NISEKO. My Extreme." the aim is to independently create an international coexistence resort culture.



*The plans are those at the present time and may change in the future.

Source: financial results briefing materials

Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.