Pressance Corporation Co., Ltd.

3254 Tokyo Stock Exchange First Section

22-Jun.-16

Important disclosures and disclaimers appear at the end of this document.

FISCO Ltd. Analyst
Hideo Kakuta

Focus on Industry-Leading Earning Capability and Growth Potential

Pressance Corporation <3254> is an independent developer of family and studio condominiums that handles planning, development, and sales. It is the biggest supplier in the Kinki region and Tokai-Chukyo regions. The company offers the Pressance Series of condominiums, conveniently located less than 10 minutes' walk from central railway stations and using a proprietary design and development. Another strength is a highly motivated sales force, which is why so few of the company's units typically remain unsold. Pressance has grown steadily since its establishment in 1997. It listed on the Second Section of the Tokyo Stock Exchange in 2007. Having suffered little from the Lehman Brothers bankruptcy, the company listed on the First Section of that stock market in 2013.

Pressance reached all-time highs in net sales and profits in FY3/16 with a sixth straight year of sales and profit increases. Net sales climbed 20.3% YoY to ¥78,990mn, and operating income rose 14.6% to ¥14,057mn. Studio condominiums delivered the strongest growth among the company's business segments and led the overall sales advance. In its FY3/17 forecast, Pressance targets ¥100,839mn in net sales (up 27.7% YoY), moving above ¥100,000mn for the first time, and ¥15,466mn in operating income (up 10.0%), a new record high. Due to the nature of its business, Pressance has already obtained orders (contract concluded, pre-transfer) for many of the properties it intends to sell in FY3/17 with orders valued at 65.3% of the overall sales target at the start of the term.

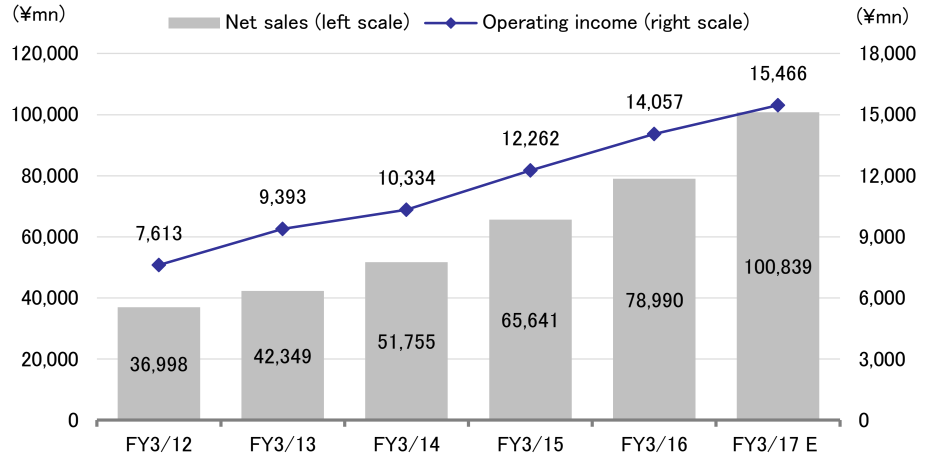
Acquisition of land is a key point in the growth strategy. Pressance owns considerably more real estate for sale in progress than other condominium firms and is prepared for future business. If converted into condominium numbers, acquired land assets work out to three years' worth of business in family and studio condominiums and about five times in entire buildings (vs. about 400 units sold in FY3/16) based on FY3/16's transfer results.

The stock's inclusion in the JPX-Nikkei Index 400 in August 2015 testifies to the company's top-level ROE for the condominium industry and solid financial position. For FY3/16, Pressance paid annual dividends of ¥60 per share (term-end), up ¥10 YoY, and this works out to a 9.8% dividend payout ratio. Management guides for annual dividends of ¥70 (¥35 in 1H, ¥35 in 2H) for FY3/17. It aims to increase shareholder return opportunities through introduction of an interim dividend.

Check Point

- Posted higher net sales and profits for six straight years, possesses a solid financial base
- Steadily buys land ahead of time and is the industry leader for sale in progress
- Increasing large developments and high-end condominiums, thereby accelerating expansion of the brand series

Consolidated Full-Year Business Results



Business Overview

Family condominiums sales are a mainstay for the company, which markets its brand in highly attractive locations

Family condominiums are a mainstay for Pressance, accounting for 56.8% of net sales. The company offers condominiums under Pressance Loger and other brands. The units range from 50 to 100 square meters and are located within 10 minutes' walk of major railway stations in locations with pleasant environments. Subsidiary Pressance Jyuhan Co., Ltd., oversees sales. The next biggest segment is sales of studio condominiums, which has been a core business since foundation, representing 27.8% of net sales. The company offers these condominiums under the Pressance brand. The units range from 20 to 50 square meters and are conveniently located within five minutes' walk of major railway stations. Since these studio condominiums are bought for the purpose of asset management, the company is mainly targeting high-income, high-net-worth individuals. The entire building sales business entails wholesale selling of Pressance-developed condominiums. This business accounts for 6.2% of net sales. Other businesses include rentals of Pressance-developed properties, constituting 4.1% of net sales. In 2015, the company supplied 2,512 units nationwide. This included 1,669 units in the Kinki region, accounting for the vast majority, 695 in the Tokai-Chukyo regions, and 148 in other regions.

Business Breakdown in FY3/16

Business segments	Business description	Sales volume (number of units)	Sales (¥mn)	Sales composition (%)
Real estate sales business	Family condominium sales	1,429	44,931	56.8%
	Studio condominium sales	1,366	21,966	27.8%
	Entire building sales	401	4,922	6.2%
	Other real estate sales	-	2,388	3.0%
	Other housing sales	44	1,256	1.6%
	Peripheral businesses	-	279	0.3%
Other businesses	Rental of company's properties, etc.	-	3,244	4.1%
Total		3,240	78,990	100.0%

Source: Earnings release

Results Trends

Posted all-time high net sales and profits and possesses a solid financial base

(1) Results trends in FY3/16

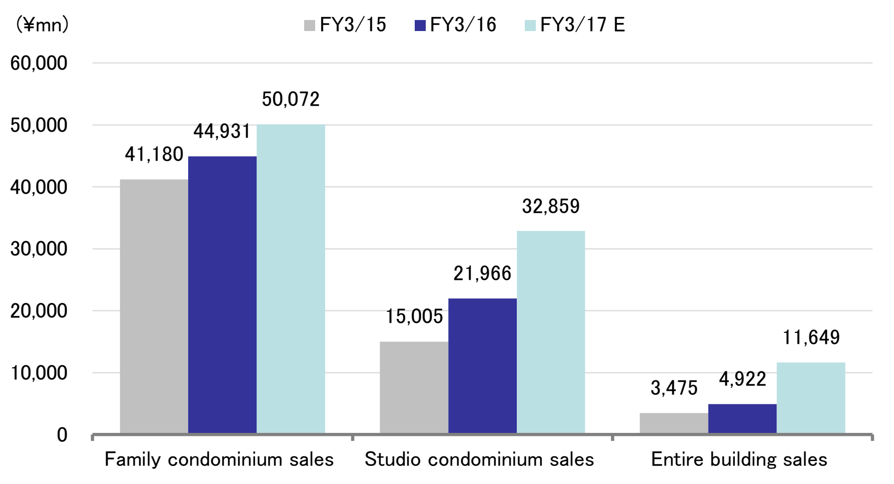
Pressance posted ¥78,990mn in net sales (up 20.3% YoY), ¥14,057mn in operating income (up 14.6%), ¥13,798mn in ordinary income (up 14.4%), and ¥9,194mn in net income attributable to owners of the parent (up 18.5%) in FY3/16. Both net sales and profits exceeded previous-year levels. The main driver was stronger sales of family and studio condominiums in the three major metropolitan areas (particularly the Kinki area) in the real estate sales business. Studio condominiums delivered the strongest growth among the company's business segments and led the overall sales advance. While cost of sales ratio and SG&A expenses ratios rose slightly from the previous year, the positive effect from increased sales outweighed these impacts and profits improved to all-time highs.

Business Result for FY3/16

	FY3/15		FY3/16		
	Results (¥mn)	Composition (%)	Results (¥mn)	Composition (%)	YoY (%)
Net sales	65,641	100.0	78,990	100.0	20.3
Cost of sales	45,903	69.9	55,611	70.4	21.1
Gross profit	19,737	30.1	23,379	29.6	18.4
SG&A expenses	7,475	11.4	9,321	11.8	24.6
Operating income	12,262	18.7	14,057	17.8	14.6
Ordinary income	12,065	18.4	13,798	17.5	14.4
Net income attributable to owners of the parent	7,758	11.8	9,194	11.6	18.5

Source: Earnings release, company materials

Sales Trends by Business Segment



(2) FY3/17 forecast

Pressance forecasts ¥100,839mn in net sales (up 27.7% YoY), ¥15,466mn in operating income (up 10.0%), ¥15,089mn in ordinary income (up 9.4%), and ¥10,327mn in net income attributable to owners of the parent (up 12.3%) in FY3/17. The company expects net sales to surpass ¥100,000mn for the first time and post new highs in profits. Final-buyer interest in purchasing and investing in condominiums has risen owing to a macro tailwind as many financial institutions lowered home loan interest rates under the negative interest rate policy. Pressance expects segment trends to be largely unchanged with significant sales of family condominiums and strong growth in studio condominiums and entire buildings. Due to the nature of its business, Pressance has already obtained orders for many of the properties it intends to sell in FY3/17 with orders value at 65.3% of the overall sales target at the start of the term. We do not expect a major deviation from FY3/17 sales forecast because Pressance ties its outlook to individual properties.

FY3/17 Consolidated Results Forecast

	FY3/16 full-year results		FY3/17 forecast				
	Results (¥mn)	Composition (%)	Full-year forecast (¥mn)	Composition (%)	YoY (%)	2Q forecast (¥mn)	YoY (%)
Net sales	78,990	100.0	100,839	100.0	27.7	61,228	-1.8
Operating income	14,057	17.8	15,466	15.3	10.0	11,158	-21.5
Ordinary income	13,798	17.5	15,089	15.0	9.4	10,996	-22.3
Net income attributable to owners of the parent	9,194	11.6	10,327	10.2	12.3	7,525	-20.2

Source: Earnings release

(3) Financial position

Total assets stood at ¥124,277mn at the end of March 2016, up ¥22,728mn from the end of FY3/15. This was due largely to a ¥19,521mn increase in real estate for sale on progress. Real estate for sale, meanwhile, was ¥4,173mn, up ¥1,571mn, demonstrating the company's ability to minimize unsold condominium numbers.

Total liabilities were ¥73,953mn, up ¥17,036mn compared to the end of FY3/15. The main increase was ¥23,512mn rise in non-current liabilities, largely caused by an increase in long-term loans. The primary decline item was current liabilities with a ¥6,476mn decrease.

The company does not face any financial issues, in our view, with the current ratio at 531.7%, up from 328.3% a year earlier, and the equity ratio at 40.4%, down from 43.9% at the end of March 2016. We have a positive view of Pressance's ability to maintain stability while actively utilizing leverage.

Consolidated Balance Sheet and Management Indicators

(unit: ¥mn)

	FY3/15	FY3/16	Change
Current assets	94,070	117,887	23,817
(Cash and deposits)	20,942	22,887	1,945
(Real estate for sale)	2,602	4,173	1,571
(Real estate for sale in progress)	68,854	88,376	19,521
Non-current assets	7,478	6,390	-1,088
Total assets	101,549	124,277	22,728
Current liabilities	28,647	22,171	-6,476
Non-current liabilities	28,269	51,781	23,512
Total liabilities	56,916	73,953	17,036
Total net assets	44,632	50,324	5,692
Total liabilities and net assets	101,549	124,277	22,728
<Stability>			
Current ratio (current assets ÷ current liabilities)	328.3%	531.7%	-
Equity ratio (equity ÷ total assets)	43.9%	40.4%	-

Source: Earnings release

Growth Strategy

Making healthy progress with advance purchases of land, accelerating large developments and expansion of the brand series

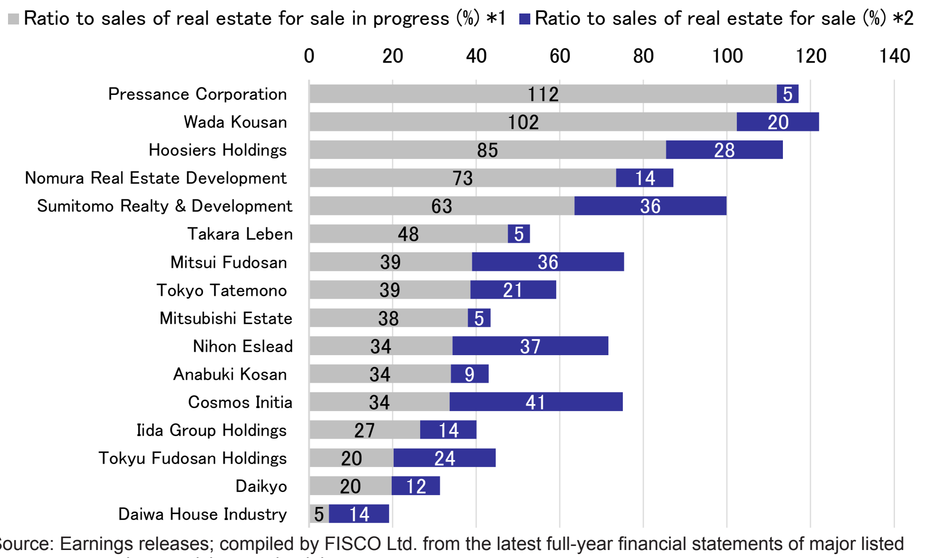
(1) Medium-to long-term earnings targets

Pressance does not disclose specific numerical targets, as it does not have a policy of formulating medium- and long-term targets because it wishes to be able to respond flexibly to changes in the business climate. That said, we think that the company looks to boost operating income by just over 10% (double digits) annually on average in the absence of extraordinary factors that might cloud the operating environment. Such a target seems realistic given that operating income grew an average 14.0% in the eight years from FY3/08 through FY3/16. It is worth noting that the Lehman Brothers bankruptcy and the Great East Japan Earthquake occurred during that time, so the period was not particularly favorable for condominium developers.

(2) Benchmarks for real estate for sale in progress and real estate for sale

Securing land is vital for a condominium developer, so currently rising prices in suitable properties in the Tokyo region are a concern. Pressance actively took on loans backed by its ample internal reserves to make forward acquisitions of land in the Kinki region for condominiums. At the end of March 2016, real estate for sale in progress was ¥88,376mn, while real estate for sale was ¥4,173mn. These levels as ratios to FY3/16 net sales were 112% in real estate for sale in progress and 5% in real estate for sales. Pressance ranks first among the 16 major listed condominium developers in the ratio of real estate for sale in progress, and we think this indicates that the company is most prepared for future business. It belongs to the lowest group among the 16 major firms in the ratio of real estate for sales (on par with Mitsubishi Estate (8802) and Takara Leben (8897). We believe the small inventory of finished units attests to Pressance's robust sales and product capabilities.

Comparison of Progress in Preparations for the Future



Source: Earnings releases; compiled by FISCO Ltd. from the latest full-year financial statements of major listed companies supplying condominiums

Note 1: Amount obtained by dividing the term-end value of real estate for sale in progress from current assets (including development real estate and unfinished project spending) (%)

Note 2: Amount obtained by dividing the term-end value of real estate for sale from current assets (%)

If converted into condominium numbers, acquired land assets at the end of March 2016 represented 4,881 family condominiums, 5,083 studio condominiums, and sales of 2,273 units in entire buildings. Based on FY3/16's transfer results, acquired land assets work out to roughly three years' worth in family and studio condominiums and about five times in entire buildings (vs. about 400 units sold in FY3/16). The key enablers for such extensive land purchases are the company's solid financials and information access. Pressance's other strengths include it continuing to acquire land even during the Lehman Brothers bankruptcy and its swift assessments and responsiveness, enabling the company to benefit from securing primary information from local realtors.

FISCO

Pressance Corporation Co., Ltd.

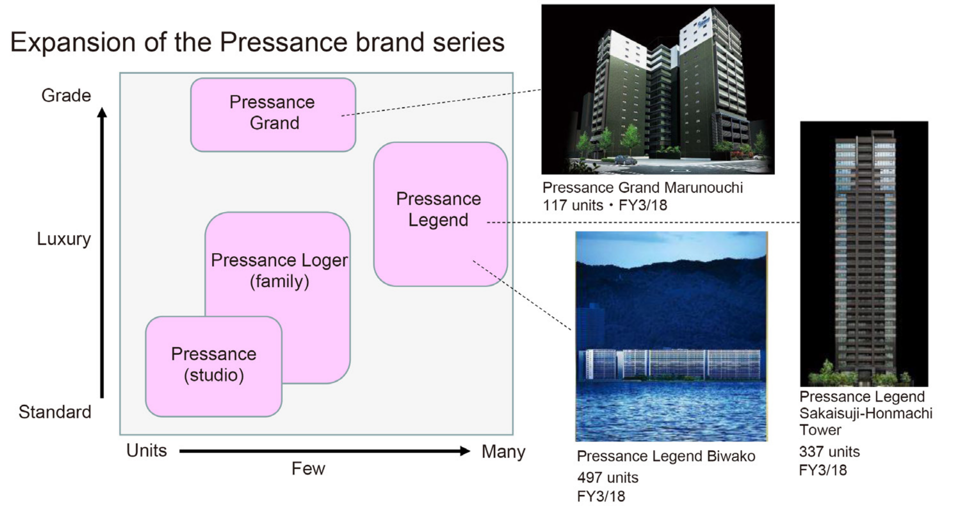
3254 Tokyo Stock Exchange First Section

22-Jun.-16

(3) Expansion of the Pressance brand series

The brand series mainly consists of Pressance studio condominiums and Pressance Loger family condominiums at this point. However, management plans to accelerate expansion of the brand series with a rise in large developments under Pressance Legend and high-grade condominiums under Pressance Grand. Key projects in the Legend series are Pressance Legend Biwako (497 units, to be completed in FY3/18) and Pressance Legend Sakaisuji-Honmachi Tower (337 units, to be completed in FY3/18). The Grand series includes Pressance Grand Marunouchi (117 units, to be completed in FY3/18), and the company intends to sell plans priced at over ¥100mn too.

Expansion of the Pressance Brand Series



(4) Hotel business initiatives

Rises in the number of inbound tourists have created severe shortages of hotels, including in the Kinki region. Management accordingly decided to repurpose acquired land near key railway stations in Osaka and Kyoto that could generate higher earnings as hotels. Five properties are already on track for completions (two in Osaka and one in Kyoto in FY3/18 and two in Osaka in FY3/19). The company plans to sell four of these properties to hotel operators, but it also looks to own and run one such facility.

■ ROE

Top-level business efficiency among condominium developers

Pressance had 19.4% ROE in FY3/16. This is a top level in recent financial results for the 16 major listing condominium developers and confirms the company's high business efficiency. Pressance stresses growth in operating income as a business indicator and steadily generates operating income by making advance investments that utilize leverage. We expect the company to sustain high ROE, and its stock was added to the JPX-Nikkei Index 400 in August 2015

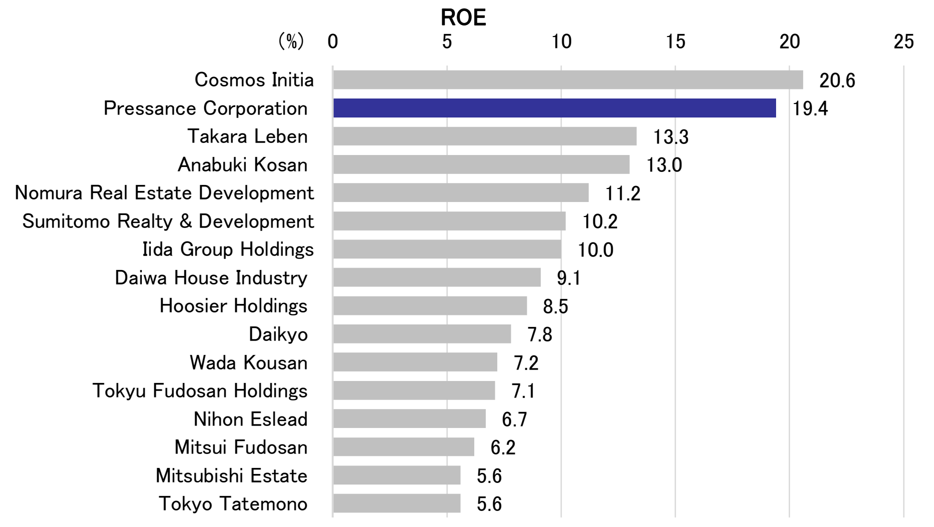
FISCO

Pressance Corporation Co., Ltd.

3254 Tokyo Stock Exchange First Section

22-Jun.-16

■ ROE



Source: Earnings releases; compiled by FISCO Ltd. from the latest full-year financial statements of major listed companies supplying condominiums

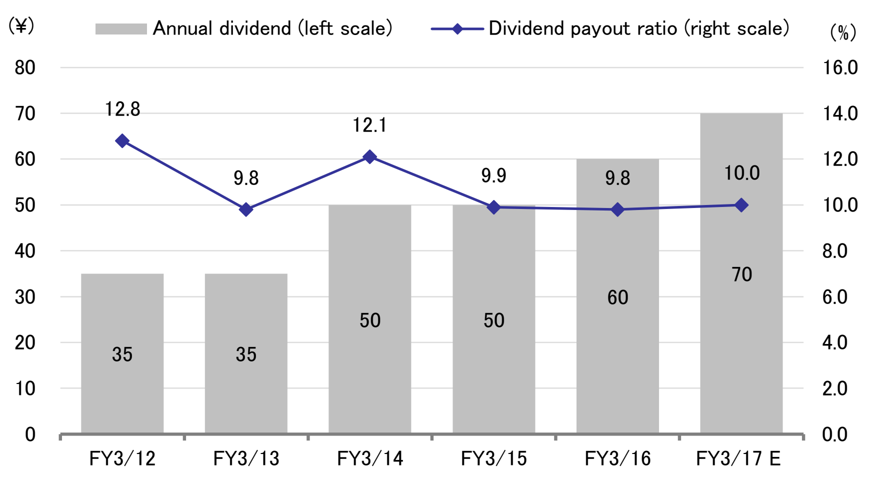
Shareholder Returns

Targeting a hike in annual dividends to ¥70 in FY3/17, also introducing an interim dividend

Pressance emphasizes securing internal reserves to drive future business development while providing appropriate shareholder returns. For FY3/16, it paid annual dividends of ¥60 per share, up ¥10 YoY, and this works out to a 9.8% dividend payout ratio. Management forecasts annual dividends of ¥70 (¥35 in 1H, ¥35 in 2H) and a 10% dividend payout ratio for FY3/17. It aims to increase shareholder return opportunities through introduction of an interim dividend.

The company offers shareholder benefits in the form of JTB Nice Gift of around ¥5,000 in value for each shareholder holding 100 or more shares at the end of the financial year (March 31).

Dividends and Dividend Payout Ratios



Company Overview

Solid sales capabilities mean a minimal inventory of unsold units, enabling the company to quickly recoup its investments

(1) 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 Pressance Corporation in April 2002. It diversified into peripheral areas early on. It began offering building management and insurance agency services in 1998. It started selling family condominiums and offering real estate rental management services in 1999. Early in the previous decade, Pressance began developing properties itself, extending sales to the Tokai and Kanto regions. The company started brokerage and mediation for existing condominiums in 2008. It established subsidiaries in 2014 to enter the construction and rent guarantee businesses. Although the real estate industry suffered greatly from September 2008 in the aftermath of the Lehman Brothers bankruptcy, the company maintained its performance, becoming a solid player just behind the leading pack in the condominium business. Pressance listed on the Second Section of the Tokyo Stock Exchange in 2007 and on the First Section in 2013.

Major 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. (now Pacific Co., Ltd.), to offer building management and insurance agency services
Jun. 1999	Created Nikkei Assist Co., Ltd. (now Pressance Jyuhan Co., Ltd.), to sell family condominiums
June 1999	Stared offering real estate rental 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	Elevated 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
Aug. 2015	Established Pressance Real Estate Co., Ltd., as a real estate solutions consultancy

Source: Annual securities report and other materials

(2) Condominium Market Trends

A total of 78,089 condominiums went on the market in major cities around Japan in 2015, down 6.1% YoY. In the company's key Kinki region, 18,930 units were offered, up 0.6% YoY. The average condominium price nationwide was ¥46.18mn, up 7.2% YoY, which was the highest level since price surveys began in 1973. Unit prices continued trending upward, jumping 9.1% in metropolitan Tokyo and rising 3.9% in the Kinki region. Excessive increases in Tokyo are a concern for the health of the market.

Condominium Unit Sales and Price Trends

	Number of condominiums sold			Condominium price		
	2014 (units)	2015 (units)	YoY (%)	2014 (¥10,000)	2015 (¥10,000)	YoY (%)
Metropolitan Tokyo	44,913	40,449	-9.9	5,060	5,518	9.1
Kinki region	18,814	18,930	0.6	3,647	3,788	3.9
Other regions	19,478	18,710	-3.9	3,204	3,512	9.6
Nationwide	83,205	78,089	-6.1	4,306	4,618	7.2

Source: Real Estate Economic Institute materials, FISCO Ltd.

(3) Competitive Position

Pressance is a leading condominium supplier in the market. In the Kinki region, it ranked first for the sixth straight year in 2015 in that respect. It was first for four consecutive years through 2015 in the Tokai and Chukyo regions. The company rose to sixth place nationwide that year, an improvement compared to 2014. It climbed up the rankings for two key reasons. One is that it has been able to acquire land because it has built solid trust with local real estate agents in the Kinki, Tokai, and Chukyo regions. Another is that it has been able to supply condominiums that match customer needs at appropriate prices. It is worth noting that Pressance family condominiums have an average unit price of ¥31.2mn, against a national market average of ¥46.1mn and an average of ¥37.8mn in the Kinki region.

Condominium Supply Rankings in 2015 by Region

Rank	Rankings in Kinki region	Number of units supplied
1	Pressance Corporation	1,669
2	Nihon Eslead	1,377
3	Sumitomo Realty & Development	915
4	Nomura Real Estate Development	856
5	Wada Kousan	838
6	Kintetsu Real Estate	775
7	Nissho Estem	709
8	Tokyu Land	659
9	Mitsubishi Jisho Residence	610
10	Hankyu Realty	595

Rank	Rankings in Tokai and Chukyo regions	Number of units supplied
1	Pressance Corporation	695
2	Nomura Real Estate Development	374
3	Daiwa House Industry	342
4	Daikyo	298
5	Yahagi Jisyo	287
6	Marimo	286
7	Takara Kotsu	234
8	Mitsui Fudosan Residential	201
9	Shizuoka Railway	181
10	Toray Construction	163

Rank	Nationwide rankings	Number of units supplied
1	Sumitomo Realty & Development	5,398
2	Nomura Real Estate Development	4,556
3	Mitsui Fudosan Residential	4,308
4	Mitsubishi Jisho Residence	4,005
5	Daiwa House Industry	2,770
6	Pressance Corporation	2,512
7	Tokyu Land	1,838
8	Tokyo Tatemono	1,501
9	Daikyo	1,440
10	Takara Leben	1,399

Source: Real Estate Economic Institute Co., Ltd.'s materials

(4) Strengths and Edge

Pressance started out by selling studio condominiums, and the solid clout of its sales department underpins the company. It fosters internal competition and boosts salesperson morale throughout the department to focus on selling each property within certain timeframes. One factor enhancing the company's marketing strength is its expert, careful attention to specifications and other details to sell only its own developed and branded condominiums. A minimal inventory of unsold condominiums enables Pressance to recoup its investments quickly, contributing to a virtuous financial cycle. Pressance is outstanding in its industry by two key measures as of FY3/16. One is the equity ratio, a measure of safeness, at 40.4% at the end of that term. The other is the recurring profit margin, a measure of profitability, which was 17.5%. Pressance's inclusion in the JPX-Nikkei Index 400 in August 2015 attests to the company's financial strength. Such solidity makes the company confident about buying land and gives it an edge in negotiating with financial institutions and general contractors. Management focuses on maintaining asset values over the long term, which is why it requires properties to be located no more than 10 minutes' walk from major railway stations. The company is well versed in developing condominiums offering high cost performance by providing attractive features at reasonable prices due to use of proprietary design and development.

Pressance's Strengths and Edge

(1) Sales
- Proprietary centralized sales methodology
- Markets only one brand
- Minimal unsold inventory

(2) Financials
- Healthy financial position
- Negotiating clout with general contractors
- Favorable borrowing terms from banks

(4) Products
- Reasonable prices
- High cost performance
- In-house planning and development

(3) Locations
- Kinki region and Tokai-Chukyo regions
- Urban focus
- Proactive land purchasing

Disclaimer