COMPANY RESEARCH AND ANALYSIS REPORT

Pressance Corporation Co., Ltd.

3254

Tokyo Stock Exchange First Section

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Index

Summary

Posted over ¥100,000mn in net sales and a seventh straight increase in operating profit in FY3/17; entering a pay-off phase in large family condominium and hotel businesses

Pressance Corporation Co., Ltd. <3254> (hereafter, also "the Company") is an independent developer of family and studio condominiums that handles planning, development, and sales. It is the biggest supplier in the Kinki region and Tokai-Chukyo regions as well as fourth-largest nationwide. 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 and was included in the JPX-Nikkei Index 400 in 2015.

1. Business details

Pressance mainly develops and sells studio and family condominiums. Studio condominium sales, a core business since being founded, involve construction of buildings with units that offer 20-50 square meters at very convenient sites located within five minutes on foot from major train stations in city centers. And the company sells these units under the Pressance brand. This business generated 32.1% of total sales in FY3/17. Family condominium sales consist of construction of buildings with units that offer 50-100 square meters at sites with attractive environments located within 10 minutes on foot from major train stations. And the company sells these units under Pressance Loger and other brands. It provided 49.9% of FY3/17 sales.

The business model stands out in its formation of strong advantages through a mutually beneficial cycle of sales capabilities whereby highly motivated teams driven by internal competition fully sell out inventories, financial clout to obtain attractive terms from financial institutions, aggressive land procurement capabilities and product strength through robust cost performance.

2. Results trends

Pressance reported FY3/17 consolidated results with ¥101,083mn in net sales (+28.0% YoY), ¥15,645mn in operating income (+11.3%), ¥15,414mn in ordinary income (+11.7%), and ¥10,526mn in net income attributable to parent owners (+14.5%). Net sales surpassed ¥100,000mn for the first time, and operating, ordinary, and net income expanded at double-digit rates for a seventh straight fiscal year. Pressance realized healthy progress in core studio and family condominium sales, including particularly strong growth in studio condominium sales and building sales.

Pressance forecast for double-digit gains in FY3/18 consolidated net sales and profits at ¥126,562mn in net sales (+25.2%), ¥18,301mn in operating income (+17.0%), ¥17,818mn in ordinary income (+15.6%) and ¥12,176mn in net income attributable to parent owners (+15.7%). It plans to transfer the proprietary of each unit at Pressance Legend Sakaisuji Honmachi (337 units), a large-scale family condominium building, during FY3/18, raising the sales ratio of family condominiums. We think the forecast is very reliable in light of orders progress already at 70.8% of net sales (vs. 65.3% a year ago) and a track record of highly accurate plans.

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3. Growth strategy

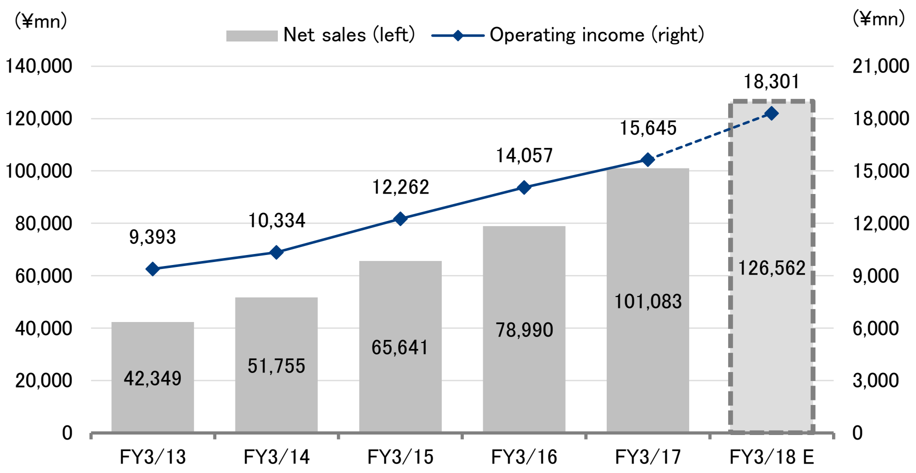
Pressance acquires land for its condominium buildings ahead of time using plentiful funds in the context of extensive retained profits. Its current land holdings correspond to 5,850 family condominiums (3.8 years of the FY3/17 level), 5,103 studio condominiums (2.7 years), and 1,961 units for entire building sales (2.2 years). These properties give Pressance enough land to attain sales goals for the next 2-4 years.

In large family condominiums, Pressance has already completed contracts for 289 units out of 337 units (85.8%) at Pressance Legend Sakaisuji Honmachi ahead of transfers in March 2018 and 364 units out of 486 units (74.9%) at Pressance Legend Biwako prior to transfers in early June 2018. It is approaching sell-outs with leeway. In hotels, Pressance is scheduled to finish three buildings in FY3/18 and nine buildings in FY3/19.

Key Points

- Holds advantages from a beneficial cycle of four strengths (sales capabilities, financial clout, procurement capabilities, and product offerings)
- Posted over ¥100,000mn in net sales for the first time and a seventh straight increase in operating profit in FY3/17
- Entering a pay-off phase in large family condominium and hotel businesses; made progress with Hiroshima and Hakata initiatives in the first year

Consolidated full-year business results



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

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Company overview

Condominium developer based in Kinki and Tokai regions, advanced to the No.4 domestic supplier of condominium units

1. Company overview

Pressance 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 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 and was included in the JPX-Nikkei Index 400 in 2015.

2. History

Pressance's predecessor was Nikkei Prestige Co., Ltd., which was established in Osaka in October 1997 to sell studio condominiums. The company was renamed Pressance Corporation in April 2002. It steadily diversified into peripheral areas and expanded business scope, such as offering building management as well as insurance agency services in 1998, starting sales of family condominiums and offering real estate rental management services in 1999. Early in 2000s, Pressance began developing properties itself and extended its business area to the Tokai and Kanto regions. It established Pressance Realta Co., Ltd. to handle brokerage and mediation for existing condominiums in 2008, acquired Tryst Co., Ltd., which operates a construction business and established Pressance Guarantee Co., Ltd. to offer rent fee payment guarantee service in 2014. It established Pressance Real Estate Co., Ltd. as a real estate solution consultancy in May 2015. Although the real estate industry suffered greatly in the aftermath of the Lehman Brothers bankruptcy (September 2008), 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. The Company is highly rated on the stock exchange, being included in the JPX-Nikkei Index 400 in 2015 and selected as a component stock of the JPX-Nikkei Mid and Small Cap Index in 2016.

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History

Date	Main events
Oct. 1997	Established Nikkei Prestige Co., Ltd.
Oct. 1997	Obtained real estate broker license from the Governor of Osaka
Nov. 1998	Sold Pressance Namba Higashi, the first building carrying the company's brand
Dec. 1998	Founded Pressance Community Co., Ltd. (now Pacific Co., Ltd.), to offer building management and insurance agency services
June 1999	Created Nikkei Assist Co., Ltd. (now Pressance Jyuhan Co., Ltd.), to sell family condominiums
June 1999	Stared offering real estate 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
Aug. 2015	Included in the JPX-Nikkei Index 400
Sep. 2016	Founded PROSEHRE Co., Ltd. in order to participate in real estate development projects in ASEAN and neighboring countries
November 2016	Acquired all shares of Sanritsu precon Co., Ltd. and made it a subsidiary
December 2016	Selected as a component stock of the JPX-Nikkei Mid and Small Cap Index
April 2017	Acquired all shares of Sanritsu precon Co., Ltd. and made it a wholly-owned subsidiary Lala place Co., Ltd.

Source: Prepared by FISCO from Company materials

3. Business breakdown

Pressance mainly develops and sells studio and family condominiums. Studio condominium sales, a core business since being founded, booked 1,892 units and generated 32.1% of total sales in FY3/17. This business involves construction of buildings with units that offer 20-50 square meters at highly convenient sites located within five minutes on foot of major train stations and sales of these units under the Pressance brand. Customers generally purchase studio condominiums as investments for their financial assets.

Family condominium sales booked 1,544 units and provided 49.9% of FY3/17 sales. This business consists of construction of buildings with units that offer 50-100 square meters at sites with attractive environments located within 10 minutes on foot of major train stations and sales of these units under Pressance Loger and other brands. Subsidiary Pressance Jyuhan Co., Ltd. manages sales of family condominium.

Building sales, the third largest business, is to sell a whole condominium building developed by Pressance. This business accounted for 11.8% of FY3/17 sales. Other businesses include rentals of Pressance-developed properties, constituting 3.7% of FY3/17 sales.

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Business breakdown in FY3/17

Business segments	Business description	Sales volume (number of units)	Sales (¥mn)	Sales composition (%)
Real estate sales business	Studio condominium sales	1,892	32,453	32.1%
	Family condominium sales	1,544	50,450	49.9%
	Building sales	900	11,971	11.8%
	Other housing sales	36	1,038	1.0%
	Other real estate sales	-	878	0.9%
	Peripheral businesses	-	504	0.5%
Other businesses	Rental of company’s properties, etc.	-	3,786	3.7%
Total		4,372	101,083	100.0%

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

Business overview

Holds advantages from a beneficial cycle of four strengths (sales capabilities, financial clout, procurement capabilities and product offerings)

1. Condominium market trends

Condominium sales in Japan’s major cities nationwide were down 1.4% YoY to 76,993 units during January to December 2016. Stronger sales in other regions (besides metro Tokyo and Kinki; +20.5%) helped offset the decline in metro Tokyo (-11.6%). Condominium supply in the Kinki region, which is Pressance’s regional base, totaled 18,676 units, a slight decline (-1.3% YoY) on par with the national trend. Condominiums had a national average price of ¥45.60mn (-1.3% YoY), on track with last year’s all-time high since beginning the survey in 1973. Pricing settled down in metro Tokyo at a 0.5% decline and increased by about 3% in the Kinki region and other regions. We think Pressance benefited from the latter price upswings because it mainly operates outside of metro Tokyo.

Condominium unit sales and price trends

	Number of condominiums sold				Condominium price			
	2014 (units)	2015 (units)	2016 (units)	YoY (%)	2014 (¥mn)	2015 (¥mn)	2016 (¥mn)	YoY (%)
Metropolitan Tokyo	44,913	40,449	35,772	-11.6%	5,060	5,518	5,490	-0.5%
Kinki region	18,814	18,930	18,676	-1.3%	3,647	3,788	3,919	3.5%
Other regions	19,478	18,710	22,545	20.5%	3,204	3,512	3,615	2.9%
Nationwide	83,205	78,089	76,993	-1.4%	4,306	4,618	4,560	-1.3%

Source: Prepared by FISCO from the Real Estate Economic Institute Co., Ltd.’s “Nationwide Condominium Market Trends – 2016”

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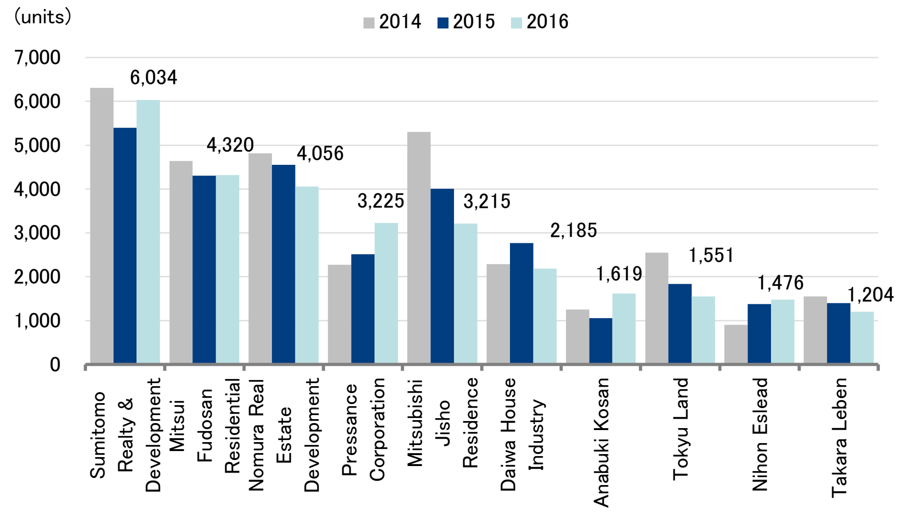
2. Competitive position

Pressance has been steadily boosting its position in the condominium market and moved into 4th place in for-sale condominium supply volume in 2016 (from 6th place in the previous year). Other companies exhibiting robust growth include Anabuki Kosan Inc. <8928> (strong outside of metro Tokyo and Kinki regions) and Nihon Eslead Corporation <8877> (specializes in the Kinki region), in contrast to sluggishness at companies mainly operating in the metro Tokyo . Pressance ranked 1st in for-sale condominium supply in the Kinki region for a seventh straight year in 2016 and also held 1st place in the Tokai and Chukyo region for a fifth straight year. It possesses considerable strength outside of the metro Tokyo. Factors driving Pressance's ranking successes in the Kinki region and Tokai and Chukyo region have been vibrant land purchases owing to longstanding relationships with local real estate firms, provision of condominiums that statisfy customer needs and wants at reasonable prices and advertising activities tailored to the region with the familiar "hermit crab" as an image character. Pressance family condominiums sell at an average price of ¥32.7mn, a lower level than the ¥45.6mn nationwide and ¥39.2mn in the Kinki region.

Nationwide for-sale condominium supply



Source: Prepared by FISCO from the Real Estate Economic Institute Co., Ltd.'s "Nationwide Condominium Market Trends – 2016"

3. Strengths and edge

Pressance started selling studio condominiums, and its solid sales capabilities is an important strength. Management encourages internal competition and kindles motivation among salespeople to focus on sales of a certain single property during a certain period by the entire sales division. An educational program of one-on-one field guidance for new employees with a manager to give them success experiences functions well too. Pressance also offers high transparency in its evaluation system that offers salary increases and promotions based on sales results unrelated to age and seniority (twice a year). Pressance realizes a beneficial cycle in finances as well by minimizing its inventory of finished units and promptly recovering funds. JPX Nikki Index 400 added Pressance as a component stock in August 2015 in light of its excellent financial content. Healthy finances support proactive land purchasing and help obtaining advantageous terms in negotiations with financial institutions and general contractors. Pressance selects sites within 10 minutes of major city-center train stations due to emphasis on sustaining asset value over the long term. In-house planning and development excels at provision of products with well-balanced features and high cost performance in a reasonable price range. The mutually beneficial cycle of sales capabilities, financial clout, procurement capabilities and product offerings generates real advantages.

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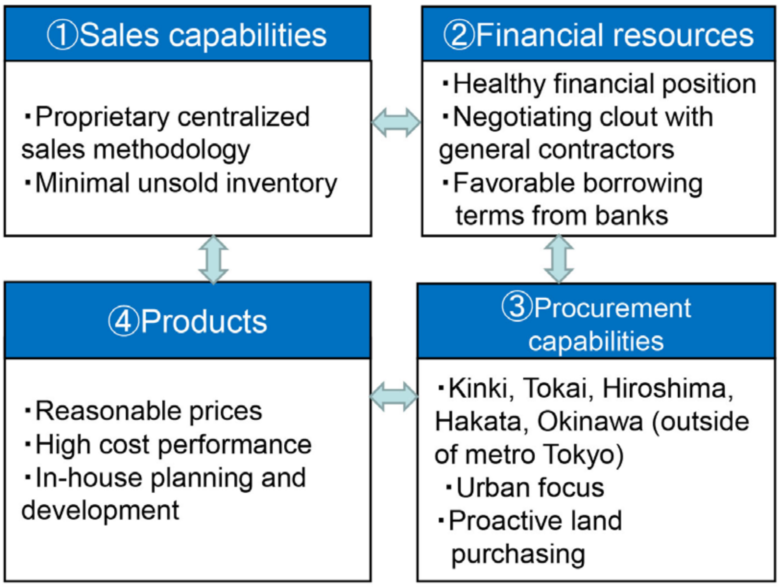
Strengths and edge



Source: Prepared by FISCO from Company materials

Results trends

Posted over ¥100,000mn in net sales for the first time and a seventh straight increase in operating profit in FY3/17

1. FY3/17 full-year results

Pressance reported FY3/17 consolidated results with ¥101,083mn in net sales (+28.0% YoY), ¥15,645mn in operating income (+11.3%), ¥15,414mn in ordinary income (+11.7%), and ¥10,526mn in net income attributable to parent owners (+14.5%). Net sales surpassed ¥100,000mn for the first time, and operating, ordinary, and net income expanded at double-digit rates for a seventh straight fiscal year. Period-start forecast was very accurate with net sales and operating income overshooting by just 0.2% and 1.2% each. This reflects Pressance's highly precise planning. Gross profit margin dropped by 2.5pp YoY to 27.1% mainly because of an increase in land costs for studio condominiums. Building costs in Kansai and Tokai regions are settling down and did not have a major impact.

Mainstay studio condominium sales and family condominium sales were strong, and studio condominium sales and entire building sales expanded their sales composition ratios.

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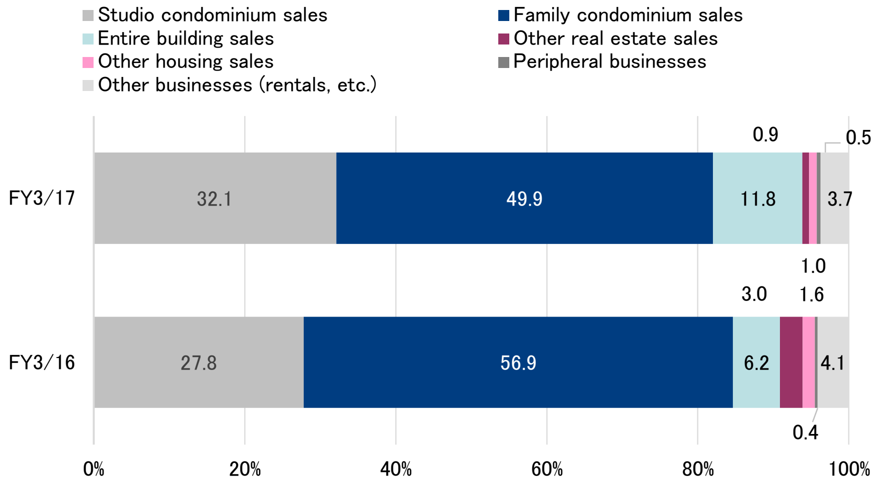
Business result for FY3/17

	FY3/16		FY3/17				
	Results (¥mn)	Composition (%)	Initial forecast (¥mn)	Results (¥mn)	Composition (%)	Versus forecast (%)	YoY (%)
Net sales	78,990	100.0	100,839	101,083	100.0	0.2	28.0
Cost of sales	55,611	70.4	-	73,651	72.9	-	32.4
Gross profit	23,379	29.6	-	27,432	27.1	-	17.3
SG&A expenses	9,321	11.8	-	11,786	11.7	-	26.4
Operating income	14,057	17.8	15,466	15,645	15.5	1.2	11.3
Ordinary income	13,798	17.5	15,089	15,414	15.2	2.2	11.7
Net income attributable to owners of the parent	9,194	11.6	10,327	10,526	10.4	1.9	14.5

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

Sales composition



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

Rise in asset value led by real estate for sale (including semi-finished properties)

2. Financial position and management indicators

Total assets increased substantially with a gain of ¥61,029mn from the end of the previous fiscal year to ¥185,307mn. Main additions were ¥33,798mn in real estate for sale in progress, ¥10,150mn in real estate for sale and ¥7,646mn in cash and deposits.

Total liabilities expanded by ¥51,738mn from the end of the previous fiscal year to ¥125,691mn primarily on additions of ¥24,393mn from long-term loans and ¥18,561mn from current portion of long-term loans payable.

In management indicators, the current ratio (347.5%) shows that soundness is not a concern in the short term. The equity ratio (32.0%), meanwhile, reflects Pressance's strategy of utilizing leverage to fuel growth amid low borrowing interest rates.

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Consolidated balance sheet and management indicators

(¥mn)

	As of March 31, 2016	As of March 31, 2017	Change
Current assets	117,887	171,810	53,922
Cash and deposits	22,887	30,534	7,646
Real estate for sale	4,173	14,324	10,150
Real estate for sale in progress	88,376	122,174	33,798
Non-current assets	6,390	13,497	7,107
Total assets	124,277	185,307	61,029
Current liabilities	22,171	49,438	27,266
Current portion of long-term loans payable	5,408	23,970	18,561
Non-current liabilities	51,781	76,253	24,471
Long-term loans	51,297	75,691	24,393
Total liabilities	73,953	125,691	51,738
Total net assets	50,324	59,615	9,291
Total liabilities and net assets	124,277	185,307	61,029
Stability			
Current ratio (current assets ÷ current liabilities)	531.7%	347.5%	-
Equity ratio (equity ÷ total assets)	40.4%	32.0%	-

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

Business outlook

Double-digit growth in net sales and profits likely to continue in FY3/18

Pressance forecast for gains in FY3/18 consolidated net sales at ¥126,562mn in net sales (+25.2%), ¥18,301mn in operating income (+17.0%), ¥17,818mn in ordinary profit (+15.6%), and ¥12,176mn in net income attributable to parent owners (+15.7%). It plans to transfer units at Pressance Legend Sakaisuji Honmachi (337 units), a large family condominium building, during FY3/18, raising the sales ratio of family condominiums. It is also having a good start in the hotel business with the completion of three buildings (all located in Osaka city) and finalization of buyers for two buildings. We think the forecast is very reliable in light of orders progress already at 70.8% of net sales (vs. 65.3% a year ago) and a track record of highly accurate plans.

Outlook for FY3/18 consolidated results

	FY3/17		FY3/18		
	Results (¥mn)	Composition (%)	Forecast (¥mn)	Composition (%)	YoY (%)
Net sales	101,083	100.0	126,562	100.0	25.2
Operating income	15,645	15.5	18,301	14.5	17.0
Ordinary income	15,414	15.2	17,818	14.1	15.6
Net income attributable to owners of the parent	10,526	10.4	12,176	9.6	15.7

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

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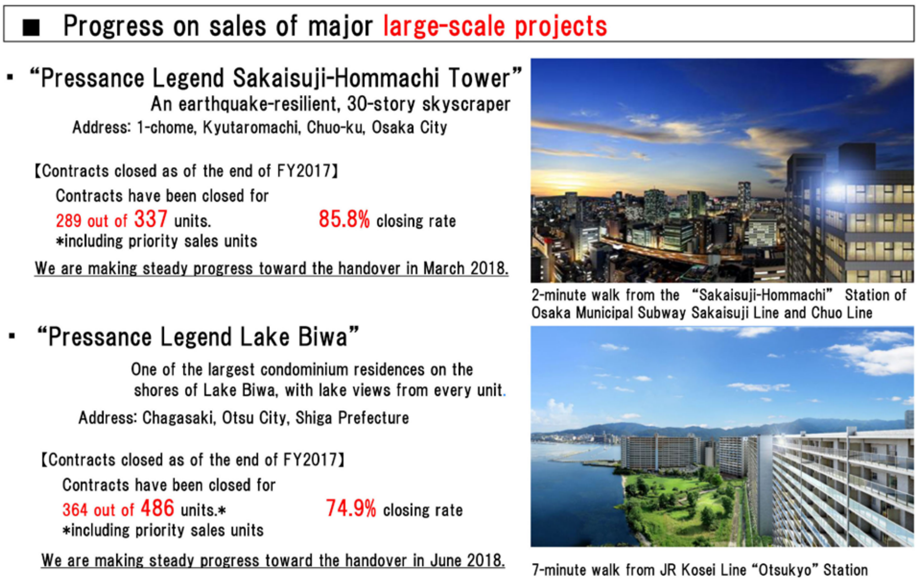
Medium- to long-term growth strategy

Entering a pay-off period in large family condominium and hotel businesses; made progress in Hiroshima and Hakata initiatives in the past year

1. Steady contract status for Pressance Legend projects – Sakaisuji-Honmachi (337 units) and Biwako (486 units)

Pressance is making smooth progress with development and sales of large family condominium buildings. Pressance Legend Sakaisuji Honmachi is Pressance's first-ever large high-rise condominium tower with earthquake resilience and has already completed contracts for 289 units out of 337 units (85.8%) ahead of transfers in March 2018. Pressance Legend Biwako has finished contracts for 364 units out of 486 units (74.9%) prior to transfers in June 2018. It is approaching sell-outs for these buildings with leeway. Progress thus far should be enough to exceed 90% ratios upon completion, and we think both buildings are likely to be comfortable at this level. Success with these two buildings has very important potential implications in enabling Pressance to broaden its line-up with the large-scale luxury Pressance Legend brand and appeal results as a firm that can handle large condominium buildings and condominium towers with earthquake resilience.

Sales progress for Pressance Legend buildings



Source: The Company's results briefing materials

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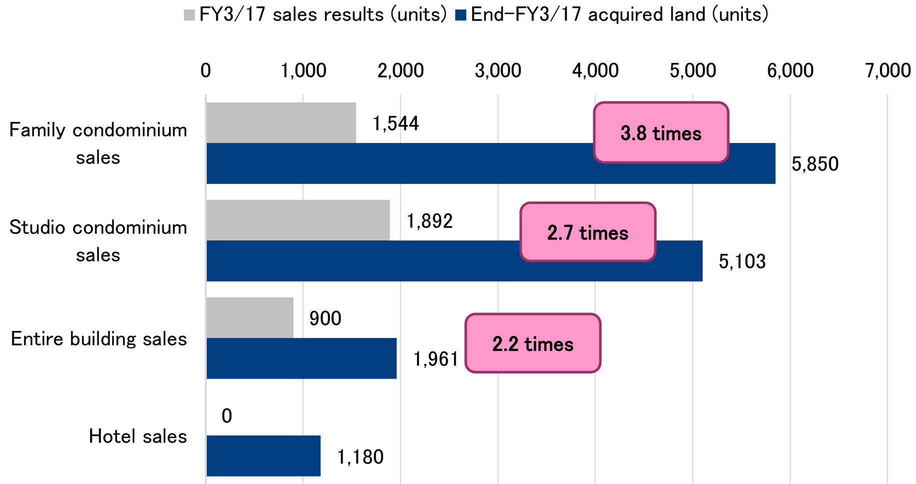
2. Holds 2-3 years' worth of real estate for sale in progress and real estate for sale

Pressance has actively purchased condominium lands leveraging its ample retained earnings. It reported ¥122,174mn in real estate for sale in progress and ¥14,324mn in real estate for sale at the end of FY3/17. Asset value of land sites, which is determined by subtracting construction costs and other expenses from the total, comes to ¥78,861mn. On a condominium basis, this works out to 5,850 family condominium units (about 3.8 times the FY3/17 result) 5,103 studio condominium units (about 2.7 times the FY3/17 result) and 1,961 units for entire building sales (about 2.2 times the FY3/17 result). The company's ability to actively procure land reflects not only capital resources but also information capabilities. The Company continued to buy land after the Lehman bankruptcy and excels in rapid reviews and responses. These qualities are beneficial in efforts to obtain primary information from local real estate firms.

Status of acquired land



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

3. Healthy progress in the first year, expanding operations to Hiroshima and Hakata

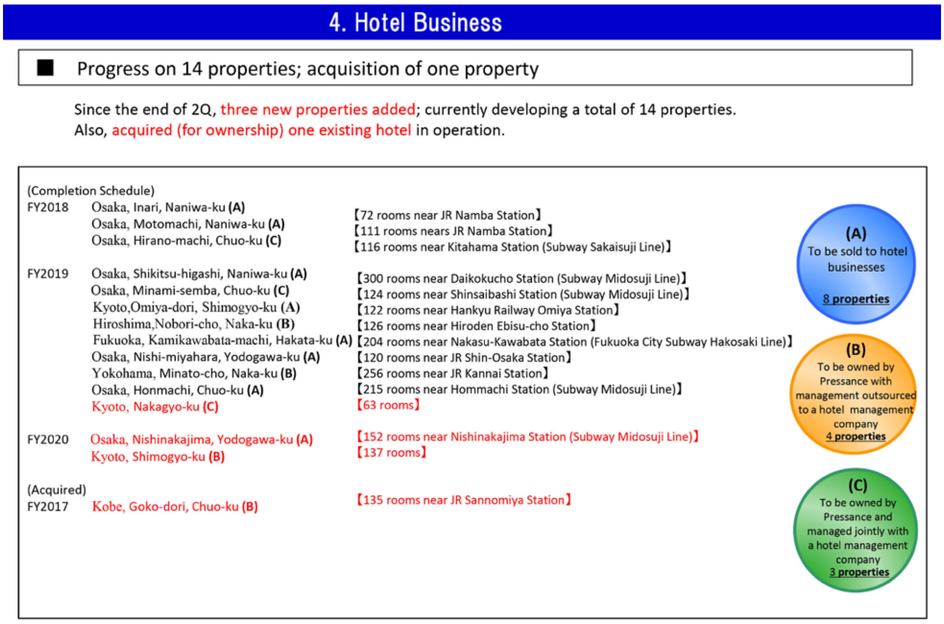
Pressance entered Hiroshima and Hakata markets during FY3/17 and made healthy progress with procurements during the year. Its decision to enter these regions reflects the presence of attractive condominium markets with large populations many companies, schools and commercial facilities. Hiroshima and Hakata are also well-known tourist sites, and the prospect of growing inbound demand might offer opportunities for the hotel business.

In Hiroshima, Pressance obtained land in the city's central area that is highly convenient for four family condominium buildings (311 units), one studio condominium building (110 units) and one hotel (126 rooms). In Hakata, it also purchased land in the city center for three family condominium buildings (152 units) and one hotel (212 rooms). Hiroshima and Hakata are core regional cities and tourist cities too. Given these features, Pressance is mainly pursuing family condominiums and also adding hotels.

4. Rise in properties for the hotel business to 15 sites

Increase in inbound tourists visiting Japan has created a serious shortage of hotels. Strong hotel demand exists at the most popular sites visited in Japan (metropolitan Tokyo, Hakone and Mt. Fuji, Kyoto, and Osaka). Of the land it owns, Pressance has developed hotels at sites with better income prospects if developed as a hotel, rather than as a condominium building, near main train stations, mainly in the Kansai region. Pressance had 15 hotel properties at the end of FY3/17 with 14 development sites and one purchased site. Specifically, it plans to complete three hotels (all in Osaka) during FY3/18 and nine hotels during FY3/19 (four in Osaka, two in Kyoto, one in Hiroshima, one in Hakata and one in Yokohama). Pressance uses three types of business models – 1) sell to a hotel operator, 2) own directly and consign operations to a hotel operator and 3) own directly and jointly operate with a hotel operator under the Pressance brand (It currently has eight sites for 1), four sites for 2), three sites for 3). It is giving priority to sales to hotel operators due to management emphasis on asset efficiency and effective use of sales capabilities. It is also considering sales to a REIT or fund after accumulating some operational results and intends to promote hotel business in a diverse manner.

Overview of hotel development properties



Source: The Company's results briefing materials

Shareholder return policy

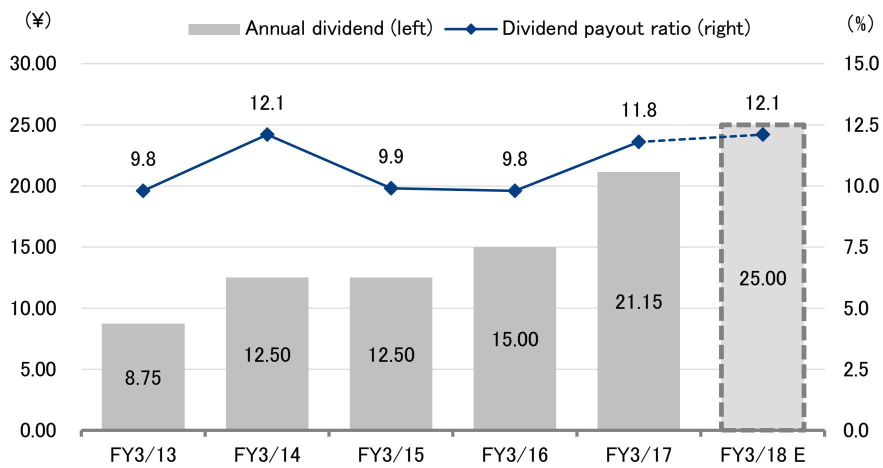
Likely to increase the dividend on increased earnings and higher dividend payout ratio

Pressance takes a balanced approach of emphasis on securing internal reserves to drive future business development while also providing appropriate shareholder returns. It paid a ¥21.15 dividend per share in FY3/17 (implementing a hike in the second straight year), putting the payout ratio at 11.8%. It plans to pay ¥25.00, which works out to a 12.1% payout ratio, in FY3/18.

It increased opportunities for shareholder compensation by adopting an interim dividend in FY3/17. On October 1, 2016, Pressance conducted a stock split for common shares at a ratio of 1 for 4 and improved liquidity, thereby making the shares more accessible. We expect acceleration of the dividend hike pace because Pressance has outlined a direction of boosting the payout ratio.

Pressance also broadened the scope of its shareholder gift program with provision of a JTB Nice Gift worth ¥2,000 to shareholders owning at least 100 shares and up to 399 shares as of the end of the fiscal year (final day of March). (It is retaining the existing program of a gift worth ¥5,000 to shareholders owning 400 or more shares; post-split standard.)

Annual dividends and dividend payout ratios



Note: Implemented a 1:4 stock split on October 1, 2016
Source: Prepared by FISCO from the Company's financial results

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