COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

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Index

Summary

Advancing to the next stage of growth by enhancing the profit level and EPS and establishing a sound financial base

Samty Co., Ltd. <3244> (hereafter, also "the Company") is a comprehensive real estate company that operates a nationwide business, centered on the Kansai and metropolitan Tokyo regions. Its business is based on the twin axes of its Real Estate Business (development and sales of large-scale leasing condominiums for real estate funds and income condominiums for investors) and Property Leasing Business (including leasing condominiums and commercial facilities), while it also manages business hotels and other related operations. A feature of the Company is that it is able to respond flexibly to changes to its business environment from its balance of realizing stable income from its Property Leasing Business and accelerating growth from its Real Estate Business, and it achieved sustainable growth even while overcoming major financial crises. It also has a superior business model in which it combines both businesses to handle every aspect of the property business, and presently it is continuing to achieve high growth. In June 2015, it entered into the J-REIT business*, and in October 2015, its listing was changed from the Tokyo Stock Exchange (TSE) JASDAQ to the TSE First Section. So the Company has solidified the foundations of its business model for further business expansion. It is entering a new growth phase supported by a favorable business environment.

* Samty Residential Investment Corporation <3459> (hereafter, "SRR"), which was established in March 2015, is listed on the TSE J-REIT market.

The Company kicked off the new "Challenge 40" medium-term management plan in FY11/16. The numerical targets for FY11/18 laid out in the previous medium--term management plan are now expected to be achieved two years ahead of schedule, based on significant changes in the external environment (additional monetary easing by the Bank of Japan and expansion in inbound tourism demand) and in the internal environment (the Company's expansion of business areas and entry into the J-REIT business). Therefore, the Company has revised its targets for FY11/23 and has set new targets for FY11/20. It is now targeting net sales at the ¥100bn level and ordinary income at the ¥10bn level for FY11/20, based on three key strategies: (1) Development of a business model centered on SRR; (2) Strategic investment in regional metropolitan areas; and (3) Roll-out of the hotel development business. In addition, investment of about ¥300bn is planned over the five years from FY11/16 to FY11/20.

Looking at business results for FY11/16, sales and profits increased significantly year on year (YoY), with sales up 36.3% YoY to ¥52,409mn and operating income up 44.7% YoY to ¥8,586mn. Profit attributable to owners of parent reached a record high for the second consecutive year. Due to timing differences in scheduled property sales and the postponement of the acquisition of income properties, sales, operating income and ordinary income were below initial forecasts (profit attributable to owners of parent was the only item to surpass the initial forecast). However, the Company can be positively assessed for achieving steady expansion centered on the Real Estate Business. Additionally, the procurement of development sites and income properties for business expansion have been progressing largely as planned.

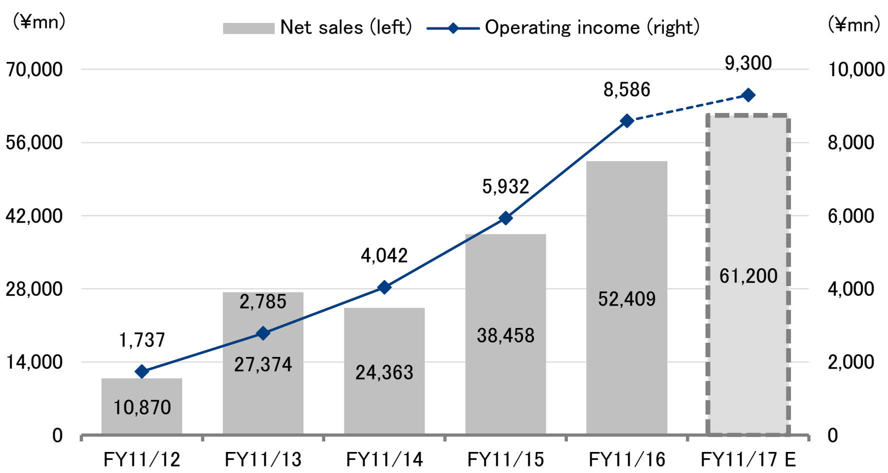
Turning to FY11/17 results forecasts, the Company expects sales and profits to continue growing. It is projecting net sales of ¥61,200mn, up 16.8% YoY and operating income of ¥9,300mn, up 8.3% YoY. As for investment plans, the Company plans to invest a total of about ¥55.3bn, more than in the previous fiscal year, comprising about ¥15.8bn for development sites and about ¥39.5bn for income properties. FISCO believes that the FY11/17 forecasts are well within the Company's reach, taking into account the status of the Company's development projects (pipeline) and the acquisition of income properties. In FY11/17 1H, the Company is likely to achieve a high achievement rate against its full-year forecasts based on a concentration of projects to be sold in 1H, including projects carried over from the previous fiscal year. However, the situation must be judged cautiously.

At FISCO, we think that the Company can maintain its high growth over the medium to long term as the conditions in both its external and internal environments are supporting its growth. However, there are questions that should be paid attention to. Firstly, in the context of the difficulty in purchasing land, particularly in metropolitan areas, how will it accumulate development sites (pipeline) toward realizing growth in the future? Second, how will it discover and increase the value of income real estate with high yields, especially in major regional cities? Finally, in what ways will constructing a business model centered on SRR change the Company's profitability and growth potential?

Key Points

- Delivered significant increases in sales and profits in FY11/16 with the bottom line reaching a new record high for the second consecutive year
- Sales and profit growth expected to continue in FY11/17
- Aiming for steady medium- to long-term growth by expanding development in regional metropolitan areas

Results trends



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

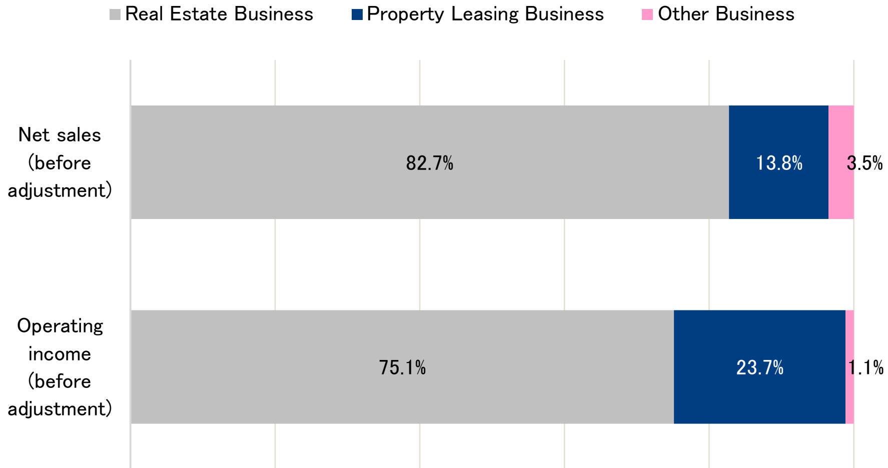
Company profile

Entered the REIT market in June 2015, finished solidifying the foundations of the business model for further business expansion

1. Business overview

The Company has three business segments; the Real Estate Business, the Property Leasing Business, and the Other Business. The Real Estate Business contributes 82.7% of net sales and 75.1% of operating income (FY11/16 results). However, it is necessary to be aware that in contrast to the steady growth of the Property Leasing Business, results in the Real Estate Business tend to increase and decrease greatly due to various factors, including the business environment. Since its foundation, the Company's strength has been its leasing capabilities in its area of expertise of residential properties (condominiums, etc.), that can be expected to stably maintain high occupancy rates.

Percentages of net sales by business (FY11/16)



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

Also, in March 2015 it established SRR, which was listed on the TSE J-REIT market in June of the same year. The Samty Group plays the role of sponsor of SRR (supplying it with properties) and is responsible for the subsequent asset management and other operations. SRR's current asset scale is in excess of ¥52bn (as of the end of January, 2017).

For its sales bases, in addition to its Osaka head office (Yodogawa-ku), it has branch offices in Tokyo (Chiyoda-ku), Fukuoka (Hakata-ku), Sapporo (Chuo-ku) and Nagoya (Nakamura-ku), and it is establishing a nationwide system centered on the major regional cities.

The Samty Group is comprised of the Company and 13 consolidated subsidiaries, but in the processes carried out for the Real Estate Business and Property Leasing Business, this includes 8 special purpose companies (SPC) and general incorporated associations established and invested-in in relation to 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.), Suntoa Co., Ltd. (hotel management, etc.), and Samty Kanri Co., Ltd. (property management, maintenance, etc.) (as of the end of November, 2016).

Samty Kanri Co., Ltd. was renamed as Samty Property Management Co., Ltd. on December 1, 2016, in conjunction with the integration and realignment of the Samty Group's property management (PM) functions. The Samty Group is strengthening its hand in promoting PM operations entrusted from J-REITs and real estate funds, beginning with assets owned by SRR. By capturing Group-wide synergies as a comprehensive real estate business, the Group aims to drive earnings growth over the medium to long term.

Overviews of each business are as follows.

(1) The Real Estate Business

This business supports the Company's growth and is divided into four sub-segments; "development mobilization," "regeneration mobilization," "condominiums for investment," and "asset management."

"Development mobilization" refers to the planning, development, and sales of leasing condominiums for real estate funds (including of the S-RESIDENCE series, which is the brand developed by the Company). Basically, the properties are large-scale, one-room condominiums with a total number of around 200 units, and include features such as stairwell entrances and sophisticated designs. Recently, demand has been considerable from real estate funds and other clients regardless of building size, so sales of medium-sized properties have also increased. The Company has granted SRR preferential transaction negotiating rights (first refusal rights) for the S-RESIDENCE series and going forward, its policy is to mainly supply properties to SRR.

The S-RESIDENCE series

Source: Prepared by FISCO from company materials

"Regeneration mobilization" refers to the regeneration and sales of existing income properties. The Company aims to improve occupancy rates by utilizing its leasing capabilities and expertise for the income properties and upgrading properties through renovating facilities, which generates earnings over the period of ownership. In addition, its final objective is to record gains on sales through selling its holdings and investment properties to real estate funds, business companies, and wealthy individuals. It also carries out warehousing* for SRR. During the ownership period, properties are recorded in inventories (real estate for sale), but leasing income is recorded in the Property Leasing Business.

* Properties acquired to incorporate into REIT

"Condominiums for investment" involves the planning, development, and sales of one-room condominiums for investment, mainly to individual investors. A feature of the Company is that it does not have an in-house sales team, and it conducts wholesales (selling units and buildings) to sales companies. Through building a network with sales companies that have a sales track record in the business area and consulting with sales companies at the planning and development stages, it is able to supply properties that meet client (user) needs. Also, excluding the metropolitan Tokyo region, which has an active trend of "green-field purchases" by sales companies due to their sense of the scarcity of properties, the Company's excellent leasing capabilities (sales after leasing a property) differentiate it from its competitors and results in it being trusted by and having negotiating power with the sales companies.

The objectives of "asset management" are obtaining commission income, from the Company being commissioned (outsourced) to operate and manage real estate as the asset manager by real estate funds, and also dividend income from the Company's own investments in real estate funds. Through the smooth launch of SRR, it would seem that the asset management business will also expand in the future, alongside the expansion in the asset scale of SRR. The revenue structure in this business comprises management commissions (0.45% of the balance of assets under management), acquisition commissions (1.0% of the property acquisition value), sales commissions (0.5% of the property sales value) and other components. Notably, management commissions can be expected to provide a source of steady revenue every fiscal year based on the balance of assets under management.

(2) Property Leasing Business

This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 90 properties nationwide, centered on the Kansai and metropolitan Tokyo regions and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. In addition, it conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. Breaking down its properties according to type of facility, condominiums constitute 65.4% of the total floor space, commercial, hotel and related facilities 20.5%, and offices 14.1%, so the weights are high for condominiums and commercial facilities that have stably high rates of occupancy. The Company utilizes its leasing capabilities to realize high occupancy rates above 90% when averaged over the year. The occupancy rates according to facility are 92.8% for condominiums, 91.4% for offices, and 98.8% for commercial facilities. While the scale of the real estate it owns amounts to around ¥88.3bn (carrying amount), this is divided into ¥39.5bn of inventory assets that it intends finally to sell (real estate for sale), and ¥48.8bn of tangible fixed assets that it intends to continue to own (all results are from the end of FY11/16). In addition to its main commercial facilities, such as the historic Amanohashidate hotel, these assets included properties such as Pieri Moriyama, a large scale commercial facility on Lake Biwa that was reopened in December 2014.

(3) Other Business

This business mainly involves hotel management, a condominium management business, and a construction and renovation business. In the hotel business, it owns and manages 3 business hotels; Center Hotel Osaka (Chuo-ku, Osaka, 84 rooms), the S-PERIA Hotel Nagasaki (Nagasaki, 153 rooms) and Hotel Sunshine Utsunomiya (Utsunomiya, Tochigi Prefecture, 160 rooms). In addition, it manages Center Hotel Tokyo (Chuo-ku, Tokyo, 107 rooms), which was sold (and leased back) in FY11/16. Center Hotel Tokyo and Center Hotel Osaka are managed by its subsidiary, Suntoa. Also its subsidiary Samty Property Management conducts operations including condominium management (of some of the Company's condominium properties and external properties), and a construction and renovation business.

2. Features

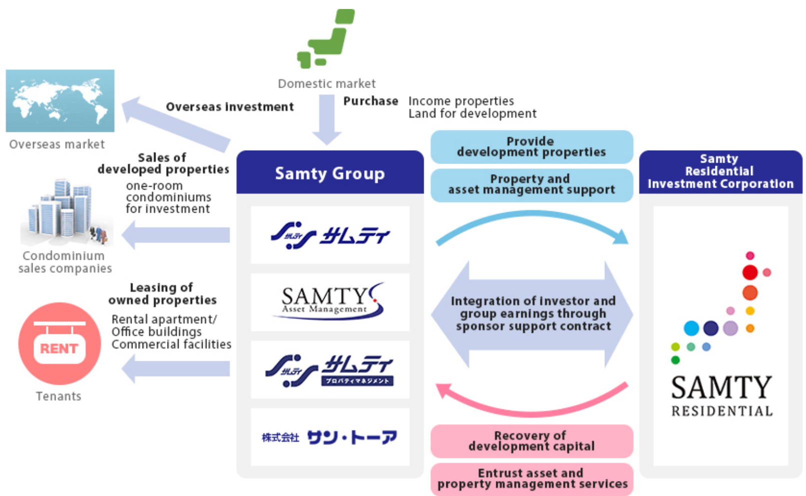
A feature of the Company is that its business model combines its two businesses, the Real Estate Business and the Property Leasing Business, to give it the capability of handling all aspects of the property business. This forms its strength in terms of the superiority of its business and revenue structure.

(1) A superior business model

A feature of the Company's business model is that every phase of the property business, of land purchases, development, leasing, sales, and after-sales, are conducted 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 capabilities, which it has cultivated in the Property Leasing Business, in the Real Estate Business also. In addition to improving the value of income properties, this has positive effects for the superiority of its bargaining power when purchasing land, as well as for establishing relationships based on trust and negotiating with buyers.

Following the smooth launch of SRR, going forward the Company is aiming to construct a business model centered on SRR. In addition to having a stable destination to supply its properties, it is considered that SRR will contribute to the further evolution of its business model, including expanding its after-sales fee business (as an outsourcer for asset management and property management operations).

Business model overview



Source: Excerpted from the Company's website

(2) The profit structure as a strength

One of the Company's strengths is that it can respond flexibly to changes to its business environment while maintaining a balance between stable income from its Property Leasing Business (a stock business) and growth acceleration from its Real Estate Business (a flow business). In other words, during a period of economic recession, its results can be supported by its Property Leasing Business, and then during a period of economic expansion (recovery), it can accelerate its growth through its Real Estate Business. In addition, its ability to withstand periods of recession is strengthened by the fact that it keeps down fixed costs by not having an in-house sales team and instead utilizing external resources (it has networks and expertise to do so). The reasons why in the financial crises up to the present time (such as following the collapse of the bubble economy and from the impact of the Lehman shock), its results deteriorated comparatively little, is due to the fact that they were supported by its Property Leasing Business and the fact that it kept its fixed costs down. On the other hand, in the current situation of a continuingly favorable business environment, the Real Estate Business is the main driving force behind the growth in the Company's results.

3. History

The Company was established in December 1982 in Higashiyodogawa-ku, Osaka, as Samty Development Co., Ltd. (it changed to its current company name in June 2005). Centered on three people, Mr. Shigeru Moriyama (current chairman), Mr. Ichiro Matsushita (current vice chairman), 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 condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of one-room 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 August 2006, it entered into the hotels business by acquiring the shares of Suntoa, which owns and manages business hotels. In July 2007, it was listed on the Osaka Hercules market (currently, the TSE JASDAQ market).

Next, in order to further expand its business and disperse it over different regions, it opened branch offices in Tokyo in February 2011, in Fukuoka in June 2012, in Sapporo in May 2015, and in Nagoya in March 2016, and over this 5-year period it steadily expanded the regions in which it does business.

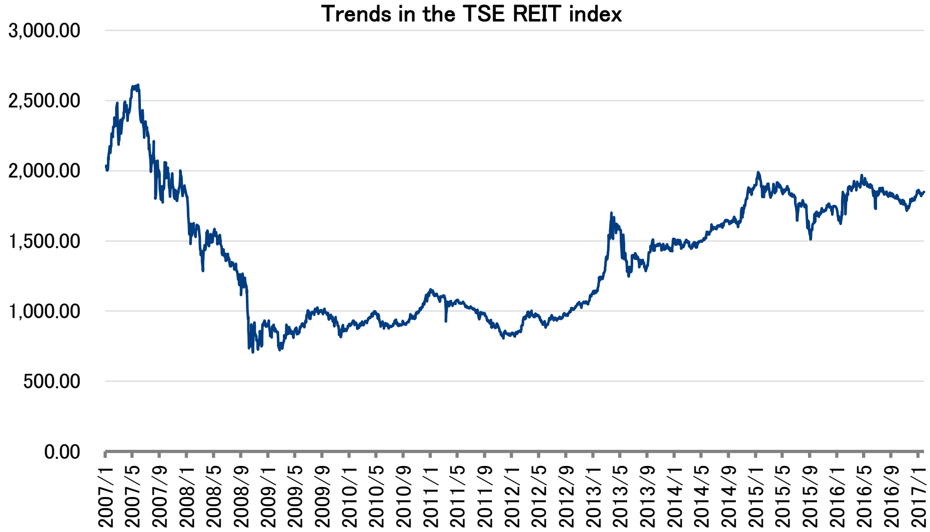
The Company has also actively taken steps to expand its business area. In December 2011, it established Samty Kanri (to enter into the property management business); in November 2012, it made Samty Asset Management a wholly owned subsidiary; and in June 2015, Samty Residential Investment Corporation was listed on the TSE J-REIT market. In such ways, it has established a system for growth to accelerate in the future. Its listing was changed to the TSE First Section in October 2015.

Industry environment

Steady expansion in the J-REIT market

On looking at the J-REIT market, which will have an important influence on the Company's growth strategy in the future, we see that the market has been growing steadily. As of the end of December 2016, its market capitalization stood at around ¥12,123.3bn (up 14.8% from the end of 2015) and there were 57 J-REITs listed (up by 5 from the end of 2015). Although there was a phase in which the market was temporarily sluggish due to the impact of the credit tightening and related factors following the Lehman shock, since 2012 it has steadily trended upward thanks to the recovery of the domestic economy and the effects of long-term monetary easing. Further, recently there has been a diversification of investment targets, such as hotels and commercial facilities with an eye to the increase in inbound demand, long-term care facilities that are being built in response to the aging of society, and logistics facilities and infrastructure (solar power plants, etc.) So a variety of investment opportunities are being created, yet at the same time there remains considerable room for the market to grow.

Trends in the TSE REIT index

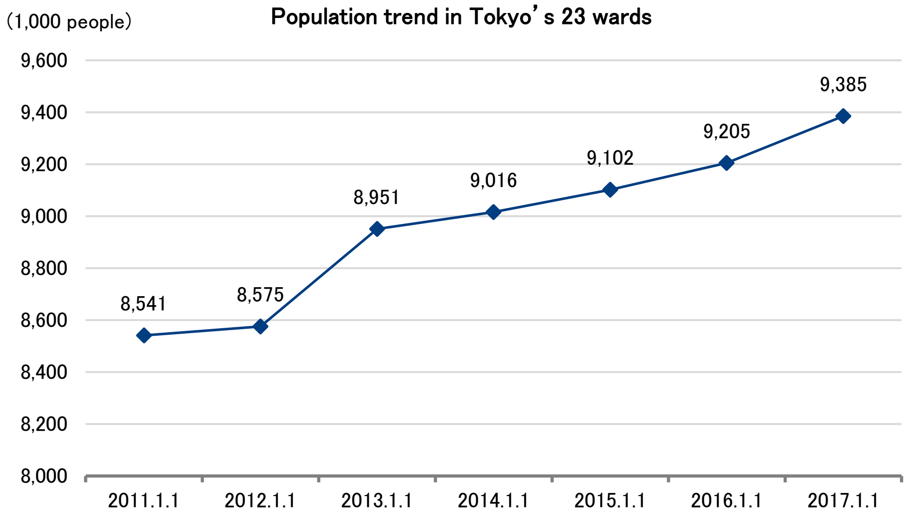


Source: Prepared by FISCO from various materials

In terms of the current trends in the TSE REIT index, although the index trended slightly softly at times due to price movements from the impact of the United Kingdom's decision to leave the European Union (June) and expectations of an interest rate hike, on the whole it is trending positively, supported by policy measures by the Bank of Japan to curb the rise in interest rates (November), along with buoyant stock markets in the U.S. and Japan following Donald Trump's victory in the U.S. presidential elections (stock market rallies driven by policy expectations). In general, the factors such as the interest rate hike in the United States, and uncertainty about the future of the European and Chinese economies, are not necessarily having positive effects on the investment environment. But despite this, domestic and overseas institutional investors are strongly willing to invest in J-REIT, as the yields can be guaranteed and the cash flow is relatively stable. In particular, since the introduction of a negative interest rate policy by the Bank of Japan, the yield on 10-year government bonds has fallen significantly, but in contrast J-REIT is able to maintain a comparatively high dividend yield (a level above 3%), and a situation of an abundance of inflow of capital into this market is continuing. As a result of the continuation of monetary easing policies and firm real estate market conditions (such as improvements to vacancy rates and higher rent), there is the strongly held view that in the medium term, the market will continue to trend upward.

On the other hand, the market for condominiums for investment is also trending favorably, supported by the strong demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government Bureau of General Affairs, the population of Tokyo's 23 wards, which constitutes most of the region to which the Company supplies properties, is continuing to increase against the backdrop of the large number of people moving to metropolitan Tokyo. In particular, there has been an noticeable increase in the number of single-person households, which is occurring in the context of later marriages and the increase in the divorce rate, in addition to the young, and it is thought that this will also support lease demand for one-room condominiums in the future. This trend can be seen not only in Osaka and Nagoya, but also in regional metropolitan areas such as Fukuoka and Sapporo, and while on one hand the population of Japan is declining, on the other hand it continues to be concentrated into cities. On the investor side also, demand is increasing from individual investors in their twenties and thirties who are anxious about their futures in terms of their pensions and lives in their old age, and also from the elderly as an inheritance-tax measure following the reduction in the basic exemption amount.

Population trend in Tokyo's 23 wards



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

In addition, the financial environment surrounding the real estate industry is proving to be a tailwind. According to a survey by the Bank of Japan, new lending to the real estate industry in the first half of fiscal year 2016 (April to September) grew 16.8% YoY to ¥5,894.3bn (a new record high), and the positive attitudes of financial institutions toward real estate financing has been noticeable. The loans balance also reached a new record high of ¥69,669.8bn at the end of September 2016.

Conversely, the problems that the industry is facing include that it has become more difficult to purchase land in city centers due to financial institutions actively conducting real estate financing and the resulting increase in the number of players, and also the rise in land prices and soaring construction costs.

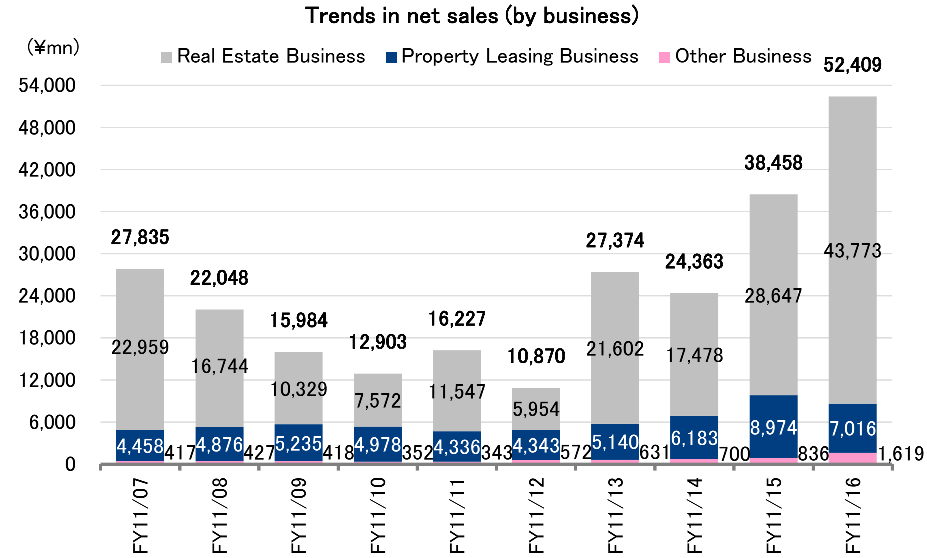
Results trends

The ordinary income margin is improving due to growth in highly profitable development mobilization and investment condominium sales

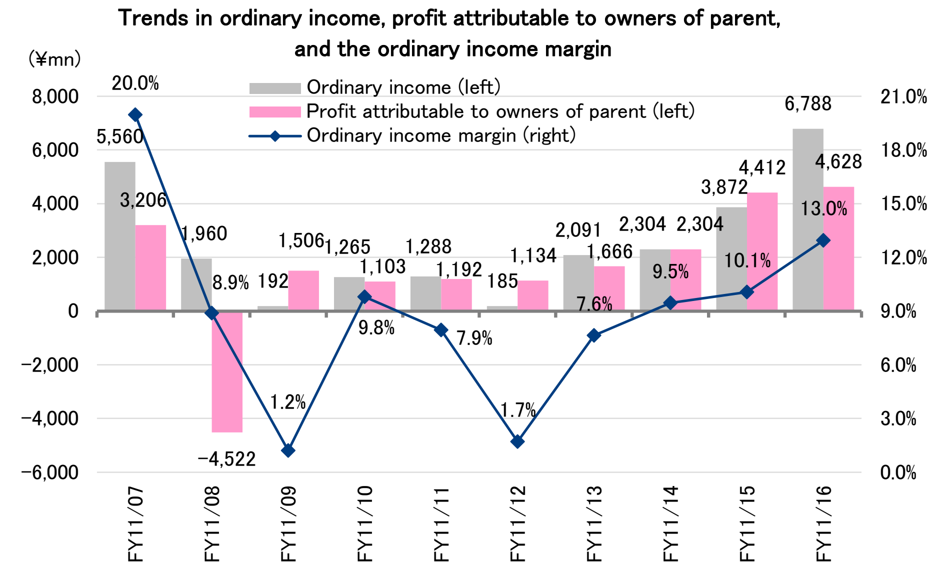
1. Past results trends

Looking back on the Company's results since FY11/07, which was the year it listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market), immediately after it listed it was impacted by the Lehman shock, and there was a period in which its results trended at a low level. The major contraction of its 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 Property Leasing Business have trended stably even when within 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 kept down 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.

Results trends



Source: Prepared by FISCO from the Company's financial results
Note: Excluding internal sales



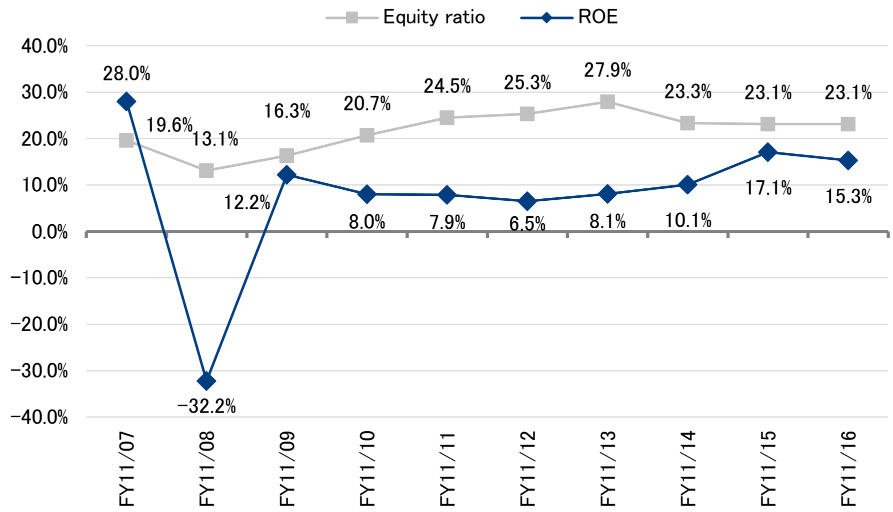
Source: Prepared by FISCO from the Company's financial results

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 terms of profit and loss also, the ordinary income margin has been improving year by year thanks to the growth in the highly profitable development mobilization and investment condominium sales, and in FY11/16 it reached the high level of 13.0%.

The equity ratio has trended at a level of around 25%. In FY11/13, it rose to 27.9% following the implementation of a capital increase through a public offering (approximately ¥2bn), but since FY11/15, it has fallen to a level of around 23% due to the Company's active accumulation of assets and other factors. One issue it will need to address in the future would seem to be strengthening its financial base toward growth.

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. In FY11/16, it had reached the high level of 15.3%.

Trends in the equity ratio and ROE



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

Delivered significant increases in sales and profits in FY11/16 with the bottom line reaching a new record high for the second consecutive year

2. Overview of the FY11/16 results

In terms of FY11/16 results, sales and profits increased significantly, with profit attributable to owners of parent reaching a new record high for the second consecutive year. Net sales increased 36.3% YoY to ¥52,409mn and operating income rose 44.7% to ¥8,586mn. Ordinary income was up 75.3% to ¥6,788mn and profit attributable to owners of parent rose 4.9% to ¥4,628mn. However, net sales, operating income and ordinary income finished the fiscal year below initial forecasts. The main reasons for the shortfalls against forecast were timing differences in scheduled property sales in the Real Estate Business and an overall postponement of the acquisition of income properties in the Property Leasing Business. That said, profit attributable to owners of parent surpassed the initial forecast. Excluding the impact of the timing differences and other factors, the Company can be positively assessed for achieving steady expansion, supported by the tailwind of favorable real estate conditions.

In terms of net sales, although the Property Leasing Business saw sales decline due to the removal of a special factor* recorded in FY11/15, the Real Estate Business saw a significant expansion in sales centered on development mobilization (sales of the S-RESIDENCE series). In addition, sales grew steadily on the back of the contributions from the beginning of the fiscal year of two hotel properties (Nagasaki, Utsunomiya) acquired in FY11/15 in the Other Business.

* In accordance with an application to cancel the leasing agreement by Yamada Denki <9831>, which was the key tenant in the Mito South Tower (now sold), penalty revenue of approximately ¥1,700mn was recorded in sales for FY11/15.

In terms of profits, the operating income margin improved to 16.4% (15.4% in FY11/15), mainly owing to the impact of favorable real estate market conditions and other factors and growth in the highly profitable development mobilization business, despite the negative impact of the removal of the special factor recorded in FY11/15. Combined with the impact of higher net sales, a significant increase in operating income was achieved. Profit attributable to owners of parent surpassed the initial forecast because of the recording of an unplanned gain on sales of non-current assets as extraordinary income.

Looking at land purchases, the Company acquired 20 development sites (acquisition value of around ¥11.5bn and sales equivalent to ¥28.2bn), and 13 inventory properties (income properties for sale; acquisition value of around ¥9.5bn). In addition, the Company invested in 22 properties classified as non-current assets (income properties held by the Company; acquisition value of around ¥18.5bn). Moreover, the development sites include several sites for hotels, including a large hotel property (287 guest rooms) in Fukuoka for which construction is planned for completion in December 2017.

Turning to the Company's financial condition, total assets rose to ¥141,170mn (up 16.0% from the end of the previous fiscal year), mainly from the accumulation of real estate under construction and real estate for sale, along with an increase in income properties held by the Company (non-current assets). In conjunction with this, interest-bearing debt rose to ¥95,568mn (up 20.1% from the end of the previous fiscal year), with the increase centered on long-term debt. However, shareholders' equity rose to ¥32,551mn (up 15.7% from the end of the previous fiscal year), mainly from the accumulation of internal reserves and the conversion of bonds with subscription rights to shares. As a result, the equity ratio remained largely unchanged at 23.1%.

Overview of operating results

(¥mn)

	FY11/15		FY11/16		Change		FY11/16		Difference	
	Result	% of total	Result	% of total	Amount	YoY change	Forecast	% of total		
Net sales	38,458		52,409		13,950	36.3%	57,000		-4,591	-8.1%
Real Estate Business	28,684	74.6%	43,783	83.5%	15,099	52.6%	47,900	84.0%	-4,117	-8.6%
Property Leasing Business	9,026	23.5%	7,288	13.9%	-1,738	-19.3%	7,800	13.7%	-512	-6.6%
Other Business	1,026	2.7%	1,853	3.5%	827	80.6%	1,700	3.0%	153	9.0%
Adjusted amount	-278	-	-515	-	-237	-	-400	-	-115	-
Cost of sales	28,482	74.1%	39,087	74.6%	10,604	37.2%	-	-	-	-
SG&A expenses	4,043	10.5%	4,735	9.0%	692	17.1%	-	-	-	-
Operating income	5,932	15.4%	8,586	16.4%	2,653	44.7%	9,300	16.3%	-714	-7.7%
Real Estate Business	3,706	12.9%	8,071	18.4%	4,364	117.8%	9,200	19.2%	-1,129	-12.3%
Property Leasing Business	4,419	49.0%	2,550	35.0%	-1,869	-42.3%	2,800	35.9%	-250	-8.9%
Other Business	202	19.7%	123	6.6%	-78	-38.9%	300	17.6%	-177	-59.0%
Adjusted amount	-2,396	-	-2,159	-	236	-	-3,000	-	841	-
Ordinary income	3,872	10.1%	6,788	13.0%	2,916	75.3%	7,000	12.3%	-212	-3.0%
Profit attributable to owners of parent	4,412	11.5%	4,628	8.8%	215	4.9%	4,500	7.9%	128	2.8%
Breakdown of Real Estate Business net sales	28,684		43,783		15,099	52.6%				
Development mobilization	-		9,280		9,280	-				
Regeneration mobilization	18,522		23,515		4,992	27.0%				
Condominiums for investment	8,868		10,105		1,236	13.9%				
Asset management	1,256		872		-383	-30.5%				

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

Financial position

(¥mn)

	End of FY11/15	End of FY11/16	Change
Current assets	70,489	85,981	15,492
Cash and deposits	18,693	21,789	3,095
Real estate for sale	34,863	39,514	4,650
Real estate for sale under construction	15,756	22,940	7,183
Non-current assets	51,044	55,048	4,003
Buildings and structures	22,344	27,458	5,114
Land	19,131	21,666	2,534
Total assets	121,728	141,170	19,441
Current liabilities	30,429	28,439	-1,990
Short-term borrowings	9,599	10,279	680
Current portion of long-term debt	13,515	11,205	-2,309
Non-current liabilities	62,945	79,884	16,938
Long-term debt	56,484	74,083	17,599
Bonds with subscription rights to shares	1,985	1,435	-550
Net assets	28,353	32,847	4,493
Total liabilities and net assets	121,728	141,170	19,441
Interest-bearing debt	79,598	95,568	15,969
Shareholders' equity	28,134	32,551	4,416
Equity ratio	23.1%	23.1%	0.0p

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

The results according to business are as follows.

(1) Real Estate Business

In the Real Estate Business, net sales increased by 52.6% YoY to ¥43,783mn and segment income increased steadily by 117.8% to ¥8,071mn. In particular, development mobilization contributed to higher sales through the sale of seven buildings in the S-RESIDENCE series (of which four buildings were sold to SRR; no result in FY11/15). In regeneration mobilization, 18 properties were sold to business companies and SRR (of which 8 properties were sold to SRR). Sales increased significantly because there were a large number of relatively large properties (23 properties in the previous fiscal year). The properties sold included Mito South Tower and Center Hotel Tokyo. Investment condominium sales also steadily increased, with sales of 15 properties and 628 units (compared to 10 properties and 551 units in the previous fiscal year). Meanwhile, asset management's performance was largely as expected, despite a drop in sales compared to the previous fiscal year, which benefited from positive factors in connection with the launch of SRR. The Real Estate Business fell short of its initial forecast because of a timing difference in one property in the S-RESIDENCE series that was scheduled to be sold, and the replacement of certain properties that were scheduled to be sold in regeneration mobilization. Therefore, the shortfall does not necessarily signify a downturn in actual business performance.

On the profit front, the segment income margin improved sharply mainly owing to the impact of favorable real estate market conditions and other factors and growth in the highly profitable development mobilization. Combined with the positive impact of higher sales, the Company achieved a large increase in profits.

(2) Property Leasing Business

In the Property Leasing Business, sales and profits both declined, with net sales decreasing 19.3% YoY to ¥7,288mn and segment income down 42.3% YoY to ¥2,550mn. Negative factors included the removal of penalty revenue from Mito South Tower (around ¥1.7bn) recorded in FY11/15 and a period of vacancy upon the replacement of a key tenant, but these factors were foreseeable. The occupancy rate has been maintained at a high level overall. Excluding the special factor, performance trended fairly strongly. However, the main reason for the shortfall relative to initial forecasts was lower-than-anticipated leasing income due to the overall postponement of the acquisition of income properties. Ultimately, the Company newly acquired 22 properties (acquisition value: ¥18.5bn) as non-current assets, but sold 13 properties (recorded as extraordinary income of about ¥235mn). These sales were not planned, but the Company decided to sell the properties after receiving inquiries offering favorable conditions.

In profits, the segment income margin fell to 35.0% (49.0% in the previous fiscal year), due to the removal of the special factor. But in substantive terms, there has been no change to the high profit margin.

Pieri Moriyama, a large-scale commercial facility that has been attracting interest, presents some concerns due to the impact of a store closure (about 1,388m2) in connection with the withdrawal of Old Navy (a fashion brand) from Japan. However, the tenant who will succeed to half of this space has already been determined. In addition, Nitori Co., Ltd. <9843> opened a new store in the facility on February 10, 2017, and efforts to add value to the facility by adding peripheral facilities are progressing steadily. At present, the facility is recorded as real estate for sale (inventories), so it is expected to be sold in the near future. However, the Company seems to be considering the timing of the sale based on a variety of factors. (The sale of the facility does not seem to be factored into the Company's medium-term management plan.)

(3) Other Business

In the Other Business, sales increased but earnings declined, with net sales increasing 80.6% YoY to ¥1,853mn and segment income declining 38.9% YoY to ¥123mn. Sales increased from the contributions from the start of the fiscal year of the two hotel properties acquired in the previous fiscal year (S-PERIA Hotel Nagasaki and Hotel Sunshine Utsunomiya). However, in terms of profits, the rising cost of construction in the construction and remodeling business was a factor that squeezed profits. In addition, the Company seems to have incurred management outsourcing expenses (management of the two new hotel properties were outsourced), which moderated the growth in profits.

3. The development plan (pipeline) situation

Looking at the development status of the S-RESIDENCE series, a total of 17 properties (1,788 units) are under development, comprising 3 properties scheduled to be completed in 2016 (268 units), 10 properties scheduled to be completed in 2017 (1,071 units) and 4 properties (449 units) scheduled to be completed in 2018. Although the 2018 properties are still at the land-purchasing stage, sales of around ¥26.0bn in total have been accumulated based on the scheduled sales prices (roughly 2.8 times the level of the previous fiscal year), and should begin to contribute to net sales from the current to next fiscal year. There are 5 properties in the Tokyo metropolitan region (2 in Tokyo, 2 in Kanagawa Prefecture, 1 in Chiba Prefecture), 10 properties in the Kansai region (10 in Osaka Prefecture) as well as 1 property in Aichi Prefecture (Nagoya) and 1 property in Hokkaido (Sapporo). Among these properties, the property in Hokkaido (Sapporo) is scheduled to be a luxury family rental condominium.

S-RESIDENCE development and sales plan (at the end of November 2016)

Fiscal year of completion	Property name (provisional)	Location	Month, year of completion	No. of floors	No. of units	First refusal rights (*)
11/16	S-RESIDENCE Yodoyabashi	Chuo-ku, Osaka	January 2016	15	84	-
	S-RESIDENCE Midoribashi Ekimae	Higashinari-ku, Osaka	October 2016	13	148	○
	S-RESIDENCE Yokohama Tammachi	Tammachi, Kanagawa-ku	October 2016	10	36	○
	Total				268	
11/17	S-RESIDENCE Fukaebashi EAST I	Higashinari-ku, Osaka	January 2017	10	144	○
	S-RESIDENCE Fukaebashi EAST II	Higashinari-ku, Osaka	January 2017	10	96	○
	S-RESIDENCE Shin-Osaka WEST	Yodogawa-ku, Osaka	January 2017	15	224	○
	S-RESIDENCE Kawasaki Kaizuka	Kawasaki-ku, Kaizuka	January 2017	12	43	○
	S-RESIDENCE Suita-shi Tarumicho	Tarumicho, Suita	June 2017	10	75	○
	S-RESIDENCE Chuo-ku Tanimachi 5-chome	Chuo-ku, Osaka	July 2017	15	84	○
	S-RESIDENCE Miyakojima-ku Nakanocho	Miyakojima-ku, Osaka	July 2017	11	120	○
	S-RESIDENCE Miyanomori	Chuo-ku, Sapporo	July 2017	4	22	-
	S-RESIDENCE Nagoya-shi Naka-ku	Naka-ku, Nagoya	August 2017	15	109	○
	S-RESIDENCE Minami-Horie	Nishi-ku, Osaka	September 2017	15	154	○
	Total				1,071	
11/18	S-RESIDENCE Shinjuku	Shinjuku-ku, Tokyo	January 2018	11	65	○
	S-RESIDENCE Ichikawa-shi Minami-yawata	Ichikawa, Chiba Prefecture	January 2018	6	81	○
	S-RESIDENCE Yodogawa-ku Kikawa-Higashi	Yodogawa-ku, Osaka	January 2018	11	187	○
	S-RESIDENCE Nihonbashi Nakasu	Chuo-ku, Tokyo	March 2018	11	116	○
	Total				449	

* Listings marked with ○ for first refusal rights are properties for which SRR is granted the first refusal rights. But as of the reference date, there is no agreement with SRR for the sale.
Source: Prepared by FISCO from the Company's financial results briefing materials

The situation for the development projects for investment condominium sales is that 7 properties (593 units) are scheduled for completion in 2016, 10 properties (456 units) in 2017, and 12 properties (637 units) in 2018, so a total of 29 properties (1,686 units) are being progressed. Within these figures, the 2018 properties are still at the land-purchasing stage. Sales of around ¥31.7bn in total have been accumulated based on the scheduled sales prices (roughly 3.1 times the level of the previous fiscal year). There are 20 properties in Tokyo, 8 properties in Osaka and 1 property in Kyoto.

Development and sales plan for investment condominium sales (at the end of November 2016)

Fiscal year of completion	Property or project name	Location	Month, year of completion	No. of floors	No. of units
11/16	Samty Kyoto Nishioji	Shimogyo-ku, Kyoto	March 2016	7	73
	Samty Nanba VIVO	Naniwa-ku, Osaka	April 2016	13	96
	Samty Honmachibashi II MEDIUS	Chuo-ku, Osaka	May 2016	11	150
	Adachi-ku Senjumiyamotocho	Adachi-ku, Tokyo	June 2016	14	102
	Adachi-ku Adachi 4-chome	Adachi-ku, Tokyo	August 2016	7	31
	Shinagawa-ku Minami-Oi 4-chome	Shinagawa-ku, Tokyo	August 2016	15	43
	Samty Awaza BELSIA	Nishi-ku, Osaka	October 2016	15	98
	Total				593
11/17	Chuo-ku Shinkawa 2-chome	Chuo-ku, Tokyo	January 2017	12	27
	Suita-shi Esakacho 1-chome	Esakacho, Suita	January 2017	9	65
	Fukushima-ku Yoshino 4-chome	Fukushima-ku, Osaka	February 2017	9	80
	Shinagawa-ku Minamishinagawa 4-chome	Shinagawa-ku, Tokyo	March 2017	9	38
	Sumida-ku Ishiwara 3-chome (Kita)	Sumida-ku, Tokyo	March 2017	11	38
	Sumida-ku Ishiwara 3-chome (Minami)	Sumida-ku, Tokyo	March 2017	12	42
	Sumida-ku Yokokawa 1-chome	Sumida-ku, Tokyo	September 2017	8	39
	Bunkyo-ku Yushima 2-chome	Bunkyo-ku, Tokyo	September 2017	11	57
	Koto-ku Hirano 2-chome	Koto-ku, Tokyo	October 2017	9	41
	Shinjuku-ku Shinjuku 7-chome	Shinjuku-ku, Tokyo	October 2017	6	29
	Total				456
11/18	Nerima-ku Toyotama-Kita 2-chome	Nerima-ku, Tokyo	December 2017	9	48
	Chuo-ku Nihonbashi Hamacho 2-chome	Chuo-ku, Tokyo	December 2017	13	30
	Sumida-ku Kinshi 1-chome	Sumida-ku, Tokyo	December 2017	13	72
	Bunkyo-ku Koishikawa 5-chome	Bunkyo-ku, Tokyo	January 2018	10	27
	Yodogawa-ku Kikawa-Higashi 2-chome	Yodogawa-ku, Osaka	January 2018	11	90
	Yodogawa-ku Nishi-Miyahara 2-chome II	Yodogawa-ku, Osaka	January 2018	10	90
	Taito-ku Taito 2-chome	Taito-ku, Tokyo	March 2018	13	53
	Chuo-ku Tsukishima 3-chome	Chuo-ku, Tokyo	March 2018	10	45
	Toshima-ku Ikebukuro Honcho 1-chome	Toshima-ku, Tokyo	April 2018	11	31
	Taito-ku Kuramae 3-chome	Taito-ku, Tokyo	May 2018	13	28
	Nishiyodogawa-ku Himesato	Nishiyodogawa-ku, Osaka	June 2018	10	85
	Taito-ku Kojima 1-chome (Nishi)	Taito-ku, Tokyo	July 2018	11	38
	Total				637

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

Therefore, the competitive environment for purchasing land, particularly in city centers, is growing increasingly fierce, but we believe that the Company will be able to utilize its superior business model, which is centered on SRR, to conduct strategic measures even for its acquisition of land, giving it an advantage for these purchases.

Sales and profit growth expected to continue in FY11/17

4. FY11/17 results forecast

For its FY11/17 results forecast, the Company projects continued increases in both sales and profits, with net sales to increase 16.8% YoY to ¥61,200mn, operating income to rise 8.3% to ¥9,300mn, ordinary income to climb 6.1% to ¥7,200mn, and profit attributable to owners of parent to increase 3.7% to ¥4,800mn.

In net sales, growth in the Real Estate Business is forecast to contribute significantly to the projected increase in net sales. Meanwhile, on the profit front, the Company expects to secure higher profits based on an anticipated increase in depreciation in step with the acquisition of large properties (income properties) and other factors, despite a slight decline in profitability.

Investment plans call for a total investment of about ¥55.3bn, higher than in FY11/16, comprising investment of about ¥15.8bn in development sites and about ¥39.5bn in income properties.

FY11/17 results forecast

(¥mn)

	FY11/16		FY11/17		Change	
	Result	% of total	Forecast	% of total	Amount	YoY change
Net sales	52,409		61,200		8,790	16.8%
Real Estate Business	43,783	83.5%	52,900	86.4%	9,116	20.8%
Property Leasing Business	7,288	13.9%	7,100	11.6%	-188	-2.6%
Other Business	1,853	3.5%	1,600	2.6%	-253	-13.7%
Adjusted amount	-515	-	-400	-	115	-
Cost of sales	39,087	74.6%	-	-	-	-
SG&A expenses	4,735	9.0%	-	-	-	-
Operating income	8,586	16.4%	9,300	15.2%	713	8.3%
Real Estate Business	8,071	18.4%	9,800	18.5%	1,728	21.4%
Property Leasing Business	2,550	35.0%	2,100	29.6%	-450	-17.7%
Other Business	123	6.6%	200	12.5%	76	61.3%
Adjusted amount	-2,159	-	-2,800	-	-640	-
Ordinary income	6,788	13.0%	7,200	11.8%	411	6.1%
Profit attributable to owners of parent	4,628	8.8%	4,800	7.8%	171	3.7%

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

The results outlook for main businesses and the prerequisites for these outlooks to be realized are as follows.

(1) Real Estate Business

In the Real Estate Business, net sales are forecast to increase 20.8% YoY to ¥52,900mn and segment income to increase 21.4% to ¥9,800mn. The Company expects to sell 8 S-RESIDENCE series properties in development mobilization, and 30 income properties in regeneration mobilization. Plans also call for sales of 14 properties and 612 units in investment condominium sales. On the profit front, the Company plans to generate increased profits based on higher net sales, along with maintaining a high segment income margin of 18.5% (18.4% in the previous fiscal year.)

(2) Property Leasing Business

In the Property Leasing Business, net sales are forecast to decrease 2.6% YoY to ¥7,100mn and segment income to fall 17.7% to ¥2,100mn. Leasing income is projected to decrease slightly as the sale of income properties will be concentrated in the early part of the fiscal year, while new acquisitions will be concentrated in the latter half of the fiscal year. On the earnings front, the segment income margin is expected to decrease to 29.6% (35.0% in the previous fiscal year) due to an increase in depreciation in connection with the acquisition of large properties*.

* Including Samty Kego Tower (a high-rise condominium building in Fukuoka), which was acquired on November 29, 2016.

(3) Other Business

In the Other Business, net sales are forecast to decrease 13.7% YoY to ¥1,600mn, while segment income is forecast to increase 61.3% to ¥200mn. The Company has set conservative plans in view of the possibility of the partial sale of a property.

As real estate conditions remain favorable, FISCO believes that the FY11/17 forecasts are well within the Company's reach, taking into account the status of the Company's pipeline of development projects, the acquisition of income properties and other factors. In FY11/17 1H, the Company is likely to achieve a high achievement rate against its full-year forecasts based on a concentration of projects to be sold in 1H, including projects carried over from the previous fiscal year. However, the situation must be judged cautiously.

5. Approach to FY11/18

In FY11/18, the Company is targeting net sales of ¥85.0bn (an increase of 38.9% from the FY11/17 forecast), ordinary income of ¥9.0bn (an increase of 25.0% from the FY11/17 forecast), as part of the medium-term management plan. Growth in the Real Estate Business is expected to continue driving the Company's overall growth. However, in order to achieve the FY11/18 targets, the Company will need to achieve a dramatic increase in its business results based on the business forecasts for FY11/17.

As mentioned above, FISCO believes that there is a high likelihood that the Company will be able to achieve its targets for FY11/18, based on the steady accumulation of its pipeline of development properties and given that its proactive investment plans in FY11/17 (total investment of ¥55.3bn) will begin contributing to results from the next fiscal year onward. Put differently, the degree of achievement of investment plans in FY11/17 will have a significant bearing on business results from the next fiscal year onward. Progress on investment plans will need to be monitored closely.

Growth strategy

Aiming for steady medium- to long-term growth by expanding development in regional metropolitan areas

1. Medium-term management plan

The Company kicked off the new "Challenge 40" medium-term management plan in FY11/16. The previous medium-term management plan is now expected to be achieved two years ahead of schedule, based on significant changes in the external environment (additional monetary easing by the Bank of Japan and expansion in inbound tourism demand) and in the internal environment (the Company's expansion of business areas, entry into the J-REIT business, the move of the Company's listing to the First Section of the Tokyo Stock Exchange). Therefore, the Company has upwardly revised its targets for FY11/18 and has set new targets for FY11/20. It is now targeting net sales at the ¥100bn level and ordinary income at the ¥10bn level for FY11/20.

The "Challenge 40" medium-term management plan

	FY11/16 targets	FY11/18 targets	FY11/20 targets
Net sales	¥57bn	¥85bn	¥100bn level
Ordinary income	¥7bn	¥9bn	¥10bn level
EPS	¥194.4	¥240	¥300 or more
ROE	14.9%	15.0%	15% or more
ROA	7.0%	7.0%	7% or more
Equity ratio	23.0%	27.0%	30% or more

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

2. Future direction and progress

As its growth strategy for the future, the Company has set the following three key strategies: (1) Development of a business model centered on SRR, (2) Strategic investment in regional metropolitan areas, and (3) Roll-out of the hotel development business. Also, as its financial targets, it is aiming to maintain its capital efficiency and establish a financial base.

(1) Development of a business model centered on SRR

The Company's policy is to further evolve its business model, in which it is capable of handling every aspect of the property business, from land purchasing and development through to leasing, sales, and after-sales, so it is centered on SRR, which has been smoothly launched. Specifically, in addition to supplying development properties preferentially to SRR, it is aiming to establish a stable fee business through conducting outsourced asset management and property management after it has supplied the properties. In other words, its strategy can be described as connecting the growth of SRR to the growth of the Company. As of the end of the previous fiscal year, the Company held 10 properties (760 units), primarily in government ordinance designated cities across Japan, as warehousing properties under consideration for supply to SRR. Over the next two to three years, the Company plans to supply properties to SRR, with the aim of increasing SRR's asset balance to around ¥100bn, in conjunction with expanding steady asset management fees.

(2) Strategic investment in regional metropolitan areas

The Company plans to invest a total of approximately ¥300bn in the 5-year period from FY11/16 to FY11/20. The specific details of its measures are as follows. In FY11/16, purchases amounted to about ¥39.5bn (development sites and income properties), with purchases of about ¥55.3bn planned for FY11/17. Going forward, the Company plans to accelerate the pace of investment further.

a) Expansion of development areas

Up to the present time, developments have been focused in the metropolitan Tokyo region and the Kansai region, but it will expand its development into each branch office region, including Hokkaido, Chubu, and Kyushu.

b) Diversification of development assets

SRR, which targets accommodation assets (rental housing, and real estate in areas adjacent to rental housing, such as hotels and health care facilities), will become able to incorporate hotels (up to 20% of its assets-held balance), and will actively conduct measures for hotel development, centered on each branch office region.

c) For income properties and regeneration real estate, in addition to working to discover properties with high yields in regional metropolitan areas, it will secure cash flow through facilitating turnover.

Investment plans according to area and asset

(¥100mn)

	Income properties	Regeneration real estate	S-RESIDENCE (for funds and REIT)	1R for investors	S-PERIA hotels	Total
Hokkaido	160	70	30	-	50	310
Metropolitan Tokyo region	-	110	100	430	190	830
Chubu	210	70	40	30	50	400
Kansai	270	110	170	230	130	910
Kyushu	270	70	60	40	110	550
Total	910	430	400	730	530	3,000

Source: Prepared by FISCO based on the Company's medium-term management plan.

(3) Roll-out of the hotel development business

Within the previously mentioned total investment amount of approximately ¥300bn, the Company plans to invest around ¥53bn in its hotel development business (land + construction expenses). Specifically, it plans to invest ¥5bn in the Hokkaido region (from 2 to 3 properties), ¥19bn in the metropolitan Tokyo region (around 10 properties), ¥5bn in the Chubu region (from 2 to 3 properties), ¥13bn in the Kansai region (from 5 to 6 properties), and ¥11bn in the Kyushu region (around 5 properties). In addition to developing S-PERIA hotels as a new brand name, it intends to capture both business and inbound demand. As mentioned earlier, the Company secured sites for several properties in Fukuoka and other areas in the previous fiscal year. However, the Company plans to proceed cautiously with investments in the hotel development business only after carefully selecting properties based on the area.

(4) Financial strategy

The Company's policy is to realize sustainable growth while maintaining a certain level of financial soundness. Specifically, for FY11/20, on the one hand it is aiming for an equity ratio of 30% or more, while on the other hand it intends to maintain capital efficiency with ROE of 15% or more and ROA of 7% or more. It also targets cutting the cost of interest-bearing debts and a net D/E ratio of 2.0 or less.

(5) Other

The Company will also work to enter overseas businesses. As part of these efforts, in September 2016, the Company made an investment (US$5 million) in a fund targeting investments in real estate companies undertaking real estate development and leasing businesses in Ho Chi Minh City, a major city in Vietnam. Using this investment as a foothold for its overseas businesses, the Company will strive to drive further overseas business expansion primarily in Southeast Asian countries, which offer prospects for high growth, with the view to conducting joint development with local companies and other partners, purchasing and owning leasing properties and opening overseas branches or setting up subsidiaries.

Returns to shareholders

Forecasting a dividend per share of ¥36 in FY11/17, an increase of ¥3 YoY

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 results and also based on a comprehensive consideration of its future business plans and financial condition.

In FY11/16, the Company plans to pay an ordinary dividend per share of ¥33 (dividend payout ratio of 16.8%). In FY11/15, it paid a dividend per share of ¥33 including a commemorative dividend of ¥3 to mark its change of listing to the TSE First Section. Therefore, the dividend per share in FY11/16 effectively increased by ¥3 after excluding the commemorative dividend paid in FY11/15. In FY11/17, it plans to pay a dividend per share of ¥36 (dividend payout ratio of 17.8%), which is an increase of ¥3 from FY11/16.

The Company is targeting a dividend payout ratio of 30% by FY11/20. At FISCO, we think that there is still considerable room for the Company to increase dividends through profit growth and raising the dividend payout ratio, including the possibility of upwardly revising the dividend forecast for the current fiscal year.

It also aims to improve shareholder value by increasing EPS. Toward this, its policy is to actively conduct buybacks of its own shares.

Disclaimer