COMPANY RESEARCH AND ANALYSIS REPORT

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

13-Mar.-2018

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Index

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Summary

Results are currently steadily expanding, supported by the favorable business environment, while major progress is also being made in the growth strategy, centered on the J-REIT business

1. Company profile

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*. 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.

2. Medium-term management plan

The Company's current medium-term management plan covers the five-year period from FY11/16 to FY11/20. The plan targets 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) Expansion of the hotel development business. In addition, investment of about ¥300bn is planned over the five years from FY11/16 to FY11/20.

3. The Daiwa Securities Group entered into a sponsor support agreement with SRR

In January 2018, the Daiwa Securities Group Inc. <8601> and the Company subscribed for the third party allotment investment units issued by SRR, and alongside this, the Daiwa Securities Group entered into a sponsor support agreement with SRR. Through this, SRR acquired 33 properties, and while aiming to expand its asset scale, it can also be said to have obtained some major advantages looking toward the future (support, including for acquiring properties and creditworthiness). At the same time, the Company can be positively evaluated for its major progress towards the growth strategy created centered on SRR.

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4. Business result for FY11/17

The FY11/17 results steadily expanded, with net sales increasing 15.4% year-on-year (YoY) to ¥60,479mn and operating income growing 18.0% to ¥10,131mn, meaning the Company basically achieved its upwardly-revised forecasts. Results particularly expanded in the Real Estate Business. Investment demand in the brands developed by the Company, including S-RESIDENCE, continues to be strong among overseas funds and wealthy investors, and the favorable sales environment is supporting the growth in results. In profits also, the cost ratio greatly improved due to the upward trend in sales prices and the stable construction costs, and the operating income margin rose to 16.8% from 16.4% in the previous fiscal year. As for purchases, which will lead to growth in the future, acquisitions of development sites and income properties are also progressing as planned.

5. FY11/18 forecast

For the FY11/18 results, the Company is forecasting higher sales and profits, with net sales to increase 5.8% YoY to ¥64,000mn and operating income to rise 8.6% to ¥11,000mn. While the sales-increase rate will remain at a somewhat moderate level, the forecasts can be evaluated as prioritizing profit growth. Within the ongoing favorable sales environment, net sales are expected to grow significantly, as the growth in the Real Estate Business continue from the previous fiscal year, sales in the Other Business are also forecast to increase greatly, including from the expansion in the hotel business. The forecast is also for the increase in profits to be maintained from the improvement in the profit margin against the backdrop of the favorable conditions in the real estate market, in addition to the effects of the higher sales.

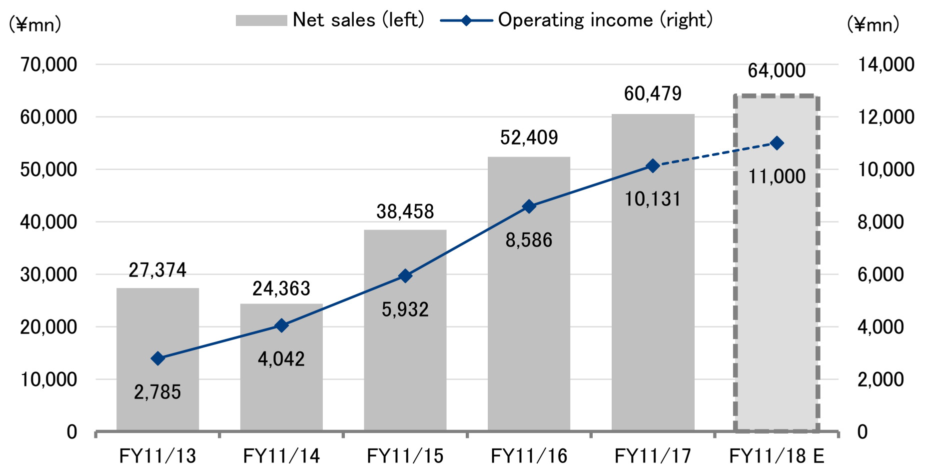
6. Medium-term outlook

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)? 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 a business model centered on SRR contribute to the Company's profitability and growth potential?

Key Points

- Sales and profits increased in the FY11/17 results and greatly exceeded the initial forecasts
- In particular, the strong investment demand from overseas funds and others continued, and the upward trend in sales prices contributed in the rise in profit margin
- The Daiwa Securities Group entered into a sponsor support agreement with SRR, and the Company is making great progress in its growth strategy
- Steadily accumulating pipeline properties and the outlook is for sustainable growth

Results trends



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

Company profile

Balanced business portfolio based on Real Estate Business and Property Leasing Business; entered J-REIT market in 2015

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 trended favorably contributing 84.7% of net sales (before adjustment) and 81.9% of operating income (before adjustment) in FY11/17. 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 (FY11/17)

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 approximately ¥81.5bn* (as of the end of January 2018).

* In January 2018, SRR acquired 33 properties from the third party allotment investment (subscribed by the Daiwa Securities Group and the Company). The asset scale expanded from 49 properties worth approximately ¥52bn to 82 properties worth around ¥81.5bn (described below).

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, including 8 special purpose companies (SPC) and general incorporated associations established and receiving investment in the processes of carrying out for the Real Estate Business and Property Leasing Business 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 Property Management Co., Ltd. (property management, maintenance, etc.) (as of the end of November 2017).

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."

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"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 mainly supplies properties to SRR.

The S-RESIDENCE series

Source: The Company's website and materials supplied by the Company

"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, 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 entire 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 purchasing before the condominium is ready by sales companies due to their sense of the scarcity of properties, the Company's excellent leasing expertise (wholesale 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.

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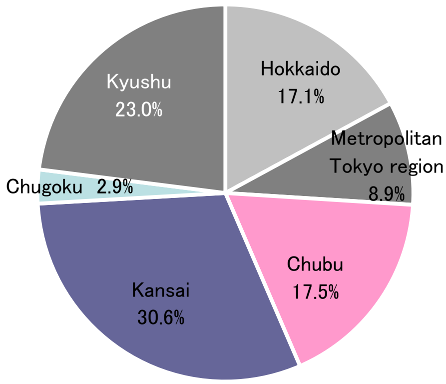
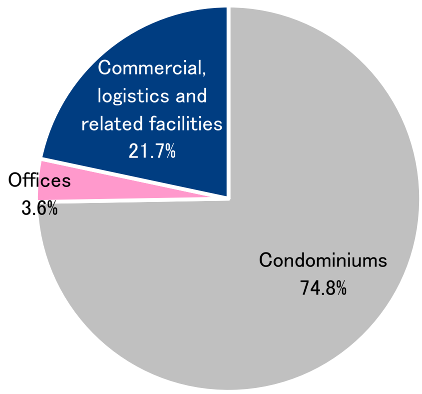
(2) Property Leasing Business

This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 88 properties nationwide, centered on the Kansai and metropolitan Tokyo region 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 74.8% of the total floor space, offices 3.6%, and commercial, logistics and related facilities 21.7%, so the weights are high for condominiums which high occupancy rates can be expected. The Company utilizes its leasing expertise to realize high occupancy rates above 90% when averaged over the year. The occupancy rates according to facility are 92.9% for condominiums, 94.6% for offices, and 99.8% for commercial, logistics and related facilities. While the scale of the real estate it owns amounts to around ¥98.9bn (book value), this is divided into ¥37.0bn of inventory assets that it intends to eventually sell (real estate for sale), and ¥61.8bn of property equipment that it intends to continue to own (all results are from the end of November 2017). In addition to its main commercial facilities, such as the historic Amanohashidate Hotel, these assets include properties such as Pieri Moriyama, a large scale commercial facility on Lake Biwa that was reopened in December 2014.

Distribution of properties owned by area
(based on total floor area)



Distribution of properties owned
by use
(based on total floor area)



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

(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 the S-PERIA Hotel Nagasaki (Nagasaki, 153 rooms) and GOZAN HOTEL (Higashiyama-ku, Kyoto, 21 rooms)*. In addition, it sold and leased back Center Hotel Tokyo (Chuo-ku, Tokyo, 107 rooms) in FY11/16 and Center Hotel Osaka (Chuo-ku, Osaka, 84 rooms) in FY11/17. Center Hotel Tokyo and Center Hotel Osaka are managed by its subsidiary, Suntoa. Also its subsidiary Samty Property Management conducts operations including condominium management (mainly the Company's condominium properties but also including external properties), and a construction and renovation business.

* Properties newly acquired in June 2017.

2. Features

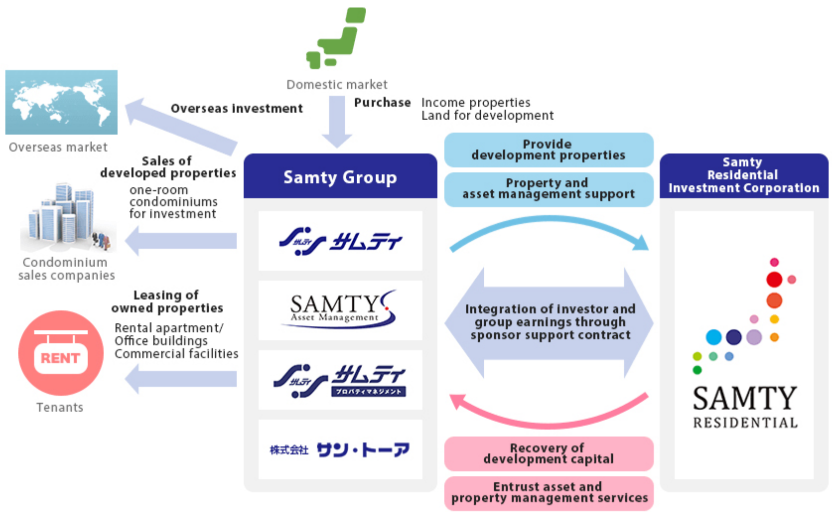
A feature of the Company is that it handles all aspect of the property business with its business model combining two businesses, the Real Estate Business and the Property Leasing Business. This forms its strength in terms of the superiority of its business and revenue structure.

(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 expertise, 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.

The Company also has a competitive advantage for its business model, centered on SRR. SRR will become a stable supply destination, and in addition, the expansion of the after-sales fee business (commissioned asset management operations and contract management operations) can be expected to become a stable source of revenue in the future.

Business model overview



Source: 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-type business) and growth acceleration from its Real Estate Business (a flow-type 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 2008 financial crisis), 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.

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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 entire condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of 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 (now 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 August 2006, it acquired the shares of Suntoa, which owns and manages business hotels to enter into the hotels busines. In December 2011, it established Samty Kanri (now Samty Property Management) to enter into the property management business; in November 2012, it made Samty Asset Management a wholly owned subsidiary to enter into the asset management business; 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

Conditions continue to be favorable in the real estate market

The J-REIT market will have an important influence on the Company's growth strategy in the future. As of the end of November 2017, its market capitalization stood at around ¥11,507.0bn, and there were 59 J-REITs listed. 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 2008 financial crisis, since 2012 it has steadily trended upward thanks to the recovery of the domestic economy and the effects of long-term monetary easing. Although we currently see sluggish growth in property acquisition due to the rise in real estate prices, 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.

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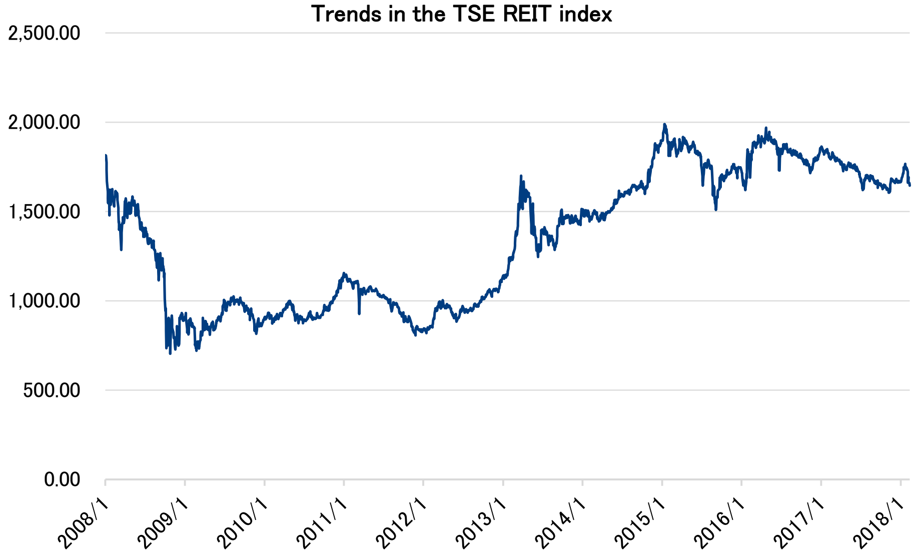
The TSE REIT index has shown moderately weak performance amid rising global interest rates and concerns regarding deterioration of the supply-demand balance owing to a large supply of office space expected to go on the market in 2018. However, demand for J-REITs remains strong from domestic and overseas institutional investors seeking strong yields and relatively stable cash flow based on the view that the Bank of Japan will maintain its policy of monetary easing and office demand will rise. In addition, the medium-term outlook for J-REITs looks strong amid continued monetary easing and a strong real estate market (improving vacancy rates and rising rents).

Trends in the TSE REIT index



Source: Prepared by FISCO from various materials

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, including among the young, which is occurring in the context of later marriages and the increase in the divorce rate, and it is thought that this will also support lease demand for one-room condominiums in the future. This trend can also be seen not only in Osaka and Nagoya, but also in regional metropolitan areas such as Fukuoka and Sapporo, and 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. In addition, we also see intensified demand from overseas funds and other investors for properties in Tokyo's prime locations with many inquiries about entire buildings rather than individual unit purchases.

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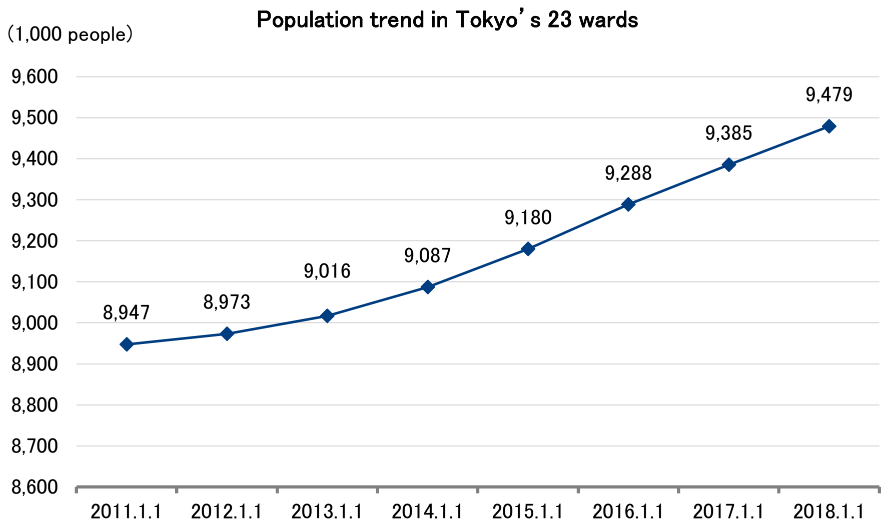


Source: Prepared by FISCO based on materials issued by the Tokyo Metropolitan Government Bureau of General Affairs

The problems that the industry is facing include that it has become more difficult to purchase land in city centers, the rise in land prices and soaring construction costs.

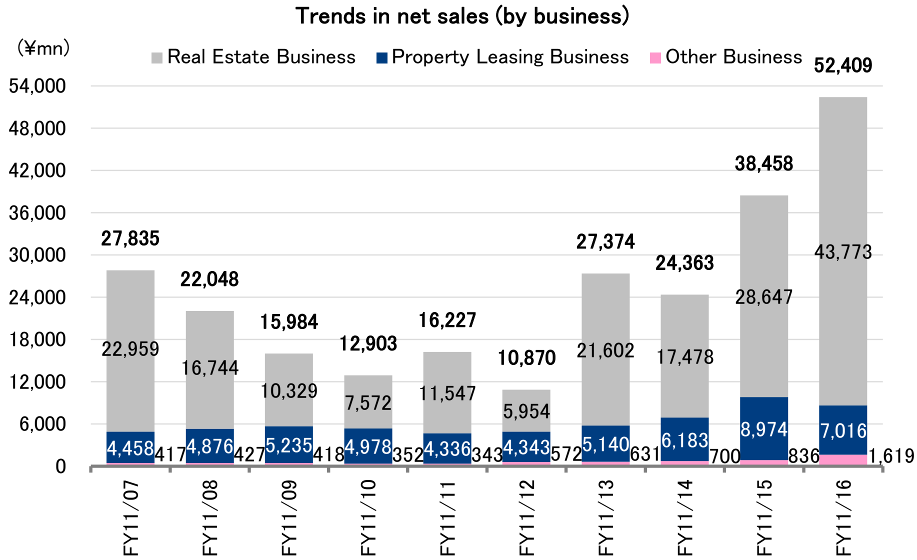
Results trends

Substantial growth in Real Estate Business amid strong real estate market

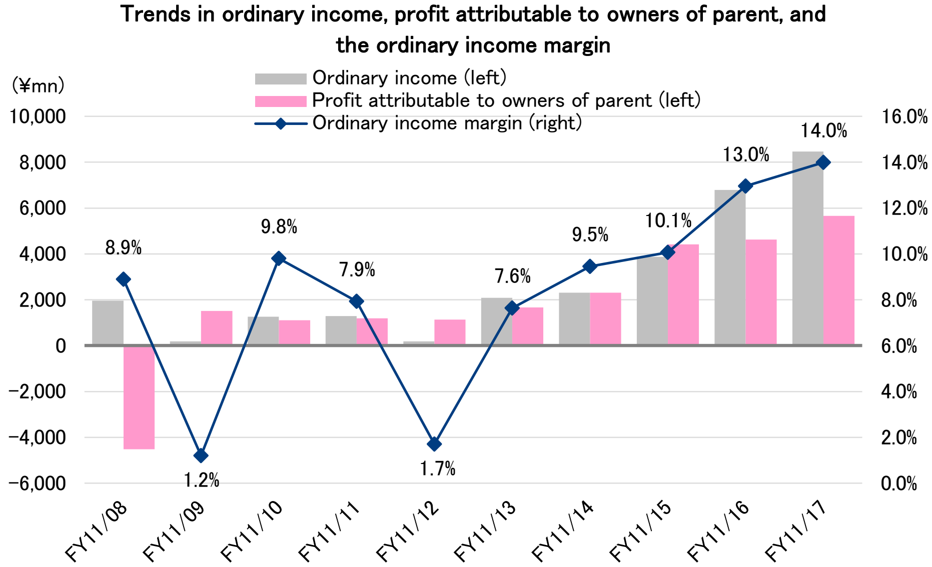
1. Past results trends

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 2008 financial crisis, 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



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



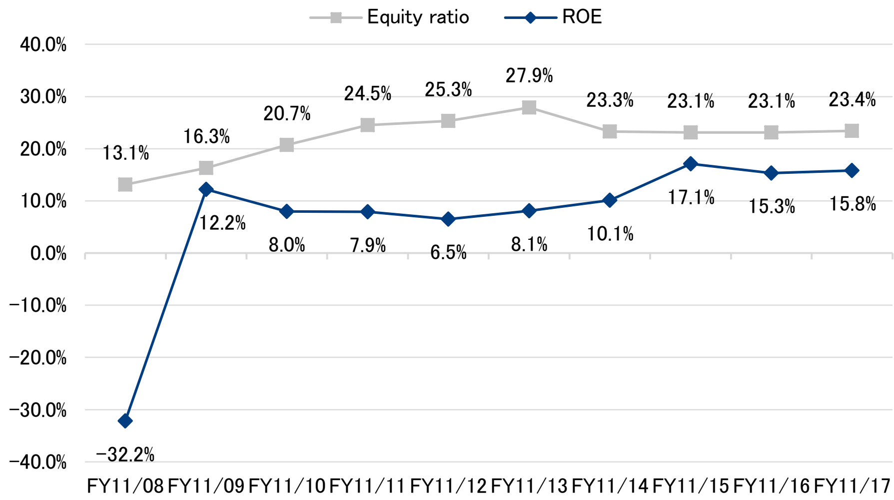
Source: Prepared by FISCO from the Company's financial results

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 progress in the highly profitable development mobilization, and in FY11/17 it reached the high level of 14.0%.

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 FY11/17, it had reached the high level of 15.8%.

Trends in the equity ratio and ROE



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

Basically achieved the forecasts, which were upwardly revised twice in FY11/17. The profit margin further improved, against the backdrop of the favorable sales environment.

2. Overview of the FY11/17 results

In terms of FY11/17 results, sales and profits steadily increased and basically achieved the revised targets. Net sales increased 15.4% YoY to ¥60,479mn and operating income rose 18.0% to ¥10,131mn. Ordinary income was up 24.6% to ¥8,461mn and profit attributable to owners of parent rose 22.3% to ¥5,661mn.

Net sales exceeded their respective forecasts in each of the three businesses. In particular, they grew significantly in the Real Estate Business, which benefitted from strong property sales. Centered on properties in the metropolitan Tokyo region, it seems that development mobilization (S-RESIDENCE sales) and regeneration real estate (regeneration and sales, including of existing income properties) for which the investment demand, such as from overseas funds and wealthy investors, has continued to be strong, are being sold at prices higher than expected. Sales of investment condominiums (the planning, development, and sales of condominiums for investment) were also favorable, supported by the strong demand from individual investors and others. Elsewhere, results in the Property Leasing Business and the Other Business, which are stable sources of revenue, trended strongly.

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In terms of profits, the cost ratio greatly improved (down 0.6 of a percentage point YoY) due to the upward trend in sales prices and the stable construction costs. Conversely, SG&A expenses rose, including due to the broadcasting of TV commercials in order to improve name recognition, and the higher personnel expenses following the additional recruitment of personnel and raising up the salary base. However, the Company still achieved higher operating income from the effects of the higher sales and the improvement in the cost ratio. The operating income margin also rose to 16.8% (16.4% in the previous fiscal year). In addition, ordinary income growth rates saw a major rise against the backdrop of a reduction in interest payments due to lower interest rates in the market.

Also, for the status of purchases, which will lead to growth in the future, the Company has acquired 22 development sites (estimated net sales, ¥51bn / acquisition price, ¥17bn) and 46 income properties (acquisition price; ¥32bn),* which can be said to be basically as planned. In particular, it is generally said that it is difficult to acquire development sites, particularly in metropolitan Tokyo region, but one-room condominiums, which are the Company's business area, can be developed even on land that is comparatively narrow, so it is considered that there is little competition with the major developers.

* The FY11/16 results were 20 development sites (estimated net sales, equivalent to ¥28.2bn; acquisition price, ¥11.5bn), and 35 income properties (acquisition price, ¥29bn).

For the financial condition, due to the increases in real estate for sale under construction (current assets) and property and equipment (non-current assets), total assets were up 17.9% from the end of the previous fiscal year to ¥166,449mn. Shareholders' equity also rose 19.9% to ¥39,017mn because of the accumulation of internal reserves, and as a result, the equity ratio improved slightly, to 23.4% (23.1% at the end of the previous fiscal year). Conversely, interest-bearing debt increased 20.1% to ¥114,786mn, which is the first time it has exceeded ¥100bn. But 73.3% of this amount is long-term debt, and there are no concerns about the Company's financial stability.

Overview of operating results

(¥mn)

	FY11/16 result		FY11/17 result		Change		FY11/17 revised forecast		Achieve-ment rate
		% of total		% of total		%		% of total	
Net sales	52,409		60,479		8,070	15.4%	60,000		100.8%
Real Estate Business	43,783	83.5%	51,522	85.2%	7,739	17.7%	51,400	85.5%	100.2%
Property Leasing Business	7,018	13.4%	7,386	12.2%	368	5.2%	7,300	12.1%	101.2%
Other Business	1,853	3.5%	1,885	3.1%	31	1.7%	1,800	3.0%	104.7%
Adjustment	-246	-	-315	-	-68	-	-350	-	-
Cost of sales	39,087	74.6%	44,733	74.0%	5,646	14.4%	-	-	-
SG&A expenses	4,735	9.0%	5,614	9.3%	879	18.6%	-	-	-
Operating income	8,586	16.4%	10,131	16.8%	1,545	18.0%	10,300	17.2%	98.4%
Real Estate Business	8,071	18.4%	10,600	20.6%	2,529	31.3%	10,000	19.5%	106.0%
Property Leasing Business	2,281	32.5%	2,094	28.4%	-187	-8.2%	2,000	27.4%	104.7%
Other Business	393	21.2%	243	12.9%	-149	-38.1%	70	3.9%	347.1%
Adjustment	-2,159	-	-2,806	-	-647	-	-1,840	-	-
Ordinary income	6,788	13.0%	8,461	14.0%	1,673	24.6%	8,500	14.2%	99.5%
Profit attributable to owners of parent	4,628	8.8%	5,661	9.4%	1,033	22.3%	5,600	9.3%	101.1%
Breakdown of Real Estate Business net sales	43,783		51,522		7,739	17.7%			
Development mobilization	9,280		15,402		6,121	66.0%			
Regeneration mobilization	23,515		23,632		117	0.5%			
Condominiums for investment	10,105		12,049		1,943	19.2%			
Asset management	872		383		-489	-56.1%			

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

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Financial position

(¥mn)

	End of November 2016	End of November 2017	Change	
Current assets	85,981	98,558	12,577	
Cash and deposits	21,789	25,857	4,068	
Real estate for sale	39,514	37,059	-2,455	
Real estate for sale under construction	22,940	34,456	11,516	
Non-current assets	55,048	67,797	12,749	
Property and equipment	50,606	61,887	11,281	
Intangible assets	151	140	-11	
Investments and other assets	4,290	5,769	1,479	
Total assets	141,170	166,449	25,279	
Current liabilities	28,439	39,182	10,743	
Short-term borrowings	10,279	11,883	1,604	
Current portion of long-term debt	11,205	18,795	7,590	
Non-current liabilities	79,884	87,906	8,022	
Long-term debt	74,083	84,108	10,025	
Bonds with subscription rights to shares	1,435	-	-	
Net assets	32,847	39,360	6,513	
Net assets	141,170	166,449	25,279	
Interest-bearing debt	95,567	114,786	19,219	20.1%
Shareholders’ equity	32,551	39,017	6,466	19.9%
Equity ratio	23.1%	23.4%	0.3%	

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

The results according to each business are as follows.

(1) Real Estate Business

Net sales increased 17.7% YoY to ¥51,522mn and segment income steadily rose 31.3% to ¥10,600mn. In particular, development mobilization grew significantly, up 66.0% to ¥15,402mn. The Company sold 8 S-RESIDENCE properties* (7 in the previous fiscal year), while against the backdrop of factors including the ongoing low interest rates and the stable political situation, there continued to be a strong purchasing demand from overseas funds and upward trend in sales prices contributed to the growth in the results. It also sold 29 regeneration mobilization properties (18, including large-scale properties, in the previous fiscal year), and net sales were basically unchanged, up 0.5% to ¥23,632mn. Same as for development mobilization, it seems that bulk sales to overseas funds and other such factors contributed greatly to profits. Net sales were also strong for investment condominiums, up 19.2% to ¥12,049mn, due to sales of 690 units (628 units in the previous fiscal year; the forecast was for 663 units). Sales were supported by strong demand from individual investors, against the backdrop of factors such as concerns about pensions in the future and as a measure to deal with inheritance tax.

* Within the 8 S-RESIDENCE properties, 2 properties were for SRR (including the bridge fund).

In profits, the segment income margin improved greatly, to 20.6% (18.4% in the previous fiscal year), due to the increase in direct sales to overseas funds and wealthy investors, in addition to the upward trend in sales prices and the stable construction costs. Therefore, the Company was able to realize a major increase in profits.

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(2) Property Leasing Business

Net sales increased 5.2% YoY to ¥7,386mn, while segment income decreased 8.2% to ¥2,094mn, for higher sales but lower profits. In addition to the increase in the number of properties owned*, the occupancy rates also trended at high levels, so sales grew steadily.

* The number of properties owned increased to 88, as 29 were sold and 46 were acquired.

Profits declined due to the increase in depreciation following the acquisitions of large-scale properties*, but this was within the expected range.

* It acquired Samty Kego Tower (a high-rise condominium building in Fukuoka) in November 2016 and a large-scale logistics warehouse (in Mito) in March 2017, while S-RESIDENCE Miyanomori, which are rental condominiums for families, was completed in November 2017 (in Sapporo, the first condominiums for families under the S-RESIDENCE brand), etc.

(3) Other Business

Net sales increased 1.7% to ¥1,885mn, while segment income decreased 38.1% to ¥243mn, for higher sales but lower profits. In addition to the increase in the number of condominiums under management, in the hotel business also, the newly acquired GOZAN HOTEL contributed, while the occupancy rates were maintained at high levels*. As a result, net sales exceeded their forecast.

* The Q4 average occupancy rates were 96.4% at Center Hotel Tokyo, 94.5% at Center Hotel Osaka, and 94.4% at S-PERIA Hotel Nagasaki. In particular, the occupancy rate recovered steadily at S-PERIA Hotel Nagasaki, as it had fallen slightly in Q2.

Conversely, the reasons for the lower profits seem to be 1) the recording of rental costs for Center Hotel Tokyo, which was sold in December 2016 and which is currently only managed by the Company, and 2) the absence of the highly profitable construction projects in the previous fiscal year (a temporary factor), but the decrease in profits was within the expected range.

As a result of the above, FY11/17 earnings were strong overall as 1) Real Estate Business earnings grew at a faster pace than expected with tailwind support from a strong real estate market (particularly in terms of profit due to the upward trend in sales price) and 2) the company made steady progress on acquisitions to drive future growth (development properties and income properties).

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3. The development plan (pipeline) situation

The development status of the S-RESIDENCE series is that 8 buildings (420 units) were completed in 2017 and 13 buildings (949 units) are to be completed in 2018. The buildings to be completed in 2019 are being steadily accumulated, as development sites for 3 buildings (368 units) have already been purchased, and other purchases are currently being progressed. In terms of regions, 14 buildings are in the metropolitan Tokyo region (11 in Tokyo, 1 in Kanagawa, and 2 in Chiba), 5 buildings are in Kansai (Osaka), and 5 buildings are in Aichi (Nagoya).

S-RESIDENCE development plan (at the end of November 2017)

Fiscal year of completion	Property name or project name	Location	No. of units
2017	S-RESIDENCE TSURUMAI	Naka-ku, Nagoya	109
	S-RESIDENCE Oshiage Park Side	Sumida-ku, Tokyo	39
	S-RESIDENCE Nihonbashihamacho	Chuo-ku, Tokyo	30
	S-RESIDENCE Kiyosumi-shirakawa	Koto-ku, Tokyo	41
	S-RESIDENCE Kinshicho Park Side	Sumida-ku, Tokyo	72
	S-RESIDENCE Shinjuku EAST	Shikujuku-ku, Tokyo	29
	S-RESIDENCE Kawasaki Kaizuka	Kawasaki, Kanagawa Prefecture	43
	S-RESIDENCE Ochanomizu	Bunkyo-ku, Tokyo	57
	Total 8 properties		420
2018	S-RESIDENCE Shin-Osaka Luna (Kikawa-higashi 2)	Yodogawa-ku, Osaka	90
	S-RESIDENCE Shin-Osaka Garden (Kikawa-higashi 4)	Yodogawa-ku, Osaka	177
	S-RESIDENCE Shin-Osaka Ridente (Nishimiyahara 2 II)	Yodogawa-ku, Osaka	90
	S-RESIDENCE Higashi-ku Aoi 2-chome	Higashi-ku, Nagoya	95
	S-RESIDENCE Shigahondori	Kita-ku, Nagoya	88
	S-RESIDENCE Chikusa-ku Uchiyama 3-chome	Chikusa-ku, Nagoya	44
	S-RESIDENCE Nerima-Sakuradai	Nerima-ku Tokyo	48
	S-RESIDENCE Bunkyo-Koishikawa	Bunkyo-ku, Tokyo	27
	S-RESIDENCE Tsukishima	Chuo-ku, Tokyo	45
	S-RESIDENCE Shinjuku Urban Style	Shinjuku-ku, Tokyo	65
	S-RESIDENCE Kuramae	Taito-ku, Tokyo	28
	S-RESIDENCE Matsudo-shi Honcho	Matsudo-shi, Chiba Prefecture	52
	S-RESIDENCE Minamiyawata 5-chome	Ichikawa-shi, Chiba Prefecture	100
	Total 13 properties		949
2019	S-RESIDENCE Esaka 1-chome II	Esakacho, Suita	153
	S-RESIDENCE Kita-ku Nishitenma 3-chome	Kita-ku, Osaka	138
	S-RESIDENCE Hongo 3-chome	Meito-ku, Nagoya	77
	Total 3 properties		368
Total 24 properties			1,737

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

Conversely, the development status of investment condominium projects are that 1 building (96 units) was completed in 2017, 7 buildings (328 units) are to be completed in 2018, and 7 buildings (424 units) are to be completed in 2019. The Company is making progress toward this total of 15 buildings (848 units), which will have a total scheduled sales price of approximately ¥17bn.

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Development and sales plan for investment condominium sales (at the end of November 2017)

Fiscal year of completion	Property name (provisional)	Location	No. of units
2017	Samty Osaka	Higashinari-ku, Osaka	96
	Total 1 property		96
2018	Nishiyodogawa-ku Himesato 2-chome	Nishiyodogawa-ku, Osaka	85
	Nishi-ku Edobori 3-chome II	Nishi-ku, Osaka	50
	Taito-ku Taito 2-chome	Taito-ku, Tokyo	53
	Toshima-ku Ikebukurohoncho 1-chome	Toshima-ku, Tokyo	31
	Toshima-ku Takada 2-chome	Toshima-ku, Tokyo	36
	Taito-ku Kojima 1-chome (WEST)	Taito-ku, Tokyo	38
	Chuo-ku Nihonbashi-bakurocho 1-chome	Chuo-ku, Tokyo	35
	Total 7 properties		328
2019	Nishi-ku Honden 1-chome	Nishi-ku, Osaka	140
	Nishinakajima 4-chome	Yodogawa-ku, Osaka	54
	Taito-ku Kojima 1-chome (EAST)	Taito-ku, Tokyo	34
	Nishikamata 7-chome	Ota-ku, Tokyo	42
	Sumida-ku Higashimukojima 1-chome	Chuo-ku, Tokyo	76
	Taito-ku Torigoe 1-chome	Taito-ku, Tokyo	49
	Minato-ku Shiba 5-chome	Minato-ku, Tokyo	29
	Total 7 properties		424
Total 15 properties			848

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

In the background to the fact that there has been little accumulation of investment condominiums compared to S-RESIDENCE (development mobilization) properties is the fact that, in order to respond to the strong demand from overseas funds and wealthy investors, the Company has been changing the properties it initially developed as investment condominiums to the S-RESIDENCE (entire-building sales) series with a high profit margin. Whichever the case, it can be said that it is continuing to steadily accumulate properties in the pipeline as a whole.

Topics

The Daiwa Securities Group entered into a sponsor support agreement with SRR

1. Improving name recognition through TV commercials

To improve its name recognition and corporate image, the Company broadcast the "Shiba Inu Maru" TV commercial (April to September 2017). The commercial features heartwarming content with the main character Maru, a Shiba Inu dog, introducing the various properties the Company manages, such as condominiums, commercial facilities, and hotels. As a result of the commercials, it seems that the Company was able to increase its name recognition by approximately two times*, and it has decided to produce a sequel commercial.

*The Company's name recognition rose from 5.4% (survey in January 2017) to 10.4% (survey in October 2017).

2. The Daiwa Securities Group entered into a sponsor support agreement with SRR

In January 2018, the Company and the Daiwa Securities Group subscribed for the third party allotment investment units issued by SRR, and the Daiwa Securities Group entered into a sponsor support agreement with SRR*2.

*1 Within the 173,600 new investment units issued by SRR, the Daiwa Securities Group subscribed 161,700 units (after the capital increase, investor ratio of 35.4%), while the Company subscribed 11,900 units (5.3%), and SRR raised funds of approximately ¥15.1bn.
*2 Together with the capital increase, out of the 4,200 shares of Samty Asset Management (the Company's wholly owned subsidiary), which is an asset management company of SRR, 1,386 shares (33% of voting rights) were transferred from the Company to the Daiwa Securities Group.

For SRR, this has the major advantages of 1) not only realizing external growth*1, but also 2) acquiring powerful support for growth in the future*2. At the same time, it can be understood to be a major development for the Company, which has created a growth strategy that is centered on SRR.

*1 Through the fund raising, SRR acquired 33 properties and was able to greatly increase its total asset amount, from ¥52bn to ¥81.5bn.
*2 The participation of the Daiwa Securities Group is expected to have major effects, including for the acquisition of properties and improvements to name recognition and creditworthiness.

Results outlook

The favorable revenue environment is expected to continue in FY11/18 also

The Company forecasts increases in sales and profit, with net sales of ¥64,000mn, up 5.8% YoY, operating income of ¥11,000mn, up 8.6%, ordinary income of ¥8,900mn, up 5.2%, and profit attributable to owners of parent of ¥6,500mn, up 14.8%. Although the sales-increase rate will remain at a moderate level, the Company can be highly evaluated for its forecasts that prioritize profit growth.

For net sales, within the continuing favorable sales environment, the Real Estate Business will maintain its sales growth from the previous fiscal year, while sales in the Other Business are also expected to increase significantly, mainly due to the expansion of the hotel business.

The growth in profits is also forecast to be maintained, as the profit margin will improve against the backdrop of the favorable conditions in the real estate market (sales prices, rental prices, occupancy rates, etc.) in addition to the effects of the higher sales.

On the other hand, the scheduled investments are for approximately ¥21bn in development sites (¥17bn in previous fiscal year) and ¥23bn in income properties (¥32bn). The total for both is approximately ¥44bn (¥49bn), which can be said to be somewhat restrained compared to the previous fiscal year, but this is because the Company is taking a slightly cautious stance about the trends in the real estate market in the future. It also seems that the Company is taking steps to strengthen its financial base in the current fiscal year.

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FY11/18 forecast

(¥mn)

	FY11/17 results		FY11/18 forecast		Change	
		% of total		% of total		% change
Net sales	60,479		64,000		3,521	5.8%
Real Estate Business	51,522	85.2%	54,300	84.8%	2,778	5.4%
Property Leasing Business	7,386	12.2%	7,400	11.6%	14	0.2%
Other Business	1,885	3.1%	2,600	4.1%	715	37.9%
Adjustment	-315	-	-300	-	15	-
Cost of sales	44,733	74.0%	-	-	-	-
SG&A expenses	5,614	9.3%	-	-	-	-
Operating income	10,131	16.8%	11,000	17.2%	869	8.6%
Real Estate Business	10,600	20.6%	11,700	21.5%	1,100	10.4%
Property Leasing Business	2,094	28.4%	2,300	31.1%	206	9.8%
Other Business	243	12.9%	400	15.4%	157	64.6%
Adjustment	-2,806	-	-3,400	-	-594	-
Ordinary income	8,461	14.0%	8,900	13.9%	439	5.2%
Profit attributable to owners of parent	5,661	9.4%	6,500	10.2%	839	14.8%

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

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

(1) Real Estate Business

The forecasts are for net sales to increase 5.4% YoY to ¥54,300mn and for segment income to rise 10.4% to ¥11,700mn. For development mobilization, the Company is planning 16 S-RESIDENCE properties and for regeneration mobilization, 52 income properties (of which, 28 are non-current asset properties)*, and 4 investment condominium properties (around 261 units). Within the 16 development mobilization properties, the sales of 10 properties have already been decided, and it seems that the schedules for the sales of the remaining 6 properties have also almost been decided.

* It is necessary to be aware that sales from non-current assets are not recorded in net sales. Gains on the sale of non-current assets are recorded in extraordinary income.

(2) Property Leasing Business

The forecasts are for net sales to increase 0.2% YoY to ¥7,400mn and for segment income to rise 9.8% to ¥2,300mn. While net sales will remain basically unchanged, profits are expected to increase, including from the improvements in the occupancy rates and in rental income.

(3) Other Business

Net sales are forecast to increase 37.9% YoY ¥2,600mn and segment income to grow 64.6% to ¥400mn. The driving force behind the growth is expected to be the expansion of the hotel business, including the opening of S-PERIA Hotel Hakata (scheduled for March 2018).

At FISCO, we think that when considering the favorable external environment (the favorable conditions in the real estate market), and also the internal factors (including the accumulation of pipeline properties, the excellent reputations of the Company's development and regeneration properties, and the steady launch of the hotel business), it is highly likely that the Company will achieve its results forecasts. Also, as its forecasts for the assumed sales prices are at a conservative level compared to the actual conditions, it is necessary to be aware that, the same as in the previous fiscal year, the upward trend in sales prices may push-up the results as a whole.

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Growth strategy

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

1. Medium-term management plan

The Company's current medium-term management plan covers the five-year period from FY11/16 to FY11/20. The plan targets net sales at the ¥100bn level and ordinary income at the ¥10bn level for FY11/20 amid a favorable external environment (implementation of negative interest rate policy, growth in inbound demand) and factoring in the impact of measures taken by the Company (expansion of area of operations, entry into J-REIT business).

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 based on the Company's medium-term management plan

As previously described, the targets for the FY11/18 results were for net sales of ¥64bn and ordinary income of ¥8.9bn, and although net sales will not reach their target, ordinary income is expected to be basically in line with the target (the forecast is for EPS to surpass the target, of ¥258.10). The Company conducts management prioritizing the growth of ordinary income and EPS, so it seems reasonable to evaluate that it is making steady progress.

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) Expansion 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 handles every aspect of the property business, from land purchasing and development through to leasing, sales, and after-sales, 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 commissioned 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. SRR's asset scale of ¥100bn is within its range owing to the implementation of the third-party allotment investment, however, the Company plans to continue supplying properties to SRR with the aim of further growth 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 five years. The specific details of its measures are as follows. Purchases of development sites and income properties amounted to about ¥40.5bn in FY11/16 and ¥49.0bn in FY11/17, with purchases of about ¥44.0bn planned for FY11/18. 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 be 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

(¥bn)

	Income properties	Regeneration real estate	S-RESIDENCE (for funds and REIT)	1R for investors	S-PERIA hotels	Total
Hokkaido	16	7	3	-	5	31
Metropolitan Tokyo region	-	11	10	43	19	83
Chubu	21	7	4	3	5	40
Kansai	27	11	17	23	13	91
Kyushu	27	7	6	4	11	55
Total	91	43	40	73	53	300

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

(3) Expansion 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. The opening of S-PERIA Hotel Hakata is scheduled for March 2018. 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, it is aiming for an equity ratio of 30% or more on the one hand, 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.

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(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 the ASEAN 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

The FY11/18 dividend forecast is for a ¥5 increase YoY. Targeting a dividend payout ratio of 30% in FY11/20.

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

The Company upwardly revised the dividend forecast twice in FY11/17 and decided on a dividend per share of ¥47 (dividend payout ratio of 20.1%), which was an increase of ¥14 YoY. For FY11/18 also, it is planning to increase the dividend by ¥5 to ¥52 per share (dividend payout ratio of 20.1%).

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 for FY11/19 onwards. It also aims to improve shareholder value by increasing EPS.

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