

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

8-Mar.-2019

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FISCO Ltd.

<http://www.fisco.co.jp>

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<http://www.samty.co.jp/en/index.html>

Summary

Both net sales and profit increased significantly in FY11/18, exceeding the initial forecasts. The Company launched the newly formulated “Samty Toughening Plan.” under a new management regime led by a new president

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.

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

In FY11/18, the Company achieved its target profit under the “Challenge 40” medium-term management plan two years ahead of schedule. From FY11/19, under a new management regime led by a new president, the Company will implement a new three-year medium-term management plan, the “Samty Toughening Plan.”

* New president Yasuhiro Ogawa is scheduled to take office on February 27, 2019.

2. Business result for FY11/18

In FY11/18, the Company realized major increases in both sales and profits, with net sales rising 39.3% year-on-year (YoY) to ¥84,274mn and operating income growing 38.5% to ¥14,033mn. These results even exceeded the upwardly revised forecasts announced on August 29, 2018, and the Company set new record highs for both net sales and all profit lines. Aided by the favorable conditions in the real estate market, results grew significantly in the Real Estate Business. In particular, centered on properties in the metropolitan Tokyo region, development mobilization (sales of S-RESIDENCE developments under the Company’s own brand), for which investment demand, including from overseas funds, continues to be strong, contributed to the increase in net sales due to the increase in the number of sales as well as the upswing in sales prices. In revitalization real estate (revitalization and sales, including of existing income properties), results were strong due to the supply of properties to SRR and other factors. The hotel business also grew steadily, including development projects. In terms of profits, the increase in sales led to higher operating income, despite one-time costs, costs associated with the hotel business (costs related to hotel openings, renovations, and development, etc.), as well as an increase in SG&A expenses in conjunction with the increases in various expenses, such as advertising expenses and personnel expenses. The operating income margin remained at a high level of 16.7%. In addition, the status of purchases (and the development pipeline), which will lead to future growth, are generally progressing according to plan.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Summary

3. FY11/19 forecast

For FY11/19, the Company expects the increases in both net sales and profit to continue, and is forecasting net sales of ¥86,000mn (+2.0% YoY), operating income of ¥15,000mn (+6.9%). The revenue growth rate will be more modest than in FY11/18, when the Company recorded large increases in earnings, due to the recoil decline in the number of properties sold and other factors, but the outlook for a continued high level of earnings is reasonable. Net sales in both the Real Estate Business and the Property Leasing Business will be roughly flat YoY, while growth in the hotel business is expected to contribute to the increase in net sales. As occupancy rates remain high, the hotels that opened in FY11/18 will contribute to net sales from the start of FY11/19, while hotels scheduled to open during FY11/19 are expected to further boost earnings. In terms of profits, the Company expects to see an increase in profit due to an overall increase in the profitability of transactions, along with the dissolution of factors responsible for the temporary costs in FY11/18. The Company is also aiming to further improve operating profit margin. Considering the favorable external environment (real estate market conditions) and internal factors (status of the development pipeline and solid launch of the hotel business, etc.), we feel that there is a strong likelihood that the Company will achieve its earnings forecasts. In addition, as in FY11/18, it will be necessary to keep an eye on effects caused by higher sales prices.

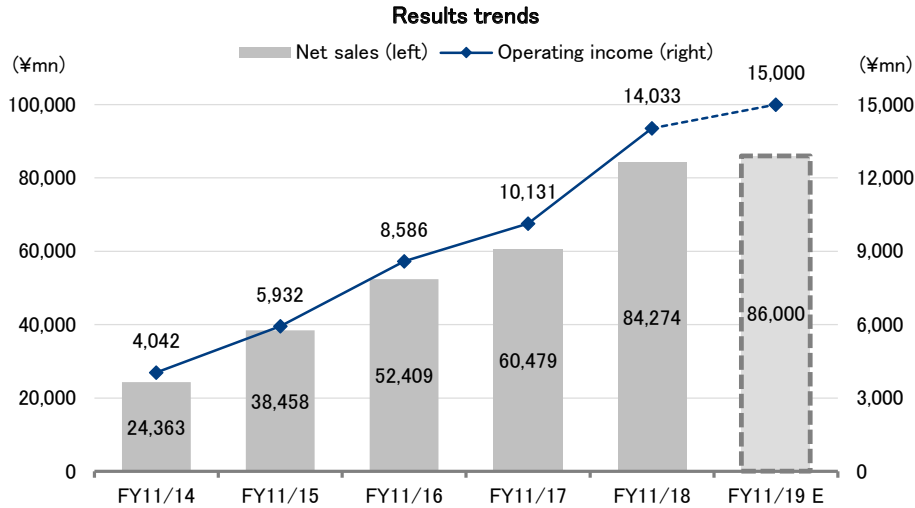
4. Growth strategy

The Company had been advancing its medium-term management plan covering the five-year period from FY11/16 through FY11/20. However, due to the fact that the Company achieved the profit target in FY11/18 two years ahead of schedule, it announced a new medium-term management plan, the “Samty Toughening Plan,” which will run through FY11/21. There have been no major changes to the overall direction of the plan, as the key priority measures include: 1) Developing a business model centered on SRR; 2) Strategically investing in regional metropolitan areas; and 3) Expanding the hotel development and office building development businesses. One key aspect of the new medium-term management plan is to place more of a focus on managing the balance sheet in order to prepare for a future correction phase. As a part of this, the Company is putting maximum emphasis on strengthening its financial base, centered on rental cash flow. The Company will aim for operating income around the ¥20.0bn level, ROE around the 15.0% level, and ROA around the 7.0% level, while maintaining an equity ratio of at least 30%.

Key Points

- Achieved a significant increase in net sales and profit in FY11/18, exceeding guidance (set record highs for net sales and all profit lines)
- Achieved the profit target set in the medium-term management plan two years ahead of schedule
- Under a new management regime led by a new president, the Company launched a new medium-term management plan, the “Samty Toughening Plan”
- By placing more of an emphasis on balance sheet management, the Company aims to grow profits by boosting productivity and capital efficiency while maintaining its equity ratio

Summary



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

Company profile

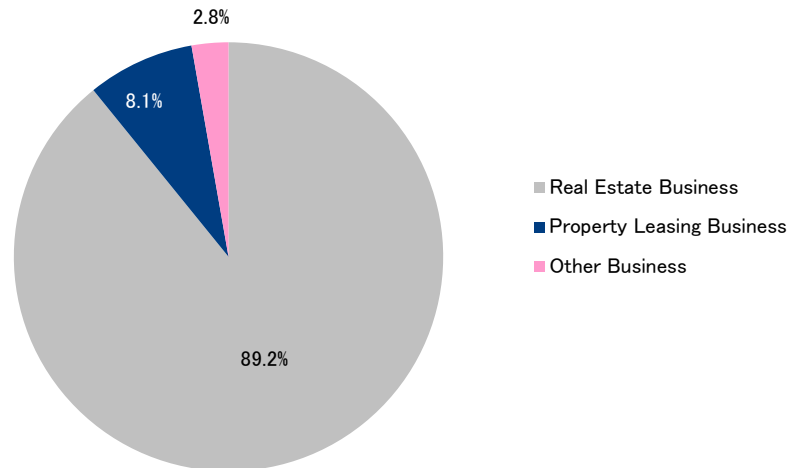
Balanced business portfolio based on Real Estate Business and Property Leasing Business
Entered J-REIT market in 2015
Focusing on hotel business

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 89.2% of net sales (before adjustment) in FY11/18. 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. Recently, the Company has been focusing its efforts on the hotel business, which is expected to have a high occupancy rate.

Company profile

Percentages of net sales by business (FY11/18, before adjustment)



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 ¥89.6bn.

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 7 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, etc.).

Overviews of each business are as follows.

(1) Real Estate Business

This business supports the Company's growth and is divided into four sub-segments; "development mobilization," "revitalization 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 mainly supplies properties to SRR.

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Company profile

The S-RESIDENCE series



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

“Revitalization mobilization” refers to the revitalization 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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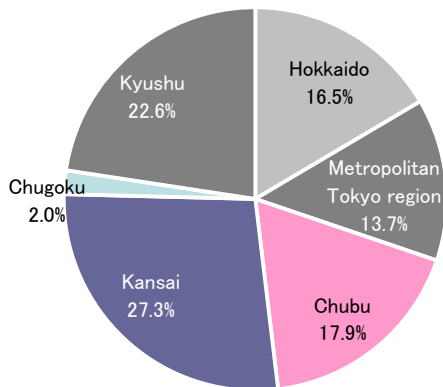
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Company profile

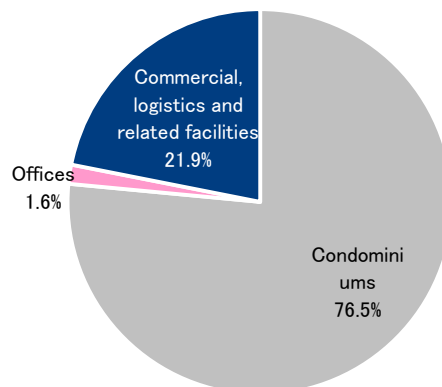
(2) Property Leasing Business

This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 84 properties (property and equipment) 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 76.5% of the total floor space, offices 1.6%, and commercial, logistics and related facilities 21.9%, 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. While the scale of the real estate it owns amounts to around ¥72.7bn (book value), this is divided into ¥26.1bn of inventory assets that it intends to eventually sell (real estate for sale), and ¥46.5bn of property equipment that it intends to continue to own (all results are from the end of November 2018). Furthermore, under the management decision to prioritize investment into the hotel business as a focus field going forward, the Company has decided to sell off (for capital recovery) PIERI Moriyama, a large-scale commercial facility on Lake Biwa that underwent a renovation and reopening 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 the ownership and management of hotels, the condominium management business, and the construction and renovation business. In the hotel business, in addition to Center Hotel Tokyo (Chuo-ku, Tokyo, 108 rooms), Center Hotel Osaka (Chuo-ku, Osaka, 84 rooms)*1, S-PERIA Hotel Nagasaki (Nagasaki, 153 rooms), and GOZAN HOTEL (Higashiyama-ku, Kyoto, 21 rooms), the Company also owns SMART HOTEL kutchan (Kutchan, Hokkaido, 67 rooms), a business hotel acquired in May 2018, and S-PERIA INN Nihombashihakozaki, its second hotel development project which opened in November 2018*2. Other than conducting the hotel business, the subsidiary Samty Property Management also conducts condominium management (including external properties, but mainly the Company's condominiums), construction and renovation, and other work. Important strategies going forward will be to grow the hotel development business (secure rental income) and handle hotel management operations in-house (bolster the fee income business).

*1 Subsidiary Suntoa manages Center Hotel Tokyo, Center Hotel Osaka, and S-PERIA INN Nihombashihakozaki.

*2 S-PERIA Hotel Hakata (Fukuoka, 287 rooms), which opened on March 28, 2018 as the Company's first hotel development project, has been sold (management operations have also been transferred to another company).

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Company profile

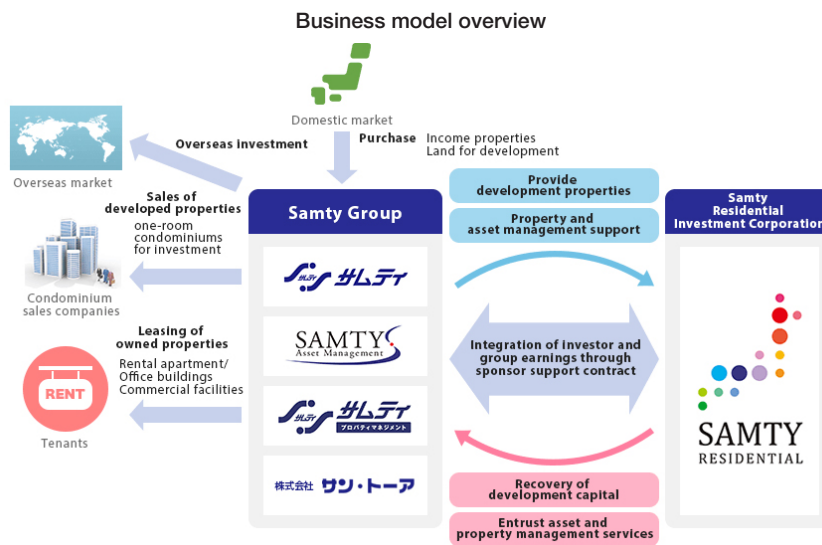
2. Features

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.



Source: The Company's website

Company profile

(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 continually 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 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.

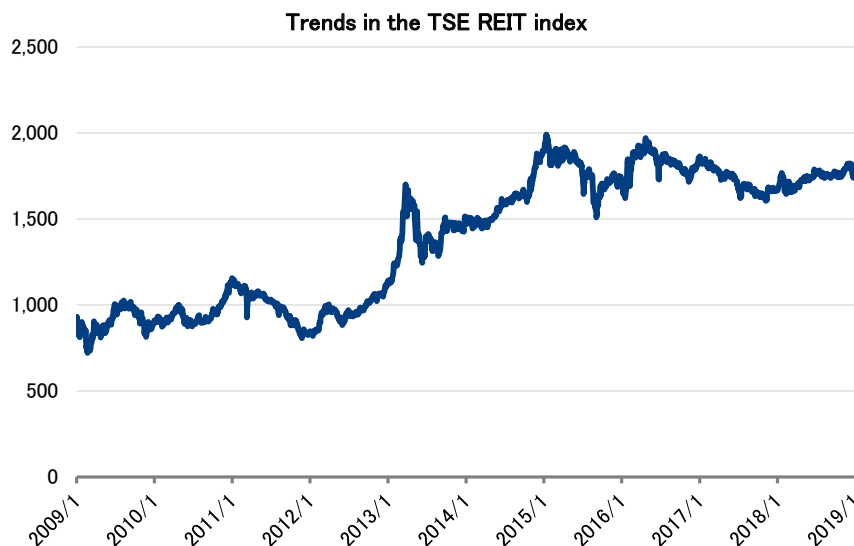
The Company has also actively taken steps to expand its business area. In August 2006, it acquired the shares of Suntoa, which owns and manages business hotels to enter into the hotels business. In December 2011, it established Samty Kanri (now Samty Property Management) to enter into the property management 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 December 2018, its market capitalization stood at around ¥12,970.2bn, and there were 61 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.

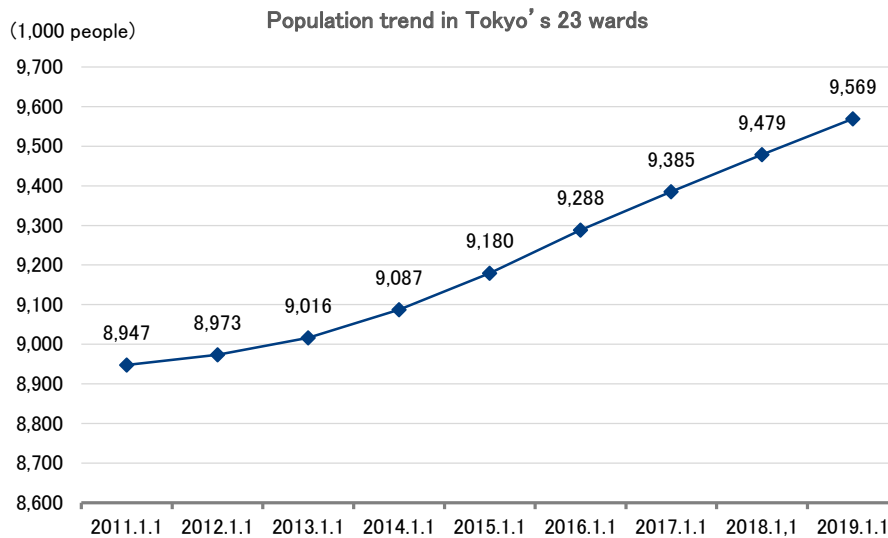
The TSE REIT index is trending firmly due to a robust domestic real estate market (rising rents, etc.) More specifically, demand for J-REITs remains strong from domestic and overseas institutional investors seeking strong yields and relatively stable cash flow based on the view that the Bank of Japan will maintain its policy of monetary easing and the expectation that office demand will rise going forward. 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).



Source: Prepared by FISCO from various materials

Industry environment

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.



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

Meanwhile, looking at the hotel development and office building development businesses, which are expected to be new growth engines going forward, hotel occupancy rates remain high with the backdrop of increased inbound demand. Some in the market are concerned about a deterioration in the supply-demand situation after the Tokyo Olympic and Paralympic Games, but we basically think that hotel management can remain stable, as the Japanese government will continue with its policy of making Japan a major destination for tourism. With respect to office buildings, the decline in vacancy rates in central urban areas (an increase in the sense of a shortage of office space) is currently receiving a lot of attention, but the shortage of office space regional metropolitan areas (where the Company is also active) is also a serious situation, so we believe that there are sufficient business opportunities when it comes to office building development.

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, soaring construction costs and insufficient personnel numbers.

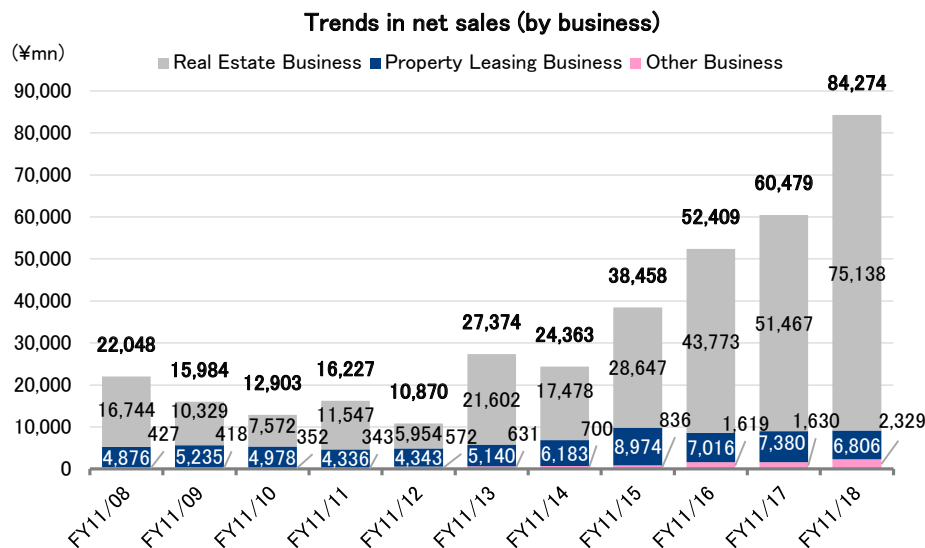
Results trends

Substantial growth in Real Estate Business amid strong real estate market

1. Past results trends

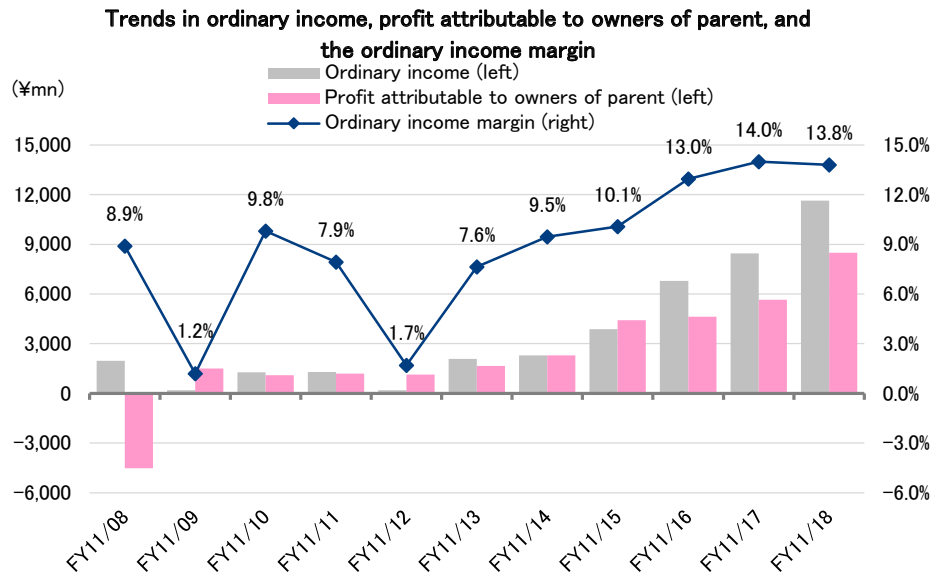
Looking back on the Company's results since FY11/07, which was the year it listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market), immediately after it listed it was impacted by the 2008 financial crisis, and there was a period in which its results trended at a low level. 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 except FY11/08, when it recorded a net loss due to declaring impairment.

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 FY11/18 it has maintained a high ordinary income margin of over 13.0% for three consecutive years.



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

Results trends



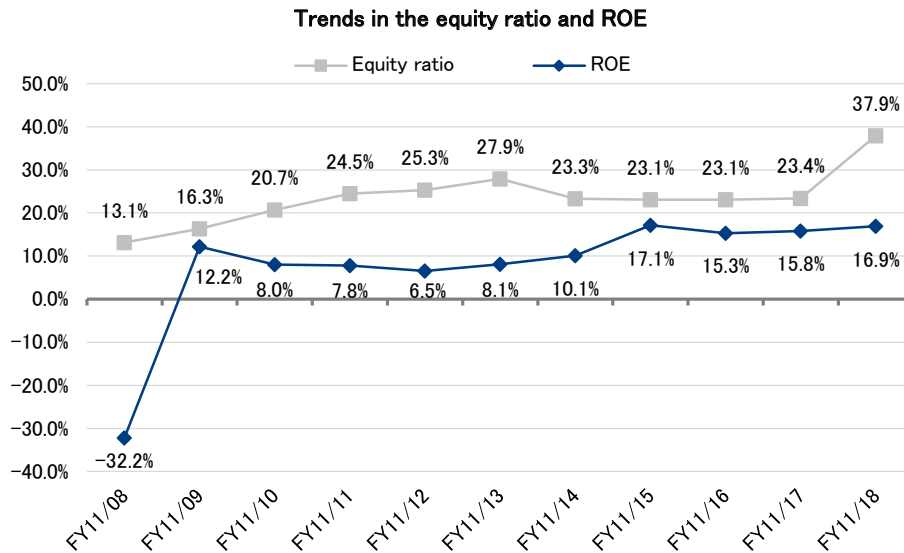
Source: Prepared by FISCO from the Company's financial results

Although the equity ratio increased to 27.9% in FY11/13 following the implementation of a capital increase through a public offering (approximately ¥2bn), but since FY11/14, it has been at a level of around 23% due to the Company's active accumulation of assets and other factors. However, the Company bolstered its financial base in October 2018 by issuing stock acquisition rights* (approximately ¥15.0bn), and this boosted the equity ratio to 37.9% as of November 30, 2018.

* The Company issued new shares by allotting listed-type stock acquisition rights without contribution to existing shareholders. The stock acquisition rights themselves are listed on the Tokyo Stock Exchange, so even if shareholders do not exercise the rights (purchase the shares), they can sell the stock acquisition rights through market transactions, etc. This method therefore took the interests of existing shareholders into consideration.

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. In FY11/18, it had reached the high level of 16.9%.

Results trends



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

Both net sales and profit increased significantly in FY11/18, exceeding the initial forecasts

2. Overview of FY11/18 results

In FY11/18, the Company realized major increases in both sales and profits, with net sales rising 39.3% YoY to ¥84,274mn, operating income growing 38.5% to ¥14,033mn, ordinary income climbing 37.5% to ¥11,635mn, and profit attributable to owners of parent increasing 49.9% to ¥8,489mn. These results exceeded the upwardly revised forecasts announced on August 29, 2018. The Company set new record highs for both net sales and for all profit lines, and achieved the profit target set in the medium-term management plan two years ahead of schedule.

Aided by the favorable conditions in the real estate market, results grew significantly in the Real Estate Business. In particular, centered on properties in the metropolitan Tokyo region, development mobilization (sales of S-RESIDENCE developments under the Company's own brand), for which investment demand, including from overseas funds, continues to be strong, contributed to the increase in net sales due to the increase in the number of sales as well as the upswing in sales prices. In revitalization real estate (revitalization and sales, including of existing income properties), results were strong due to the supply of properties to SRR and other factors. Meanwhile, the decline in net sales in the Property Leasing Business was due the steady sales of income properties in the revitalization real estate area, and had been expected. In addition, the significant increase in net sales in Other Business was due to the increase in income in the hotel business.

In terms of profits, operating income increased due to the increase in sales, despite the aforementioned one-time costs associated with the sale of PIERI Moriyama, costs associated with the hotel business (expenses related to hotel openings, renovations, and development, etc.), as well as higher SG&A expenses due to the increases in various expenses, such as advertising expenses and personnel expenses. The operating income margin remained a high 16.7%.

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Results trends

The Company is steadily making purchases which will lead to future growth. The Company acquired 30 development sites (estimated net sales of around ¥38.5bn, acquisition price of approximately ¥12.5bn) and 31 income properties (acquisition price of around ¥22.5bn). In addition, 16 development sites (acquisition price of approximately ¥12.8bn) are in the settlement process as of November 30, 2018.

In terms of financial condition, due to the steady progress made in the sales of income properties, real estate for sale (current assets) and property and equipment (non-current assets) decreased, and total assets were down 2.4% versus the end of the previous fiscal year to ¥162,500mn. Also, shareholders' equity soared 57.7% YoY to ¥61,533mn due to the accumulation of internal reserves as well as the issuance of new shares (approximately ¥15.0bn procured). As a result, the equity ratio improved significantly to 37.9% (versus 23.4% at the end of the previous fiscal year). The Company also has ample liquidity on hand (cash and deposits). In addition, interest-bearing debt declined to under ¥90,000mn (versus ¥114,700mn at the end of the previous fiscal year) due to repayments in conjunction with sales of income properties. The net D/E ratio is 0.73x, a significant improvement compared to 2.28x at the end of the previous fiscal year.

Overview of operating results

	FY11/17		FY11/18		Change		(¥mn)				
	Results	% of net sales	Results	% of net sales	%	FY11/18					
						Initial forecast	% of net sales	Revised forecast (Aug. 29)	% of net sales	Achievement rate	
Net sales	60,479		84,274		23,795	39.3%	64,000		78,000		108.0%
Real Estate Business	51,522	85.2%	75,143	89.2%	23,620	45.8%			69,700		107.8%
Property Leasing Business	7,386	12.2%	6,807	8.1%	-579	-7.8%			6,700		101.6%
Other Business	1,885	3.1%	2,491	3.0%	606	32.2%			1,900		131.1%
Adjustment	-315	-	-167	-	147	-			-300		
Cost of sales	44,733	74.0%	63,170	75.0%	18,437	41.2%	-	-	-		
SG&A expenses	5,614	9.3%	7,070	8.4%	1,456	25.9%	-	-	-		
Operating income	10,131	16.8%	14,033	16.7%	3,901	38.5%	11,000	17.2%	13,000	16.7%	107.9%
Real Estate Business	10,600	104.6%	15,547	110.8%	4,947	46.7%			14,900	114.6%	104.3%
Property Leasing Business	2,094	20.7%	1,907	13.6%	-187	-8.9%			2,100	16.2%	90.8%
Other Business	243	2.4%	83	0.6%	-160	-65.7%			100	0.8%	83.0%
Adjustment	-2,806	-	-3,504	-	-698	-			-4,100	-	-
Ordinary income	8,461	14.0%	11,635	13.8%	3,174	37.5%	8,900	13.9%	11,000	14.1%	105.8%
Profit attributable to owners of parent	5,661	9.4%	8,489	10.1%	2,827	49.9%	6,500	10.2%	8,000	10.3%	106.1%
Breakdown of Real Estate Business net sales	51,522		75,143		23,620	45.8%					
Development mobilization	15,402		38,948		23,546	152.9%					
Revitalization mobilization	23,632		29,019		5,386	22.8%					
Condominiums for investment	12,049		5,784		-6,265	-52.0%					
Asset management	383		1,386		1,003	261.5%					

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

Results trends

Financial position

	End of November 2017	End of November 2018	Change	(¥mn)
Current assets	98,558	108,230	9,672	
Cash and deposits	25,857	44,510	18,652	
Real estate for sale	37,059	26,181	-10,877	
Real estate for sale under construction	34,456	34,886	429	
Non-current assets	67,797	54,269	-13,527	
Property and equipment	61,887	46,539	-15,347	
Intangible assets	140	172	32	
Investments and other assets	5,769	7,557	1,787	
Total assets	166,449	162,500	-3,949	-2.4%
Current liabilities	39,182	19,779	-19,403	
Short-term borrowings	11,883	1,340	-10,542	
Current portion of long-term debt	18,795	9,470	-9,324	
Non-current liabilities	87,906	80,282	-7,623	
Long-term debt	84,108	78,362	-5,745	
Net assets	39,360	62,438	23,077	
Total liabilities and net assets	166,449	162,500	-3,949	
Interest-bearing debt	114,787	89,174	-25,612	-22.3%
Shareholders' equity	39,017	61,533	22,516	57.7%
Equity ratio	23.4%	37.9%	14.5pt	

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 45.8% YoY to ¥75,143mn and segment income rose significantly by 46.7% to ¥15,547mn. Within these amounts, net sales in development mobilization grew significantly by 152.9% to ¥38,948mn, due to the sales of 17 S-RESIDENCE properties (compared to 8 properties in the previous fiscal year) and 2 hotel properties*1. In particular, investment demand continues to be strong from overseas funds, and the upward trend in sales prices also contributed to the growth in the results. Moreover, the Company sold 53 revitalization mobilization properties*2 (29 properties in the previous fiscal year), including supplying properties to SRR. On the other hand, the decline in sales in condominiums for investment was due to the decline in units sold to 383 units (versus 690 units in FY11/17), and this was within expectations. With respect to development properties, there was strong demand for purchases of entire buildings, and the Company sold these as development mobilization properties with high sales efficiency and high profitability. Also, the high level of growth in asset management sales was due to the supply of properties to SRR*3 (acquisition fees) and the growth in SRR's asset balance (management and administration fees).

*1 S-PERIA Hotel Hakata and S-PERIA INN Nihombashihakozaki were sold, but the Company continues to manage S-PERIA INN Nihombashihakozaki.

*2 Among the 53 properties sold, sales from real estate for sale (current assets) for which net sales are recorded were from 25 properties, and sales from property and equipment (non-current assets) for which a gain (loss) on the sale (extraordinary profit or loss) only is recorded was from 28 properties.

*3 A total of 33 properties were supplied to SRR. Of the 17 S-RESIDENCE (development mobilization) properties sold, 2 were supplied to SRR, while 13 of the 53 revitalization mobilization properties sold were supplied to SRR. In addition, of the non-current assets above, 18 properties were supplied to SRR.

Results trends

In terms of profits, despite the transient expenses in conjunction with the sale of PIERI Moriyama and other factors, the Company achieved a significant increase in profits due to the jump in net sales, and the segment income margin was a high 20.7% (compared to 20.6% in the previous fiscal year).

(2) Property Leasing Business

Net sales declined 7.8% YoY to ¥6,807mn, while the segment income declined 8.9% to ¥1,907mn. Rental income declined due to the steady sales of income properties owned, but this was within expectations. Meanwhile, acquisitions of income real estate generally progressed as planned. As a result, at the end of FY11/18 the Company owned 84 properties* (non-current assets), versus 88 properties at the end of FY11/17.

| * The 84 non-current assets included 73 rental condominiums, 2 office buildings, and 9 commercial/logistics facilities, etc. |

(3) Other Business

Net sales increased 32.2% YoY to ¥2,491mn, while the segment income declined 65.7% to ¥83mn. The growth in the hotel business contributed to the increase in net sales. In particular, the fact that GOZAN HOTEL (Kyoto) acquired during the previous fiscal year contributed to results from the beginning of the fiscal year led to the increase in net sales, as did the newly acquired SMART HOTEL kutchan (Hokkaido) and S-PERIA INN Nihombashihakozaki (Chuo-ku, Tokyo), the second hotel development project, among other factors. In addition, occupancy rates generally remained at a high level of above 90%.

Conversely, in profits, aside from the costs to opening new hotels, upfront costs such as those related to remodeling Center Hotel Tokyo and hotels under development grew, which resulted in lower profit.

3. The development plan (pipeline) situation

Regarding the status of development of the S-RESIDENCE series, one building (95 units) was completed in 2018 and 16 buildings (1,019 units) will be completed in 2019, while 25 buildings (1,534 units) will be completed in 2020. With respect to buildings that will be completed in 2021, which the Company is currently making purchases for, 3 buildings (309 units) have already been secured, bringing the grand total to 45 buildings (2,957 units). On the other hand, concerning the status of development projects for condominiums for investment, one building (85 units) was completed in 2018, 3 buildings (256 units) will be completed in 2020, for a total of 4 buildings (341 units).

■ Topics

Achievements in supplying properties to SRR, hotel development, etc.

The Company's key strategies are: 1) Developing a business model centered on SRR; 2) Strategically investing in regional metropolitan areas; and 3) Expanding the hotel development and office building development businesses. Some of the Company's achievements in FY11/18 are as follows.

Topics

1. Developments in the J-REIT business (SRR)

With respect to SRR, in addition to executing a third party allotment of investment units* (approximately ¥15.0bn) in January 2018, the Company carried out a capital increase via public offering (approximately ¥4.1bn) in August 2018. With this, SRR's asset portfolio increased significantly from 49 properties (approximately ¥51.5bn) as of January 30, 2018, to 93 properties (roughly ¥89.6bn). The Company supplied 9 properties, thereby contributing to SRR's external growth. As a result, the Company was able to grow its asset management business (acquisition fees and management and administration fees). Going forward, the Company plans to proactively supply properties as it works towards its goal of ¥240bn in assets (2021).

* Of the 173,600 new investment units issued by SRR, the Daiwa Securities Group <8601> received 161,700 units (investor ratio of 35.4% after the capital increase), while the Company received 11,900 units (5.3%). In conjunction with the capital increases, out of the 4,200 shares of SAM (a wholly-owned subsidiary of the Company), which is the asset management company for SRR, 1,386 shares (33% of voting rights) were transferred from the Company to the Daiwa Securities Group, and the Daiwa Securities group became a sub-sponsor of SRR.

2. Investments made

During FY11/18, the Company purchased 30 development sites and 31 income properties located throughout Japan, and invested in regional metropolitan areas. Of the 30 development sites, two are in Hokkaido, 12 are in the Tokyo metropolitan area, 10 are in Chubu, and 6 are in Kansai. Meanwhile, of the 31 income properties, three are in Hokkaido, eight are in the Tokyo metropolitan area, three are in Chubu, 10 are in Kansai, one is in Chugoku, and 6 are in Kyushu.

3. Expansion of the hotel business

In terms of expansion of the hotel business, the Company opened S-PERIA Hotel Hakata, its first hotel development project, in March 2018, and followed this by opening S-PERIA INN Nihombashihakozaki, its second hotel development project, in November 2018. Besides these, the Company is currently developing 4 buildings (two of which are scheduled to open during FY11/19). It also seems that the Company has purchased multiple plots of land for other projects. In addition to hotels, the Company has plans to develop office buildings, centered on major cities throughout Japan, and is already developing one such office building. The Company has positioned the hotel and office building development businesses (which are expected to be highly profitable as the Company is involved from the development stage) as new engines for future growth.

Hotel and office building development plans

Fiscal year of completion	Project name (provisional)	Location	No. of rooms
2019	S-PERIA Inn Osaka Hommachi	Nishi-ku, Osaka	125
	S-PERIA Hotel Kyoto	Shimogyo-ku, Kyoto	165
	Total 2 properties		290
Undecided	Aburanokoji hotel project	Shimogyo-ku, Kyoto	225
	Nagoya Station-front hotel project	Nakamura-ku, Nagoya	284
	Chuo-ku Odori-nishi 5-chome project (office)	Chuo-ku, Sapporo	-
	Total 3 properties		509
	Total 5 properties		799

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

Earnings outlook

The Company expects earnings to remain at a high level in FY11/19.

For FY11/19, the Company forecasts continued increases in sales and profit, with net sales of ¥86,000mn, up 2.0% YoY, operating income of ¥15,000mn, up 6.9%, ordinary income of ¥13,000mn, up 11.7%, and profit attributable to owners of parent of ¥9,000mn, up 6.0%. Due to the recoil decline in the number of properties sold and other factors, the revenue growth rate will be more modest than in FY11/18, when the Company recorded large increases in earnings, but the outlook for a continued high level of earnings is reasonable.

Net sales in both the Real Estate Business and the Property Leasing Business are expected to be roughly flat YoY, while Other Business is expected to contribute to the increase in net sales due to the expansion of the hotel business. As occupancy rates remain high, the hotels that opened in FY11/18 will contribute to net sales from the start of FY11/19, while hotels scheduled to open during FY11/19* are expected to further boost earnings. In the Real Estate Business, the Company expects to sell 14 development mobilization properties, 41 revitalization mobilization properties and 93 units of condominiums for investment (2 buildings).

* As discussed above, two properties which the Company has been developing (one in Nishi-ku, Osaka and one in Shimogyo-ku, Kyoto) are scheduled to open.

The Company expects an increase in profit due to an overall increase in the profitability of transactions, including the dissolution of factors responsible for the temporary costs in FY11/18 (costs associated with the sale of PIERI Moriama, hotel renovation work, etc.), and the Company is also aiming to further improve the operating profit margin to 17.4% (compared to 16.7% in FY11/18).

Considering the favorable external environment (real estate market conditions) and internal factors (status of the development pipeline and smooth launch of the hotel business, etc.), we feel that there is a strong likelihood that the Company will achieve its earnings forecasts. In addition, as in FY11/18, it will be necessary to keep an eye on effects caused by higher sales prices, as the Company's sales price assumptions may be conservative vis-à-vis actual market conditions.

Earnings outlook

FY11/19 forecast

	FY11/18		FY11/19		Change	
	Results	% of net sales	Forecast	% of net sales		%
Net sales	84,274		86,000		1,726	2.0%
Real Estate Business	75,143	89.2%	75,100	87.3%	-43	0.1%
Property Leasing Business	6,807	8.1%	6,800	7.9%	-7	0.1%
Other Business	2,491	3.0%	4,400	5.1%	1,909	76.6%
Adjustment	-167	-	-300	-	-133	-
Cost of sales	63,170	75.0%	-	-	-	-
SG&A expenses	7,070	8.4%	-	-	-	-
Operating income	14,033	16.7%	15,000	17.4%	967	6.9%
Real Estate Business	15,547	110.8%	17,300	115.3%	1,753	11.3%
Property Leasing Business	1,907	13.6%	2,200	14.7%	293	15.4%
Other Business	83	0.6%	500	3.3%	417	502.4%
Adjustment	-3,504	-	-5,000	-	-1,496	-
Ordinary income	11,635	13.8%	13,000	15.1%	1,365	11.7%
Profit attributable to owners of parent	8,489	10.1%	9,000	10.5%	511	6.0%
Breakdown of Real Estate Business net sales	75,143		75,100		-43	-0.1%
Development mobilization	38,948		36,000		-2,948	-7.6%
Revitalization mobilization	29,019		37,000		7,981	27.5%
Condominiums for investment	5,784		1,300		-4,484	-77.5%
Asset management	1,386		800		-586	-42.3%

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

Growth strategy

Under the new management regime, the Company will promote its new medium-term management plan, the “Samty Toughening Plan,” and will focus more on the balance sheet

1. Medium-term management plan

The Company had been advancing its medium-term management plan covering the five-year period from FY11/16 through FY11/20. However, due to the fact that the Company achieved the profit target in FY11/18 two years ahead of schedule, it announced a new medium-term management plan, the “Samty Toughening Plan,” which will run through FY11/21. There have been no major changes to the overall aims of the plan, as the priority measures include: 1) Developing a business model centered on SRR (bolstering the fee income business); 2) Strategically investing in regional metropolitan areas (expanding the business area); and 3) Expanding the hotel development and office building development businesses. One key aspect of the new medium-term management plan is to place more of a focus on managing the balance sheet in order to prepare for a future correction in the market. As a part of this, the Company is putting significant emphasis on strengthening its financial base, centered on rental cash flow. The Company wants to achieve continuous growth, while maintaining an equity ratio of at least 30%. Specifically, the Company will aim to achieve operating income around the ¥20.0bn level, ROE around the 15.0% level, and ROA around the 7.0% level by emphasizing productivity and capital efficiency, while purposely not setting a net sales target.

Growth strategy

Medium-term management plan “Samty Toughening Plan” (numerical targets)

	FY11/17 results	FY11/18 results	FY11/21 targets
Operating income	¥10,131mn	¥14,033mn	¥20,000mn level
ROE	15.8%	16.9%	15.0% level
ROA*	6.6%	8.5%	7.0% level
Equity ratio	23.4%	37.9%	30.0% or more

Note: ROA = operating income ÷ total assets (average of the balances at the beginning and end of the fiscal year)

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

2. New management regime

Aiming to make the senior management team younger as well as to achieve further growth and increase corporate value, the Company established a new management regime, including a change in president. Yasuhiro Ogawa, who has been Managing Director, is scheduled to become Representative Director and President on February 27, 2019. Also, with the aim of securing diverse personnel and both strengthening and speeding up the collection and dissemination of information, along with other objectives, the Company adopted a dual headquarters system by opening a Tokyo headquarters. In addition, the Company started to make organizational changes in order to make management decisions and give commands more quickly. Such moves included creating a President's Office and placing the Business Planning Department under the direct control of the president.

3. Key strategies and direction

(1) Development of a business model centered on SRR (bolstering the fee income business)

The Company will continue to proactively supply properties, thereby promoting the accumulation assets by SRR. In addition to adding hotels and office buildings to the lineup of real estate for development and sale, the Company will consider launching new management funds in addition to SRR, and will thereby increase acquisition fees. Furthermore, in addition to creating a mechanism to acquire MC fees by bringing hotel management operations in-house*, the Company will bolster the fee income business by growing rental income, acquiring overseas income, along with other initiatives.

* The Company will bring hotel management (which the Company has been outsourcing to external management companies) in-house, and create a mechanism to have Samty Group be commissioned to handle hotel management operations (MC) even after the sale of a hotel, thereby acquiring fee income, enjoying the upside, and accumulating management know-how.

(2) Strategic investment in regional metropolitan areas (expanding the business area)

The Company plans to invest approximately ¥300bn over three years. In particular, the Company will pursue hotel and office building development as new growth engines, as well as invest ¥135bn to acquire income properties and accumulate assets in order to acquire stable rental income. The Company will also open a new Hiroshima Branch and a Shinjuku/Yokohama Sales Office as it works to further expand its business area, and will purchase income properties and develop residential buildings, office buildings, and hotels in the Tokyo metropolitan area and other key regional cities throughout Japan.

Growth strategy

(3) Expand the hotel development and office building development businesses

In addition to hotels, the Company has positioned the office building development business as a new growth engine, and plans to invest approximately ¥85bn (land + construction expenses) over three years. In the hotel development business, the Company is currently advancing four development projects, and will continue using the “S-PERIA” brand. On the office building development side, the Company plans to supply newly-built grade-B/C* office buildings, for which new supply and competition is low. These projects will be undertaken primarily in key regional cities where demand for offices is tight, with areas and sites carefully selected.

* In general, grade-B office buildings have between 2,000 tsubo and 10,000 tsubo of total floor space (and at least 200 tsubo of floor space on a typical floor), while grade-C office buildings have less than 2,000 tsubo of total floor space (and less than 200 tsubo of floor space on a typical floor).

Returns to shareholders

The Company plans to significantly raise the FY11/19 year-end dividend, based on profit growth as well as increasing the dividend payout ratio

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.

For the FY11/18 year-end dividend, the Company decided to pay a dividend of ¥68 per share (dividend payout ratio = 24.0%), which is a ¥21 YoY increase, and is significantly higher than the initial forecast (¥52 per share). For the FY11/19 year-end dividend, the Company plans to pay a dividend of ¥75 per share (dividend payout ratio = 31.7%), which will be an increase of ¥7 YoY.

The Company is targeting a dividend payout ratio of 30%, and we think there is still considerable room for the Company to increase dividends based on profit growth.



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