Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16

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

FISCO Ltd. Analyst
Ikuo Shibata

Entering a new growth phase supported by a favorable business environment

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*1, and in October 2015, its listing was changed from the Tokyo Stock Exchange (TSE) JASDAQ to the TSE First Section. So the Company has a structure in place for further business expansion, and it is entering a new growth phase supported by a favorable business environment.

In the results for FY11/16 1H, sales increased but profits declined, with net sales increasing 1.9% year-on-year (YoY) to ¥21,311mn, but ordinary income declining 21.5% to ¥2,373mn. Negative factors included the removal of a temporary special factor*2 in the previous fiscal year, but it appears to have made progress according to plan. In particular, the Real Estate Business grew significantly from the supply of S-RESIDENCE series properties, which is a brand the Company itself has developed, to Samty Residential Investment Corporation <3459> (hereafter, SRR), and sales of income condominiums to investors. The Other Business also performed steadily from the contribution from the beginning of the fiscal period of two hotel properties acquired in the previous fiscal year.

For its FY11/16 results forecast, the Company has left unchanged its initial forecasts of major increases in both sales and profits, with net sales set to rise 48.2% YoY to ¥57,000mn and ordinary income to climb 80.8% to ¥7,000mn, and it expects to achieve its profit targets two fiscal years ahead of schedule. At FISCO, we think the Company will be able to achieve its results forecasts as its Q2 results progressed according to plan, it is steadily advancing its development projects, and also from the fact that there is the tendency for property sales to be made toward Q4.

The Company is progressing “Challenge 40,” its medium- to long-term management plan whose first fiscal year was FY11/14. It has revised the plan’s management targets based on the fact that results have been expanding at a pace greater than anticipated and that compared to the time it set the targets, its external and internal environments have changed greatly (externally, the introduction of a negative interest rate policy and internally, its advance into the J-REIT business). So it has upwardly revised its targets for FY11/18 to ¥85bn for net sales and ¥9bn for ordinary income (extent of revision: ¥2bn). Also, as its growth strategy for the future, it has set the three axes of constructing a business model centered on SRR, strategically investing in major regional cities, and deploying its hotels development business.

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

*1 SRR, which was established in March 2015, is listed on the TSE J-REIT market.

*2 Penalty revenue from the cancellation of a leasing contract by a key tenant

FISCO

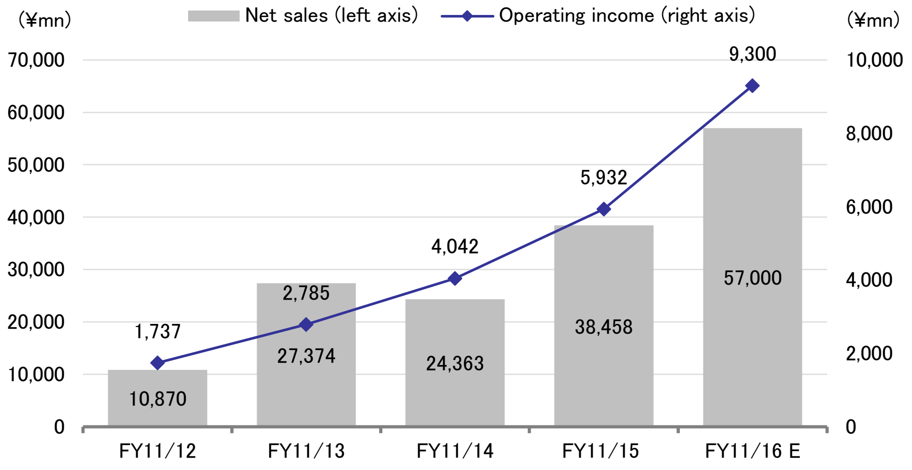
Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16

Check Point

- Its strengths are its leasing capabilities giving high occupancy rates in its residential properties as its area of expertise
- The ordinary income margin is improving year-by-year due to growth in development mobilization and investment condominium sales
- Expects major increases in sales and profits in FY11/16

Results trends



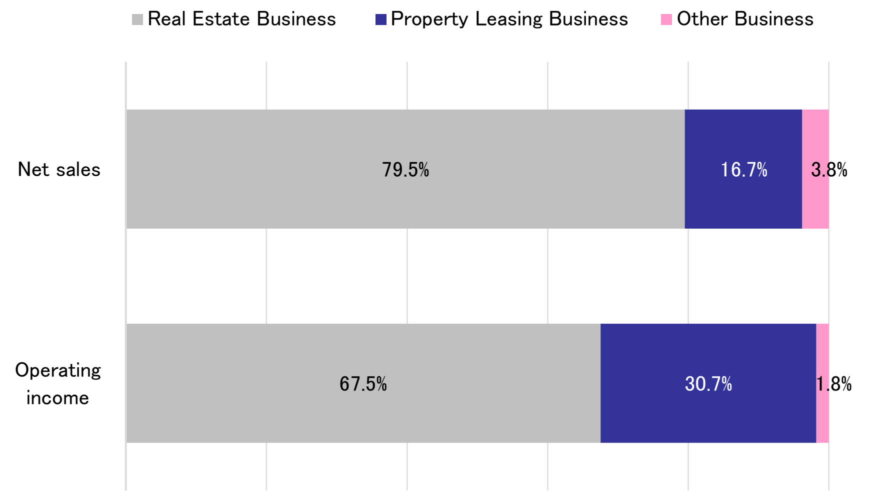
Company profile

Its strengths are its leasing capabilities giving high occupancy rates in its residential properties as its area of expertise

(1) Business overview

The Company has three business segments; the Real Estate Business, the Property Leasing Business, and the Other Business. The Real Estate Business contributes 79.5% of net sales and 67.5% of operating income (FY11/16 Q2 results). However, it is necessary to be aware that in contrast to the steady growth of the Property Leasing Business, results in the Real Estate Business tend to increase and decrease greatly due to various factors, including the business environment. Since its foundation, the Company's strength has been its leasing capabilities in its area of expertise of residential properties (condominiums, etc.), that can be expected to stably maintain high occupancy rates.

Percentages of net sales by business (FY11/16 Q2)



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 Company plays the role of sponsor of SRR (supplying it with properties) and is responsible for the subsequent asset management and other operations. SRR's current asset scale is in excess of ¥50bn (as of August 2, 2016).

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 Company Group is comprised of the Company and 15 consolidated subsidiaries, but in the processes carried out for the Real Estate Business and Property Leasing Business, this includes 10 special purpose companies (SPC) and general incorporated associations established and invested-in in relation to schemes to acquire, own, and develop land, properties, and trust beneficiary rights. The main consolidated subsidiaries include Samty Asset Management Co., Ltd. (asset management, etc.), Suntoa Co., Ltd. (hotel management, etc.), and Samty Kanri Co., Ltd. (property management, maintenance, etc.)

Overviews of each of business are as follows.

a) 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 as residences)," and "asset management."

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

The S-RESIDENCE series

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

* Properties acquired to incorporate into REIT

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

The objectives of "asset management" are obtaining commission income, from the Company being commissioned (outsourced) to operate and manage real estate as the asset manager by real estate funds, and also dividend income from the Company's own investments in real estate funds. Through the smooth launch of SRR, it would seem that the asset management business will also expand in the future, alongside the expansion in the asset scale of SRR.

b) Property Leasing Business

This business is the foundation that ensure stability, and the segment profit margins are also maintaining high levels. It owns around 80 properties nationwide, centered on the Kansai and metropolitan Tokyo regions and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. In addition, it conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. Breaking down its properties according to type of facility, condominiums constitute 54.3%, commercial and related facilities 23.4%, and offices 22.4%, so the weights are high for condominiums and commercial facilities that have stably high rates of occupancy. The Company utilizes its leasing capabilities to realize high occupancy rates above 90% when averaged over the year. The occupancy rates according to facility are 91.0% for condominiums, 91.8% for offices, and 89.6% for commercial facilities. While the scale of the real estate it owns amounts to around ¥82.3bn, this is divided into ¥34.8bn of inventory assets that it intends finally to sell (real estate for sale), and ¥47.5bn of tangible fixed assets that it intends to continue to own (all results are from the end of November 2015). In addition to its main commercial facilities, such as the historic Amanohashidate hotel, recently these assets included properties such as Pieri Moriyama, a large scale commercial facility on Lake Biwa that was reopened in December 2014.

c) Other Business
This business mainly involves hotel management, a condominium management business, and a construction and renovation business. It owns and manages 4 business hotels; Center Hotel Tokyo (Chuo-ku, Tokyo, 107 rooms), Center Hotel Osaka (Chuo-ku, Osaka, 84 rooms), the S-PERIA Hotel Nagasaki (Nagasaki, 153 rooms) and Hotel Sunshine Utsunomiya (Utsunomiya, Tochigi Prefecture, 160 rooms). Center Hotel Tokyo and Center Hotel Osaka are managed by its subsidiary, Suntoa. Also its subsidiary Samty Kanri conducts operations including condominium management (of some of the Company's condominium properties and external properties), and a construction and renovation business.

Constructing a business model centered on the Samty Residential Investment Corporation

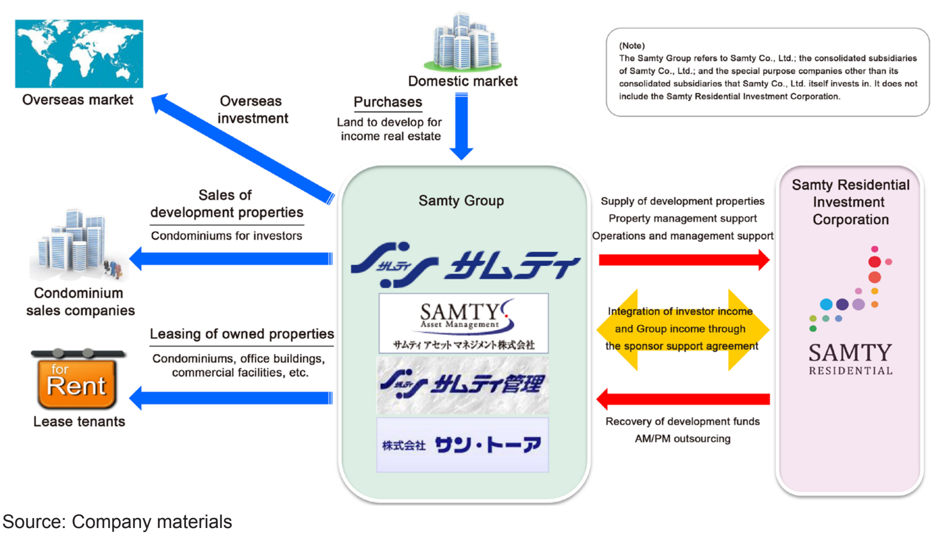
(2) Features

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

a) A superior business model
A feature of the Company's business model is that every phase of the property business, of land purchases, development, leasing, sales, and after-sales, are conducted within the Group, and by connecting these respective functions, it creates value (a value chain) that is unique to the Company. In particular, it utilizes its sophisticated leasing capabilities, which it has cultivated in the Property Leasing Business, in the Real Estate Business also. In addition to improving the value of income real estate, this has positive effects for the superiority of its bargaining power when purchasing land and negotiating with buyers.

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

Overview of the business model



Source: Company materials

FISCO

Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16

b) The profit structure as a strength

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

(3) History

The Company was established in December 1982 in Yodogawa-ku, Osaka, as Samty Development Co., Ltd. (it changed to its current company name in June 2005). Centered on three people, Mr. Shigeru Moriyama (current chairman), Mr. Ichiro Matsushita (current vice chairman), and Mr. Kiyoharu Taniguchi, it launched a real estate sales, leasing, and management business. It initially started from consignment sales of condominiums, but subsequently it steadily accumulated results in areas such as sales of condominium buildings for investment and sales of units in condominium buildings for families.

After launching sales in May 2001 of its Samty series of one-room condominiums for investment, in March 2005 it launched sales of its S-RESIDENCE series of leasing properties for real estate funds, which spurred on its business expansion. In August 2006, it entered into the hotels business by acquiring the shares of Suntoa, which owns and manages business hotels. In July 2007, it was listed on the Osaka Hercules market (currently, the TSE JASDAQ market).

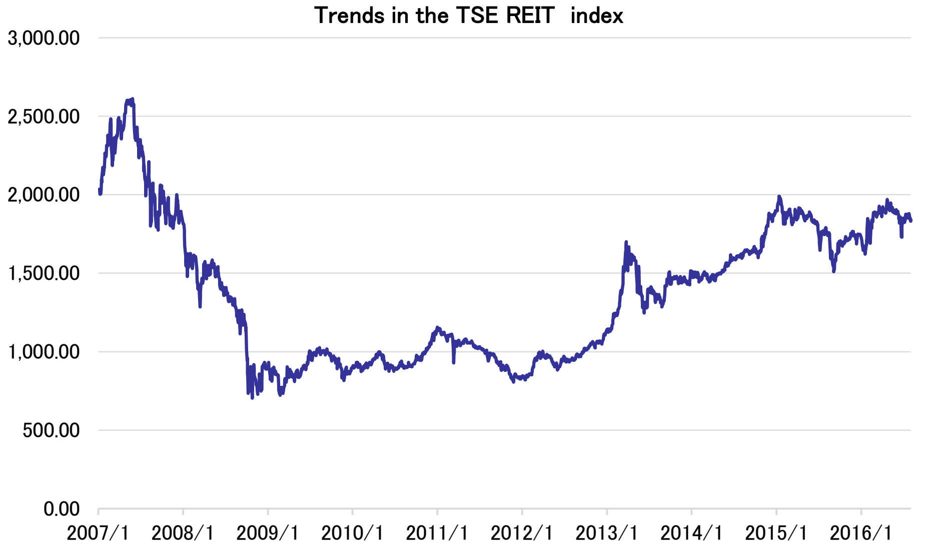
Next, in order to further expand its business and disperse it over different regions, it opened branch offices in Tokyo in February 2011, in Fukuoka in June 2012, in Sapporo in May 2015, and in Nagoya in March 2016, and over this 5-year period it steadily expanded the regions in which it does business.

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

■ Industry environment

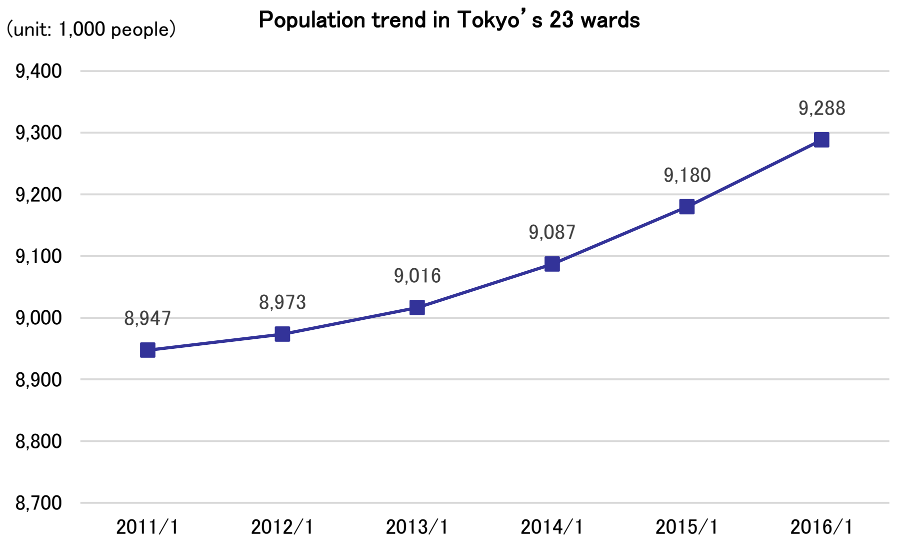
Supported by strong demand from both tenants and investors for condominiums for investment

On looking at the J-REIT market, which will have an important influence on the Company's growth strategy in the future, we see that its current scale is a market capitalization of around ¥12 trillion (55 issues). Although there was a phase in which the market was temporarily sluggish due to the impact of the monetary tightening and related factors following the Lehman shock, since 2012 it has steadily trended upward thanks to the recovery of the domestic economy and the effects of long-term monetary easing. Further, recently there has been a diversification of investment targets, such as hotels and commercial facilities with an eye to the increase in inbound demand, long-term care facilities that are being built in response to the aging of society, and logistics facilities and infrastructure (solar power plants, etc.) So a variety of investment opportunities are being created, yet at the same time there remains considerable room for the market to grow.



In terms of the current trends in the TSE REIT index, while there have been price movements from the impact of the United Kingdom's decision to leave the European Union, on the whole it is trending positively. In general, the factors such as the interest rate hike in the United States, uncertainty about the future of the European and Chinese economies, and the strong yen and fall in share prices domestically are not necessarily having positive effects on the investment environment. But despite this, domestic and overseas institutional investors are strongly willing to invest in J-REIT, as the yields can be guaranteed and the cash flow is relatively stable. In particular, since the introduction of a negative interest rate policy by the Bank of Japan, the yield on 10-year government bonds has fallen significantly, but in contrast J-REIT is able to maintain a comparatively high dividend yield (a level above 3%), and a situation of an abundance of inflow of capital into this market is continuing. In the future also, under the negative interest rate policy, due to the expected further monetary easing (including the Bank of Japan expanding the purchasing framework) and the improvements to the real estate market conditions (such as improvements to vacancy rates and higher rent), there is the strongly held view that in the medium term, the market will continue to trend upward.

On the other hand, the market for condominiums for investment is also trending favorably, supported by the strong demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government Bureau of General Affairs, the population of Tokyo's 23 wards, which constitutes most of the region to which the Company supplies properties, is continuing to increase against the backdrop of the large number of people moving to metropolitan Tokyo. In particular, there has been an noticeable increase in the number of single-person households, which is occurring in the context of later marriages and the increase in the divorce rate, in addition to the young, and it is thought that this will also support lease demand for one-room condominiums in the future. This trend can be seen not only in Osaka and Nagoya, but also in major regional cities 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.



Source: Tokyo Metropolitan Government Bureau of General Affairs

In addition, the financial environment surrounding the real estate industry is proving to be a tailwind. According to a survey by the Bank of Japan, new lending to the real estate industry in 2015 grew 6.1% YoY to ¥10,673.0bn, and the positive attitudes of financial institutions toward real estate financing has been noticeable. The loans balance also reached a new record high of ¥65,710.2bn at the end of December 2015.

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

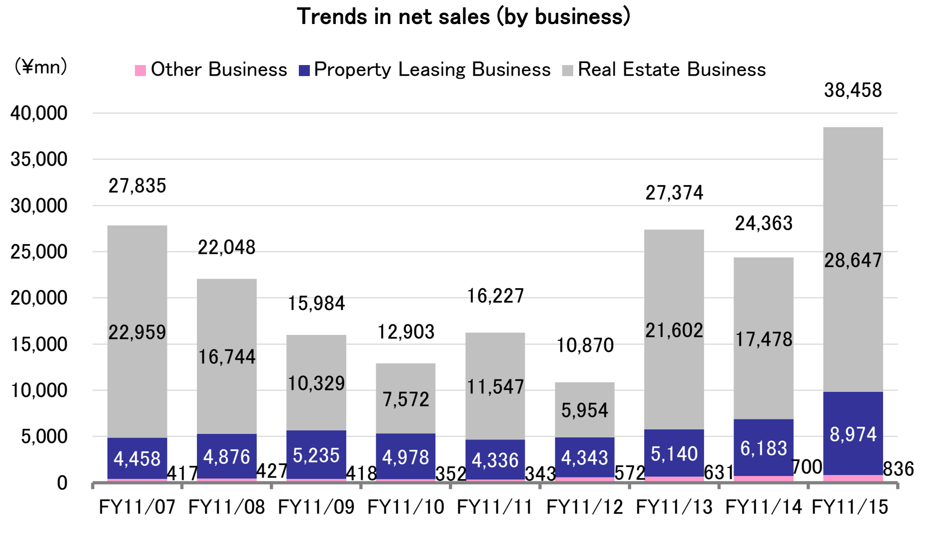
Results trends

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

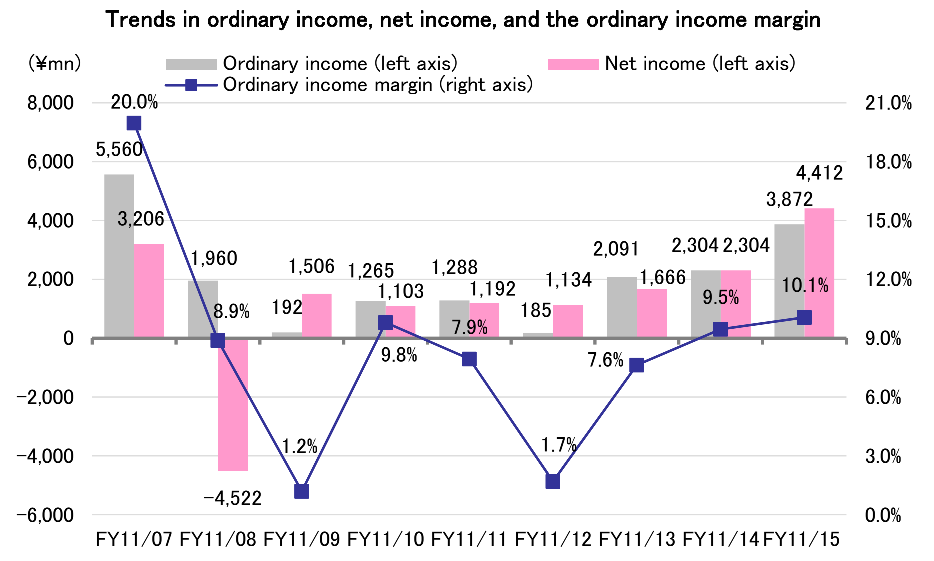
(1) Past results trends

Looking back on the Company's results since FY11/07, which was the year it listed on the Osaka Stock Exchange Hercules market (currently, the TSE JASDAQ market), immediately after it listed it was impacted by the Lehman shock, and there was a period in which its results trended at a low level. The major contraction of its Real Estate Business due to the monetary tightening by financial institutions had a particularly adverse impact on its results. However, the points we should focus on are that results in the Property Leasing Business have trended stably even when within a severe industry environment, which has supported the results of the Company as a whole. The fact that it does not have its own in-house sales team and has kept down fixed costs has also had a positive effect, and it can be highly evaluated on the point that it has secured profits in every fiscal year expect FY11/08, when it recorded a net loss due to declaring impairment.

■ Results trends



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



Source: Prepared by FISCO from the financial results

Since FY11/13, the Real Estate Business has greatly recovered due to the change in financial institutions' attitude toward financing, which has occurred against the backdrop of the recovery of the domestic economy and monetary easing, and the Company's results have entered an expansion phase. In terms of profit and loss also, the ordinary income margin has been improving year by year thanks to the growth in the highly profitable development mobilization and investment condominium sales, and in FY11/15 it reached the high level of 10.1%.

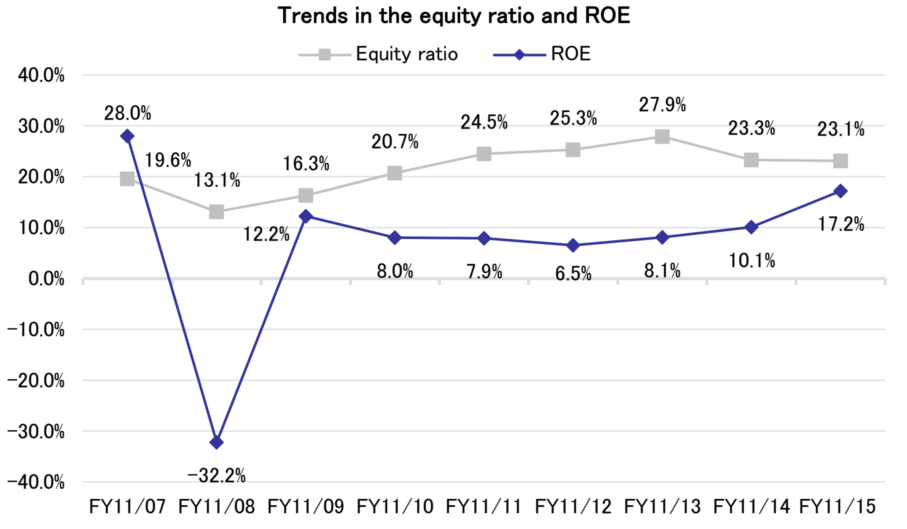
The equity ratio has trended at a level of around 25%. In FY11/13, it rose to 27.9% following the implementation of a capital increase through a public offering (approximately ¥2bn), but then in FY11/15, it fell to a level of 23.1% due to the Company's active accumulation of assets and other factors. 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 FY11/15, it had reached the high level of 17.2%.

FISCO

Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16



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

The current ratio is being maintained at a high level and there are no concerns about financial soundness

(2) Overview of the FY11/16 1H results

In the FY11/16 1H results, net sales increased 1.9% YoY to ¥21,311mn, operating income declined 18.0% to ¥3,394mn, ordinary income fell 21.5% to ¥2,373mn, and profit attributable to owners of the parent decreased 33.9% to ¥1,742mn, for an increase in sales but a decrease in profits. Negative factors included the removal of a temporary special factor* in the previous fiscal year, but progress was still made according to plan.

The Real Estate Business grew significantly, from the sales (in development mobilization) of 2 S-RESIDENCE series buildings to SRR. But due to the negative impact of the removal of the special factor in the Property Leasing Business, sales increased only moderately as a whole.

In terms of profits, while there were positive factors, including the growth of the highly profitable development mobilization, operating income declined because of the removal of the special factor and the increase in SG&A expenses (including personnel expenses, sales expenses, and expenses associated with listing on the TSE First Section). In addition, a gain on sales of fixed assets (¥200mn), which was not planned, was recorded as extraordinary income.

For the land purchases situation, the Company acquired 12 development sites (sales scale of equivalent to ¥21,500mn) and 8 inventory (income real estate) properties. However, in terms of the full fiscal year plan, while the acquisition of development sites proceeded as planned, the acquisition of income real estate was slightly behind schedule.

The Company's financial condition is that total assets increased to ¥131,712mn (up 8.2% from the end of the previous fiscal year) from the steady accumulation of real estate under construction and real estate for sale, while shareholders' equity was ¥29,700mn (up 5.6%), mainly from the accumulation of internal reserves and the conversion of corporate bonds with share options. As a result, the equity ratio fell slightly, to 22.5% (23.1% at the end of the previous fiscal year). In addition, while the interest-bearing debt balance increased to ¥89,611mn (up 12.6%), the current ratio is being maintained at the high level of 294.7%, and there are no concerns about financial soundness.

* In accordance with an application to cancel the leasing agreement (as of July 2015) by Yamada Denki <9831>, which was the key tenant in the Mito South Tower owned by the Company, in the results in the previous fiscal year (FY11/15), penalty revenue of approximately ¥1,700mn was recorded in sales.

Overview of the FY11/16 1H results

(unit: ¥mn)

	FY11/15 1H result		FY11/16 1H reresult		Change	
		% of total		% of total		% change
Net sales	20,922		21,311		389	1.9%
Real Estate Business	15,004	71.7%	17,112	80.3%	2,107	14.0%
Property Leasing Business	5,588	26.7%	3,590	16.8%	-1,997	-35.8%
Other Business	476	2.3%	809	3.8%	332	69.9%
Adjusted amount	-146	-	-199	-	-52	-
Cost of sales	15,263	73.0%	15,633	73.4%	370	2.4%
SG&A expenses	1,519	7.3%	2,283	10.7%	764	50.3%
Operating income	4,140	19.8%	3,394	15.9%	-745	-18.0%
Real Estate Business	1,457	35.2%	2,978	87.8%	1,521	104.4%
Property Leasing Business	3,381	81.7%	1,353	39.9%	-2,027	-60.0%
Other Business	89	2.2%	78	2.3%	-10	-12.0%
Adjusted amount	-788	-	-1,016	-	-228	-
Ordinary income	3,024	14.5%	2,373	11.1%	-651	-21.5%
Profit attributable to owners of the parent	2,634	12.6%	1,742	8.2%	-891	-33.9%
Breakdown of the Real Estate Business net sales	15,004		17,112		2,107	14.0%
Development mobilization	-		4,730		4,730	-
Regeneration mobilization	12,218		7,958		-4,260	-34.9%
Condominiums (for investment and as residences)	2,404		3,926		1,521	63.3%
Asset management	382		491		109	28.7%

Financial condition at the end of May 2016

(unit: ¥mn)

	End of November 2015	End of May 2016	Change
Current assets	70,489	77,397	6,908
Cash and deposits	18,693	18,407	-286
Real estate for sale	34,863	36,001	1,137
Real estate for sale under construction	15,756	21,448	5,691
Non-current assets	51,044	54,147	3,102
Buildings and structures	22,344	24,826	2,482
Land	19,131	19,804	672
Total assets	121,728	131,712	9,983
Current liabilities	30,429	26,261	-4,168
Short-term borrowings	9,599	9,014	-584
Current portion of long-term debt	13,515	10,964	-2,551
Non-current liabilities	62,945	75,515	12,569
Long-term debt	56,484	69,632	13,148
Corporate bonds with share options	1,985	1,435	-550
Net assets	28,353	29,936	1,582
Total liabilities and net assets	121,728	131,712	9,983
Interest-bearing debt	79,598	89,611	10,012
Shareholders' equity	28,134	29,700	1,565
Equity ratio	23.1%	22.5%	-0.6%

The results according to business are as follows.

a) Results were favorable in the Real Estate Business, with net sales rising 14.0% YoY to ¥17,112mn and segment income increasing 104.4% to ¥2,978mn. In particular, development mobilization contributed to the higher sales, with the sales of 2 S-RESIDENCE series properties for SRR (no result in the same period in the previous fiscal year). Investment condominium sales also steadily increased, with sales of 9 properties and 260 units (compared to 4 properties and 178 units in the same period in the previous fiscal year). In addition, asset management's results smoothly grew from the increase in assets under management from SRR. However, for regeneration mobilization, while 8 properties were sold to business companies and other clients, sales fell as a reaction to the previous fiscal year, in which it supplied 10 properties to list on the TSE J-REIT market.

For profits, in addition to the growth in the highly profitable development mobilization and investment condominium sales, by absorbing the fixed costs due to the higher sales, the segment income margin rose to 17.4% (9.7% in the same period in the previous fiscal year).

FISCO

Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16

b) In the Property Leasing Business, net sales declined 35.8% YoY to ¥3,590mn and segment income fell 60.0% to ¥1,353mn. In addition to the removal of the penalty revenue, a negative factor was the occurrence of a non-occupancy period (approximately 7 months) on the replacement of a key tenant. However, the occupancy rate as a whole maintained its previous high level, and excluding the special factor, results in this business can be said to be trending favorably. Also in non-current assets, while on the one hand it newly acquired 9 income real estate properties (acquisition amount, ¥5,089mn), as previously mentioned, it sold 3 properties (extraordinary income, ¥200mn). These sales were not planned, but the Company decided on them following inquiries offering favorable conditions.

In profits, the segment income margin fell to 37.7% (60.5% in the same period in the previous fiscal year), due to the removal of the special factor. But in substantive terms, there has been no change to the high profit margin.

c) In the Other Business, net sales increased 69.9% YoY to ¥809mn, but segment income fell 12.0% to ¥78mn. Sales increased from the contributions from the start of the period of the 2 hotel properties acquired in the previous fiscal year (S-PERIA Hotel Nagasaki and Hotel Sunshine Utsunomiya).

Major increases in sales and profits are expected in FY11/16

(3) The FY11/16 results forecast

For its FY11/16 results forecast, the Company has left its initial forecasts unchanged of major increases in both sales and profits, with net sales to increase 48.2% YoY to ¥57,000mn, operating income to rise 56.8% to ¥9,300mn, ordinary income to climb 80.8% to ¥7,000mn, and profit attributable to owners of the parent to increase 2.0% to ¥4,500mn.

The expansion of the Real Estate Business is expected to contribute significantly to the higher sales. Also, the outlook is for growth in the Other Business from the full-year contributions of the 2 hotel properties acquired in the previous fiscal year, although their contributions will be relatively small.

In profits, in addition to the contributions of the highly profitable development mobilization and investment condominium sales, through the Company absorbing the fixed costs from the higher sales, the operating income margin is expected to rise to 16.3% (15.4% in the previous fiscal year).

For land purchases, the plan is to acquire 25 development sites (sales scale equivalent to ¥3,000bn), and income real estate (non-current assets and inventory assets) with a value of ¥33,000mn. As previously stated, by the end of Q2 the Company had already acquired 12 development sites (sales scale equivalent to ¥21,500mn) and income real estate (non-current assets and inventory assets) worth approximately ¥10,000mn.

FY11/16 results forecast

(unit: ¥mn)

	FY11/15 results		FY11/16 forecast		Change	
		% of total		% of total		% change
Net sales	38,458		57,000		18,542	48.2%
Real Estate Business	28,684	74.6%	47,900	84.0%	19,216	67.0%
Property Leasing Business	9,026	23.5%	7,800	13.7%	-1,226	-13.6%
Other Business	1,026	2.7%	1,700	3.0%	674	65.7%
Adjusted amount	-278	-	-400	-	-	-
Cost of sales	28,482	74.1%	-	-	-	-
SG&A expenses	4,043	10.5%	-	-	-	-
Operating income	5,932	15.4%	9,300	16.3%	3,368	56.8%
Real Estate Business	3,706	62.5%	9,200	98.9%	5,494	148.2%
Property Leasing Business	4,419	74.5%	2,800	30.1%	-1,619	-36.6%
Other Business	202	3.4%	300	3.2%	98	48.5%
Adjusted amount	-2,396	-	-3,000	-	-604	-
Ordinary income	3,872	10.1%	7,000	12.3%	3,128	80.8%
Profit attributable to owners of the parent	4,412	11.5%	4,500	7.9%	88	2.0%

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

a) In the Real Estate Business, both sales and profits are forecast to significantly increase, with net sales to rise 67.0% to ¥47,900mn and segment income to increase 148.2% to ¥9,200mn. In development mobilization, the Company expects to sell 8 S-RESIDENCE series properties (approximately ¥12,000mn), and in regeneration mobilization, 18 income real estate properties (approximately ¥25,000mn). In investment condominium sales also, the plan is to sell 700 units (approximately ¥10,000mn).

Within the 8 S-RESIDENCE series properties, 4 properties are for SRR (within which, 2 properties are included in the Q2 results). Also, the sales of income real estate properties (planned) will include Mito South Tower, for which a successor tenant has been determined* and which will open as a new commercial facility in March 2017.

* The entire building is to be leased to OPA Co., Ltd., (100% owned subsidiary of AEON MALL Co., Ltd. <8905>) for development as a fashion building.

b) In the Property Leasing Business, net sales are forecast to decrease 13.6% YoY to ¥7,800mn and segment income to fall 36.6% to ¥2,800mn. Due to the major impacts of the removal of the special factor and the replacement of a key tenant, the outlook is for a decline in sales and profits even for the full fiscal year. As previously stated, the successor tenant for Mito South Tower has already been determined and this property will resume operations from March 2017.

c) In the Other Business, the forecast is for net sales to increase 65.7% YoY to ¥1,700mn and segment income to climb 48.5% to ¥300mn. The outlook is for growth from the full-year contributions of the 2 hotel properties acquired in the previous fiscal year, although their contributions will be relatively small.

In order to achieve the full fiscal year targets (the prerequisites), in 2H the Company must sell 6 S-RESIDENCE properties (development mobilization), 10 income real estate properties (regeneration mobilization), and 440 investment condominium units. At FISCO, we think that the Company can achieve its results forecasts thanks to the continuingly favorable business environment, including the steady progress it is making in its development plan (pipeline), and also that in terms of sales, as of the end of July 2016 the supply of 8 properties to SRR had already been decided.

(4) The development plan (pipeline) situation

The development situation of the S-RESIDENCE series is that 8 properties are scheduled to be completed in 2016 (of which, 6 properties are scheduled to be sold from Q3 onwards), 7 properties are scheduled to be completed in 2017, and 3 properties are scheduled to be completed in 2018. So the Company is progressing its development plan with a total of 18 properties (as of the end of May 2016), although the 2018 properties are still at the land-purchasing stage (accumulating proposals). In addition to 8 properties in the metropolitan Tokyo region (5 in Tokyo, 3 in Kanagawa Prefecture) and 9 properties in the Kansai region (8 in Osaka Prefecture, 1 in Hyogo Prefecture), there is 1 property in Aichi Prefecture (Nagoya).

S-RESIDENCE development plan (at the end of May 2016)

Fiscal year of completion	Property name (provisional)	Location	Month, year of completion	No. of floors	No. of units	First refusal right (*)
11/16	S-RESIDENCE Yodoyabashi	Chuo-ku, Osaka	January 2016	15	84	-
	S-RESIDENCE Kobe Motomachi	Chuo-ku, Kobe	January 2016	15	81	○
	S-RESIDENCE Ryogoku	Sumida-ku, Tokyo	February 2016	7	36	-
	S-RESIDENCE Higashi-Ikebukuro	Toshima-ku, Tokyo	February 2016	11	40	-
	S-RESIDENCE Yokosuka	Yokosuka, Kanagawa Prefecture	February 2016	8	24	○
	S-RESIDENCE Suginami-ku Takaido	Suginami-ku, Tokyo	August 2016	6	43	-
	S-RESIDENCE Midoribashi Station Front	Higashinari-ku, Osaka	September 2016	13	148	○
	S-RESIDENCE Yokohama	Kanagawa-ku, Kanagawa Prefecture	October 2016	10	36	○
	Total				492	
11/17	S-RESIDENCE Fukae EAST	Higashinari-ku, Osaka	January 2017	10	144	○
	S-RESIDENCE Shin-Osaka WEST	Yodogawa-ku, Osaka	January 2017	15	224	○
	S-RESIDENCE Kawasaki	Kawasaki, Kanagawa Prefecture	February 2017	12	43	○
	S-RESIDENCE Suita-shi Tarumicho	Tarumicho, Suita	June 2017	10	75	○
	S-RESIDENCE Miyakojima-ku Nakanocho	Miyakojima-ku, Osaka	July 2017	11	120	○
	S-RESIDENCE Nagoya-shi Naka-ku	Naka-ku, Nagoya	August 2017	15	109	○
	S-RESIDENCE Minami-Horie	Nishi-ku, Osaka	September 2017	15	154	○
	Total				869	
11/18	S-RESIDENCE Shinjuku	Shinjuku-ku, Tokyo	January 2018	11	65	○
	S-RESIDENCE Kikawa-Higashi 4-chome	Yodogawa-ku, Osaka	January 2018	11	187	○
	S-RESIDENCE Nihonbashi Nakasu	Chuo-ku, Tokyo	February 2018	11	116	○
	Total				368	

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

The situation for the development projects for investment condominium sales is that 6 properties (454 units) are scheduled for completion in 2016, 16 properties (786 units) in 2017, and 7 properties (392 units) in 2018, so a total of 29 properties (1,632 units) are being progressed. Within these figures, the 2018 properties are still at the land-purchasing stage.

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

Fiscal year of completion	Property name • PJ name	Location	Month, year of completion	No. of floors	No. of units
11/16	Samty Honmachibashi II MEDIUS	Chuo-ku, Osaka	May 2016	11	150
	Adachi-ku Senjumiya Motocho Project	Adachi-ku, Tokyo	June 2016	14	102
	Sumida-ku Midori 3-chome Project	Sumida-ku, Tokyo	July 2016	9	30
	Adachi-ku Adachi 4-chome Project	Adachi-ku, Tokyo	August 2016	7	31
	Shinagawa-ku Minami-Oi 4-chome Project	Shinagawa-ku, Tokyo	August 2016	15	43
	Samty Awaza BELSIA	Nishi-ku, Osaka	October 2016	15	98
	Total				454
11/17	Chuo-ku Shinkawa 2-chome Project	Chuo-ku, Tokyo	January 2017	12	27
	Higashinari-ku Fukae-Kita 3-chome Project	Higashinari-ku, Osaka	January 2017	10	96
	Suita-shi Esakacho 1-chome Project	Esakacho, Suita	January 2017	9	65
	Fukushima-ku Yoshino 4-chome Project	Fukushima-ku, Osaka	February 2017	9	80
	Shinagawa-ku Minami-Shinagawa 4-chome Project	Shinagawa-ku, Tokyo	March 2017	9	38
	Sumida-ku Ishiwara 3-chome (North) Project	Sumida-ku, Tokyo	March 2017	11	38
	Sumida-ku Ishiwara 3-chome (South) Project	Sumida-ku, Tokyo	March 2017	12	42
	Sumida-ku Yokokawa 1-chome Project	Sumida-ku, Tokyo	July 2017	8	39
	Chuo-ku Tanimachi 5-chome Project	Chuo-ku, Osaka	July 2017	15	84
	Bunkyo-ku Yushima 2-chome Project	Bunkyo-ku, Tokyo	September 2017	11	57
	Nerima-ku Toyotama-Kita 2-chome Project	Nerima-ku, Tokyo	October 2017	9	48
	Chuo-ku Nihonbashi Hamacho 2-chome Project	Chuo-ku, Tokyo	October 2017	13	30
	Koto-ku Hirano 2-chome Project	Koto-ku, Tokyo	October 2017	9	41
	Shinjuku-ku Shinjuku 7-chome Project	Shinjuku-ku, Tokyo	October 2017	6	29
	Bunkyo-ku Koishikawa 5-chome Project	Bunkyo-ku, Tokyo	November 2017	10	27
	Chuo-ku Tsukishima 3-chome Project	Chuo-ku, Tokyo	November 2017	10	45
	Total				786
11/18	Toshima-ku Ikebukuro Honcho 1-chome Project	Toshima-ku, Tokyo	December 2017	11	31
	Sumida-ku Kinshi 1-chome Project	Sumida-ku, Tokyo	January 2018	13	72
	Taito-ku Taito 2-chome Project	Taito-ku, Tokyo	January 2018	13	53
	Yodogawa-ku Kikawa-Higashi 2-chome Project	Yodogawa-ku, Osaka	January 2018	11	90
	Yodogawa-ku Nishi-Miyahara 2-chome II Project	Yodogawa-ku, Osaka	January 2018	10	90
	Sumida-ku Ishiwara 1-chome Project	Sumida-ku, Tokyo	April 2018	8	28
	Taito-ku Kuramae 3-chome Project	Taito-ku, Tokyo	May 2018	13	28
	Total				392

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

Therefore, while the development projects up to 2017 have already been secured, the situation from 2018 onwards remains uncertain. The competitive environment for purchasing land, particularly in city centers, is growing increasingly fierce, but it is considered that the Company will be able to utilize its superior business model, which is centered on SRR, to conduct strategic measures even for its acquisition of land, giving it an advantage for these purchases.

Growth strategy

In FY11/16, expects to achieve profit targets 2 fiscal years ahead of schedule

(1) Progress of the medium- to long-term management plan

The Company is progressing Challenge 40, its medium- to long-term management plan whose first fiscal year was FY11/14. To summarize the progress made up to the present time, it has expanded its business areas (opened 4 branch offices), advanced into the J-REIT business, and its listing has been changed to the TSE First Section, so to a certain extent it has been successful in terms of laying the foundations for a business model to accelerate growth in the future. For results also, it is expected to achieve the plan's profit targets in this fiscal year (FY11/16), 2 fiscal years ahead of schedule.

(2) Formulation of a rolling plan

The Company has revised the targets in the Challenge 40 medium- to long-term management plan based on the fact that results have been expanding at a pace greater than anticipated and that compared to the time it set the targets, its external environment (including the introduction of a negative interest rate policy and the expansion of inbound demand) and internal environment (such as its expansion of the business areas and advance into the J-REIT business) have changed greatly. So it has upwardly revised its targets for FY11/18, to ¥85bn for net sales and ¥9bn for ordinary income (extent of revision, ¥2bn). Also, it has set new targets for FY11/20, of net sales of around ¥100bn and ordinary income of around ¥10bn.

The Challenge 40 medium- to long-term management plan

	FY11/16 targets		FY11/18 targets		FY11/20 targets
	Before revision	After revision	Before revision	After revision	Newly set
Net sales	-	¥57.0bn	-	¥85.0bn	Around ¥100.0bn
Ordinary income	¥4.5bn	¥7.0bn	¥7.0bn	¥9.0bn	Around ¥10.0bn
Net income	¥2.5bn	¥4.5bn	¥4.5bn	-	-
Total assets	¥110.0bn	¥140.0bn	¥150.0bn	-	-
ROA	5.0%	7.0%	6.5%	7.0%	Above 7.0%

Source: From Company materials

(3) Future direction

As its growth strategy for the future, the Company has set the three axes of a) constructing a business model centered on SRR, b) strategically investing in major regional cities, and c) deploying its hotels development business. Also, as its financial targets, it is aiming to maintain its capital efficiency and establish a financial base.

a) Constructing a business model centered on SRR

The Company's policy is to further evolve its business model, in which it is capable of handling every aspect of the property business, from land purchasing and development through to leasing, sales, and after-sales, so it is centered on SRR, which has been smoothly launched. Specifically, in addition to supplying development properties preferentially to SRR, it is aiming to establish a stable fee business through conducting outsourced asset management and property management after it has supplied the properties. In other words, its strategy can be described as connecting the growth of SRR to the growth of the Company.

b) Strategically investing in major regional cities

The Company plans to invest a total of approximately ¥300bn in the 5-year period from the current fiscal year (FY11/16) to FY11/20. The specific details of its measures are as follows.

• Expanding the development regions

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.

FISCO

Samty Co., Ltd.
3244 Tokyo Stock Exchange First Section

9-Sept.-16

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

• **For income real estate and regeneration real estate, in addition to working to discover properties with high yields in major regional cities, it will secure cash flow through facilitating turnover.**

Investment targets according to region and asset

(unit: ¥100mn)

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

Source: From Company materials

c) Deploying the hotels development business
Within the previously mentioned total investment amount of approximately ¥300bn, the Company plans to invest around ¥53bn in its hotels 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.

d) Financial strategy
The Company's policy is to realize sustainable growth while maintaining a certain level of financial soundness. For FY11/20, on the one hand it is aiming for an equity ratio of above 30%, while on the other hand it intends to maintain capital efficiency of ROE above 15% and ROA above 7%. It also targets cutting interest-bearing debt costs and a net D/E ratio of below 2.0 times.

■ Returns to shareholders

Will increase the dividend by ¥3 in FY11/16 after excluding the commemorative dividend paid in the previous fiscal year

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

In FY11/15, it paid a dividend per share of ¥33 (dividend payout ratio of 16.2%), which consisted of a commemorative dividend of ¥3 to mark its change of listing to the TSE First Section, and an ordinary dividend of ¥30 (up ¥11 YoY). In FY11/16, it plans to pay a dividend per share of ¥33 (dividend payout ratio of 17.0%), which is an increase of ¥3 after excluding the commemorative dividend paid in the previous fiscal year.

The Company is targeting a dividend payout ratio of 30% by FY11/20. At FISCO, we think that there is still considerable room for it to increase dividends through profit growth and raising the dividend payout ratio in the medium term.

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

Disclaimer

FISCO Ltd. (the terms "FISCO", "we", mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange,and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the "JASDAQ INDEX" are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness,or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose,investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.