

Samty Co., Ltd.

3244

Tokyo Stock Exchange First Section

17-Mar.-2020

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FISCO Ltd.

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

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<https://www.samty.co.jp/en/ir.html>

Summary

Achieved higher sales and profits in FY11/19 (for the seventh straight fiscal year). Progress being made on entering the hotel REIT business and overseas business development based on the capital and business alliance with Daiwa Securities Group Inc.

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 region and Tokyo metropolitan area. Its business is based on the twin axes of its Real Estate Business (including development and sales of large-scale leasing condominiums for real estate funds and hotels) and Property Leasing Business (including leasing condominiums), while it also focuses on hotel business 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 addition to expanding the business area, it entered into the J-REIT business* in June 2015. 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.

From FY11/19, under a new management regime, the Company is advancing the new medium-term management plan “Samty Toughening Plan” (3-year plan). Also, the Company concluded a capital and business alliance with Daiwa Securities Group Inc. <8601> in May 2019. The aim behind this was to incorporate Daiwa Securities Group’s creditworthiness and information collection capabilities. The two sides are already working together to form a hotel development fund and develop overseas business, and are aiming to list a hotel REIT in the fall of 2020.

2. Business result for FY11/19

In the FY11/19 results, both sales and profits increased (for the seventh consecutive fiscal year), with net sales rising 1.5% year-on-year (YoY) to ¥85,552mn and operating income growing 9.7% to ¥15,395mn. Excluding special factors (discussed below), results were generally in line with the Company’s upwardly revised forecasts. Net sales in the Real Estate Business were at a high level amid the continued robust real estate market conditions. In particular, sales were strong for the S-RESIDENCE series, especially to SRR, while the Company enjoyed strong sales of properties developed in-house, such as hotels, which the Company has been focusing on. Net sales in Other Business also grew significantly due to the increase in sales as new hotels opened for business. The steady growth in stable income due to factors such as the asset management fees to SRR (during the period) and steady hotel occupancy rates were particularly noteworthy. In terms of profits, operating income grew significantly due to the sales of hotels and other developed properties with high profit margins, while the operating income margin also increased significantly. Steady progress was also made on purchases (and the development pipeline), which will lead to growth in the future.

Summary

3. FY11/20 forecast

For the FY11/20 results, the Company expects continued significant increases in both net sales and profit, forecasting net sales to increase 16.9% YoY to ¥100,000mn and operating income to rise 13.7% to ¥17,500mn. The Company is forecasting growth in the Real Estate Business, the Property Leasing Business, and Other Business. In particular, the Company expects sales of properties developed in-house, including the S-RESIDENCE series and hotels, to drive the increase in net sales. In terms of profit, the Company expects an increase in operating income in conjunction with the increase in net sales, despite expenses such as those related to the formation of a hotel development fund and the listing of a hotel REIT. The Company also expects the operating income margin to remain at a high level.

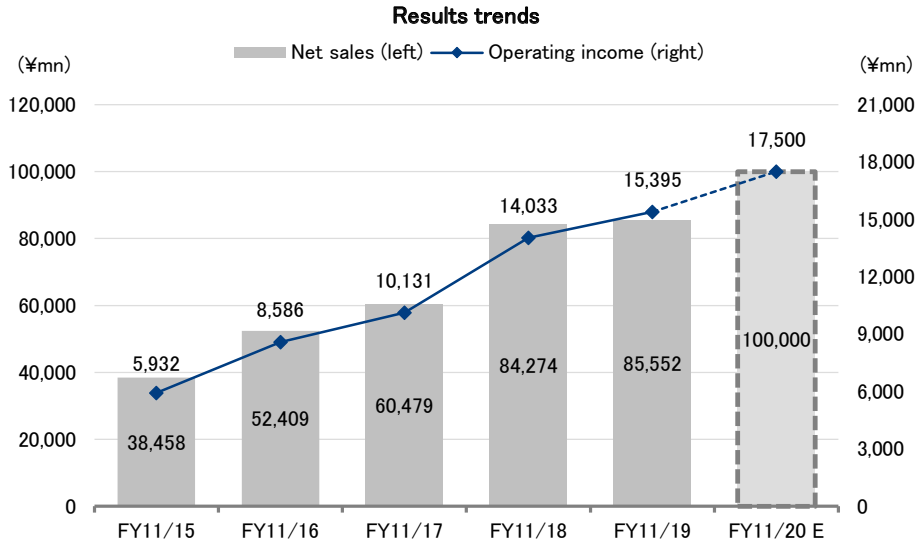
4. Growth strategy

The Company is advancing its medium-term management plan which covers the three-year period from FY11/19 to FY11/21. The Company is looking to succeed and further strengthen the key priority measures and financial strategies of the previous medium-term management plan “Challenge 40” which it achieved two years ahead of schedule in FY11/18. Thus, the Company will work on the following: 1) Developing a business model centered on SRR (strengthening the fee income business); 2) Strategically investing in regional metropolitan areas (expanding business area); and 3) Expanding the hotel development and office building development businesses (develop new growth engines). Also, the Company is placing more of a focus on managing the balance sheet in order to prepare for a future correction phase. 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%. Close attention will be paid to what kinds of results emerge from the capital and business alliance with Daiwa Securities Group Inc.

Key Points

- In FY11/19, sales and profits increased (for the seventh consecutive fiscal year), and steady progress was made on the investment plan
- Concluded a capital and business alliance with Daiwa Securities Group Inc. in May 2019. The two sides are already jointly working to form a hotel development fund and on overseas business development, and are aiming to list a hotel REIT in the fall of 2020
- Expecting continued significant increases in both sales and profits for FY11/20
- The new medium-term management plan started from FY11/19. While emphasizing the balance sheet, the Company aims to sustainably grow profits by boosting productivity and capital efficiency

Summary



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

■ Company profile

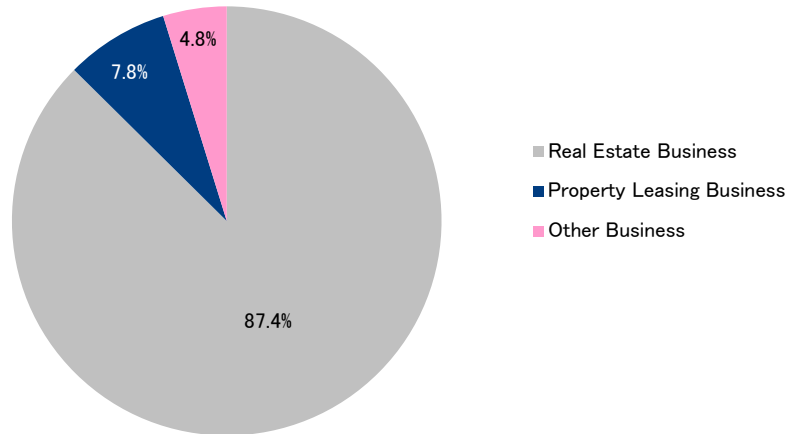
Balanced business portfolio based on Real Estate Business and Property Leasing Business Entered J-REIT market in 2015 Focusing on hotel business

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 87.4% of net sales (after adjustment) in the FY11/19 1H 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. 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 in FY11/19 (after 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 ¥108.9bn (as of January 2020), as it is growing steadily. It is also working to form a hotel development fund, and plans to list it as a hotel REIT on the stock exchange around fall 2020.

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), Nagoya (Nakamura-ku), and Hiroshima (Naka-ku) and it is establishing a nationwide system centered on the major regional cities.

* The Company opened the Shinjuku and Yokohama Business Offices in April 2019.

The Samty Group is comprised of the Company and 15 consolidated subsidiaries, including 10 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. (hereafter, "Samty AM") (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.

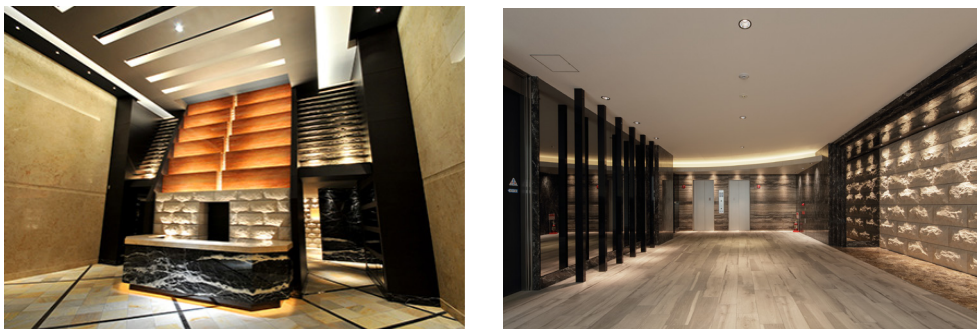
(1) Real Estate Business

This business supports the Company's growth and is divided into four sub-segments: "development securitization," "renovation securitization," "investment unit sales in lots," and "asset management."

Company profile

“Development securitization” refers to the planning, development, and sales of leasing condominiums for real estate funds (including of the S-RESIDENCE series, the brand developed in-house). Basically, the properties are large-scale, studio-type condominiums with a total number of around 200 units, and include features such as stairwell entrances and luxurious 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. It has also been working on planning, development and sales of hotels and office buildings as a new focus field.

S-RESIDENCE series



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

“Renovation securitization” 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

“Investment unit sales in lots” involves the planning, development, and sales of studio-type 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 or 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 Tokyo metropolitan area, 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. The asset management business can be expected to expand in the future following 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.

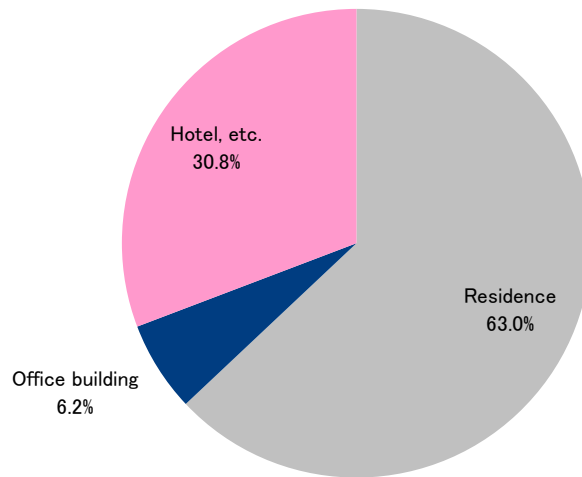
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Company profile

(2) Property Leasing Business

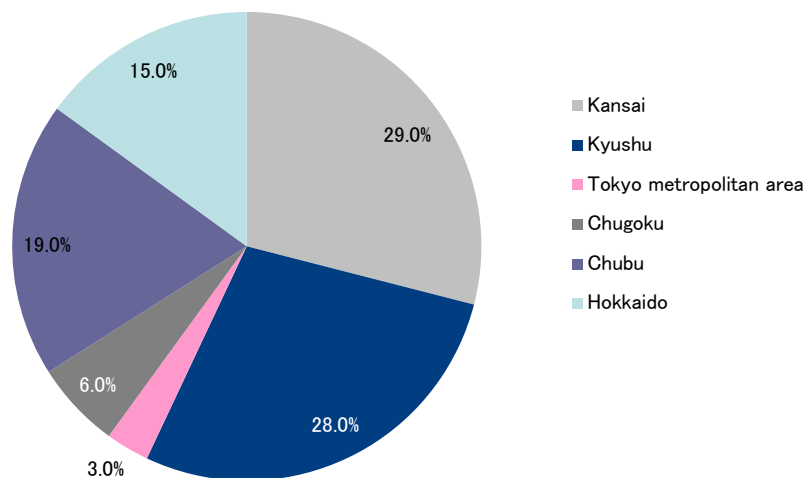
This business is the foundation that ensures stability, and the segment profit margins are also maintaining high levels. It owns around 78 properties nationwide (non-current assets only), centered on the Kansai region, Tokyo metropolitan area and government ordinance designated cities such as Fukuoka, Sapporo, and Nagoya. In addition, it conducts diversified investment in a variety of assets, including condominiums, office buildings, and commercial facilities. 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 ¥107.0bn (book value), this is divided into ¥28.6bn of inventory assets that it intends to eventually sell (real estate for sale), and ¥78.4bn of non-current assets that it intends to continue to own (all results are as of the end of November 2019).

Sales by property type for FY11/19 (Property Leasing Business)



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

Distribution of properties owned by area for FY11/19 (based on total floor space)



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

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Company profile

(3) Other Business

This business mainly involves the ownership and management of hotels, the condominium management business, and the construction and renovation business. The hotels business operates and manages 10 hotels nationwide, including 4 hotels developed in-house. Other than conducting the hotel business, the subsidiary Samty Property Management also conducts condominium management (including external properties, mainly the Company's condominiums), construction and renovation, and other work. The key priority measures going forward will be to grow the hotel development business (secure rental income) and handle hotel management operations in-house (strengthen the fee income business).

Hotels in which the Company participates

Hotel name	Location	No. of rooms
Center Hotel Tokyo	Chuo-ku, Tokyo	108
Amano Hashidate Hotel	Miyazu-shi, Kyoto	86
GOZAN	Higashiyama-ku, Kyoto	21
S-PERIA HOTEL Nagasaki	Nagasaki-shi, Nagasaki	155
Hotel Sunshine Utsunomiya	Utsunomiya-shi, Tochigi	160
S-PERIA HOTEL Hakata (developed in-house)	Hakata-ku, Fukuoka-shi	287
S-PERIA INN Nihombashihakozaki (developed in-house)	Chuo-ku, Tokyo	114
S-PERIA INN Osaka Hommachi (developed in-house)	Nishi-ku, Osaka	125
S-PERIA HOTEL Kyoto (developed in-house)	Shimogyo Ward, Kyoto	165
NEST HOTEL Hiroshima Hatchobori	Naka-ku, Hiroshima-shi	126
Total		1,347

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

2. Features

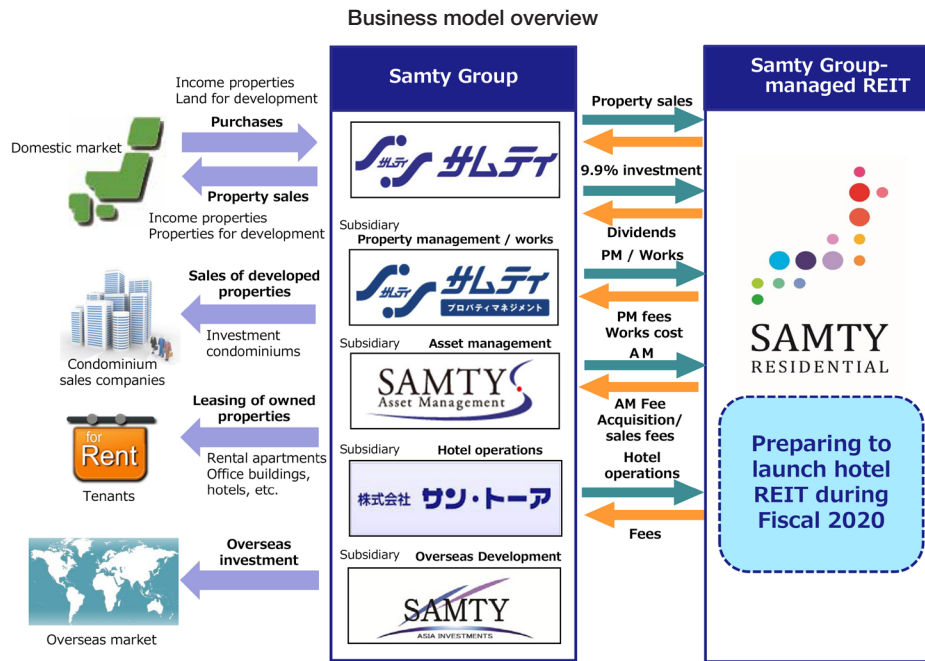
A feature of the Company is that it handles all aspect of the property business with its business model combining two businesses, the Real Estate Business and the Property Leasing Business. This forms its strength in terms of the superiority of its business and revenue structure.

(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. 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. While SRR will become a stable supply destination, the expansion of the after-sales fee business (commissioned asset management operations and contract property management operations) can be expected to become a stable source of revenue in the future.

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, 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.

Company profile

After launching sales in May 2001 of its Samty series of studio-type 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 Co., Ltd., which owns and manages business hotels, to enter into the hotels business. In December 2011, it established Samty Kanri Co., Ltd. (now Samty Property Management) to enter into the property management business; in November 2012, it made Samty AM a wholly owned subsidiary to enter into the asset management business; and in June 2015, SRR (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. In May 2019, it concluded a capital and business alliance agreement with Daiwa Securities Group Inc.

■ The capital and business alliance with the Daiwa Securities Group

Intends to collaborate in areas such as the formation of a hotel REIT, overseas business development, and crowdfunding

The greatest feature of FY11/19 is that the Company concluded a capital and business alliance agreement with Daiwa Securities Group Inc. as of May 30, 2019. Its aims for this alliance include diversifying project information, increasing the scale of projects, and reducing financing costs by incorporating the strengths of the Daiwa Securities Group, such as its creditworthiness and information capabilities. It can be said that it was a decision aimed at a new growth stage. On the other hand, for the Daiwa Securities Group, it has the major advantage of strengthening its real estate business, so the agreement was concluded because it benefits both parties. The Company also allocated its treasury shares and unsecured convertible bonds with stock acquisition rights to the Daiwa Securities Group to strengthen its financial base.

1. Details of the business alliance

(1) Collaboration on a large-scale hotel development fund

Based on a concept of targeting inbound demand and domestic travelers, they will fully utilize the Company's development capabilities and the Daiwa Securities Group's finance functions to consider investments up to ¥30bn. Samty Asset Management (hereafter, Samty AM) will be entrusted with the development fund's asset management operations.

The capital and business alliance with the Daiwa Securities Group

(2) Aiming to form a hotel RIET by FY2020

The Company's pipeline has already exceeded ¥100bn, mainly including properties owned or under development by the Company's Group, and it plans to incorporate the properties into the RIET as they are completed. The hotels developed for the hotel development fund described above in (1) will also be incorporated into the RIET. Similar to the development fund, Samty AM will be entrusted with the asset management operations, which will lead to increases in fee income for both SRR and asset management operations.

(3) Receive information on CRE (corporate real estate) held by the Daiwa Securities Group

For the real estate related to the information provided, the Company's Group will acquire properties, when both sides judge to be appropriate, and effectively utilize and redevelop the real estate, with the aim of incorporating it into SRR and the hotel REIT described above in (2) according to its type and purpose.

(4) Collaboration for business development in Asia

While the Company's Group has already invested a total of US\$30 million in two local developer companies in Ho Chi Minh City, Vietnam, it will utilize the Daiwa Securities Group's network to further accelerate investment and business activities.

(5) Collaborations on both real estate sales to the wealthy and crowdfunding

The Company will sell real estate to the wealthy who are customers of the Daiwa Securities Group. It will also utilize crowdfunding through a collaboration with Fintertech Co., Ltd. which was established by the Daiwa Securities Group in March 2018. It intends to flexibly create next-generation financial services.

2. Details of the capital alliance

In order to strengthen its relationship with the Daiwa Securities Group (shared interests) and enhance its financial base, the Company has allocated to the Daiwa Securities Group its treasury shares and unsecured convertible bonds with stock acquisition rights. As a result, it raised funds of approximately ¥12.7bn in total, of around ¥2.7bn from the disposal of treasury shares and ¥10bn from the issue of unsecured convertible bonds with stock acquisition rights. After the implementation of this issue, the Daiwa Securities Group's shareholding ratio became 29.9% (includes Daiwa PI Partners' shareholding ratio of 2.67%)*.

* Calculated from the 1,737,068 shares acquired through the disposal of treasury shares, the 5,813,953 shares issued in the event that all of the unsecured convertible bonds with stock acquisition rights are converted at the price of ¥1,720, and also the 5,204,074 shares transferred from sales by the Company's shareholders (12,755,095 shares in total).

Results trends

In FY11/19, the Company achieved higher sales and profits (for the seventh consecutive fiscal year). Steady progress is being made on the investment plan, including the hotel development business

1. Overview of operating results

In FY11/19 results, net sales rose 1.5% YoY to ¥85,552mn, operating income grew 9.7% to ¥15,395mn, ordinary income climbed 13.4% to ¥13,193mn, and profit attributable to owners of parent increased 14.7% to ¥9,740mn, as net sales and profits increased for the seventh consecutive fiscal year. Excluding special factors (discussed below), results were generally in line with the Company's upwardly revised forecasts announced on May 30, 2019.

Net sales in the Real Estate Business were at a high level amid the continued robust real estate market conditions. In particular, sales were steady for the S-RESIDENCE series, especially to SRR, while the Company enjoyed strong sales of properties developed in-house, such as hotels, which the Company has been focusing on. Net sales in the Property Leasing Business were solid due to continued high occupancy rates. Meanwhile, the large increase in net sales in Other Business was attributable to the increase in sales as new hotels opened for business.

One particularly noteworthy factor behind the increase in sales was that the total stable income included in each business increased to ¥12,966mn (+16.7% YoY) due to the increase in asset management fees (during the period) in conjunction with the expansion of SRR's scale, the rise in hotel revenue due to the stable operation of S-PERIA HOTEL Hakata*, and the opening of new hotels.

* First large-scale hotel as part of the hotel development business which opened for business in March 2018 (287 guest rooms). The Company plans to include this hotel in the hotel REIT which it is aiming to list in FY2020.

In profits, the Company achieved a significant increase in operating income due to the sale of hotels and other development properties with high profit margins, as well as improved profitability in conjunction with the sale of Pieri Moriyama*1. The operating income margin also increased significantly to 18.0% (versus 16.7% in FY11/18). Net sales and operating income fell slightly short of the upwardly revised forecast due to accounting reasons in conjunction with the reshuffling of properties planned for sale. Since some of the properties to be sold were transferred from real estate for sale to non-current assets due to the timing of sale being pushed back, only the gains on sales were booked in extraordinary income*2.

*1 Large commercial facility on the shore of Lake Biwa that reopened following a renovation in December 2014. It was sold (recovery of funds) in November 2018 in conjunction with the management decision to prioritize investment in the hotel development business, which is an area of focus going forward.

*2 Unlike a normal sale from "real estate for sale" (current assets), if a property is sold from non-current assets, only the gain on sale is posted in extraordinary income. Therefore, it is necessary to keep in mind that it will not be reflected in net sales and respective profit lines including ordinary income (no impact on net income).

Consequently, the large increase in extraordinary income is, as discussed above, due to the sale of properties from non-current assets. Meanwhile, there was also a large increase in extraordinary loss, which was due to the conservative estimates for the possibility that additional consumption taxes* for prior periods will be collected.

* The tax treatment method for the consumption tax amount related to the purchase of residential buildings acquired for the purpose of sale was pointed out to the Company following a tax audit. Although there was a difference in understanding between the Company and the National Tax Agency, the amount has been recorded conservatively in accounting, taking into consideration the possibility that additional consumption taxes for prior periods will be collected.

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Results trends

Meanwhile, the Company was very successful concerning purchases which will lead to future growth. The Company acquired 38 development sites (estimated net sales of approximately ¥60.1bn, acquisition price of ¥27.3bn / achievement ratio of 109.2%), and 54 income properties (acquisition price of ¥58.8bn / achievement ratio of 147.0%).

For the Company's financial condition, the Company effectively utilized funds procured through property sales and borrowings to proactively acquire land for development and income real estate. Based on this, there were increases in "real estate for sale," "real estate for sale under construction," and "tangible non-current assets," and total assets were up 34.6% from the end of the previous fiscal year to ¥218,803mn. Meanwhile, shareholders' equity also increased 15.4% to ¥71,027mn due to the accumulation of internal reserves and the disposal of treasury shares*1 as the Company maintained an equity ratio above 30%. Also, Interest-bearing debt was up 58.0% from the end of the previous fiscal year to ¥140,927mn, but the ratio of long-term debt was approximately 80% and net D/E ratio*2 was kept down to a level of 1.35 times, so it can be said that the Company is maintaining well-balanced financial ratios while expanding assets.

*1 In conjunction with the capital and business alliance with Daiwa Securities Group.

*2 (interest-bearing debt - cash and deposits) ÷ shareholders' equity

FY11/19 results

	FY11/18		FY11/19		Change		FY11/19		
	Results	% of net sales/profit margin	Results	% of net sales/profit margin	Change	% of change	Revised forecast	% of net sales/profit margin	Achievement rate
Net sales	84,274		85,552		1,278	1.5%	86,000		99.5%
Real Estate Business	75,143	89.2%	74,806	87.4%	-337	-0.4%	75,100	87.3%	99.6%
Property Leasing Business	6,807	8.1%	6,698	7.8%	-109	-1.6%	6,800	7.9%	98.5%
Other Business	2,491	3.0%	4,434	5.2%	1,943	78.0%	4,400	5.1%	100.8%
Adjustment	-167	-	-387	-	-220	-	-300	-	-
Cost of sales	63,170	75.0%	60,793	71.1%	-2,377	-3.8%	-	-	-
SG&A expenses	7,070	8.4%	9,363	10.9%	2,293	32.4%	-	-	-
Operating income	14,033	16.7%	15,395	18.0%	1,362	9.7%	16,000	18.6%	96.2%
Real Estate Business	15,547	20.7%	17,272	23.1%	1,725	11.1%	18,300	24.4%	94.4%
Property Leasing Business	1,907	28.0%	2,462	36.8%	555	29.1%	2,600	38.2%	94.7%
Other Business	83	3.3%	75	1.7%	-8	-9.6%	100	2.3%	75.0%
Adjustment	-3,504	-	-4,414	-	-910	-	-5,000	-	-
Ordinary income	11,635	13.8%	13,193	15.4%	1,558	13.4%	13,500	15.7%	97.7%
Extraordinary income	980	1.2%	1,702	2.0%	722	-	-	-	-
Extraordinary loss	123	0.1%	654	0.8%	531	-	-	-	-
Profit attributable to owners of parent	8,489	10.1%	9,740	11.4%	1,251	14.7%	9,500	11.0%	102.5%
Breakdown of net sales in the Real Estate Business (after adjustment)	75,143		74,806		-337	-0.4%			
Development securitization	38,948		35,280		-3,668	-9.4%			
Renovation securitization	29,019		37,164		8,145	28.1%			
Investment unit sales in lots	5,784		1,345		-4,439	-76.7%			
Asset management	1,386		1,003		-383	-27.6%			

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

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Results trends

Financial position at the end of November 2019

	End of November 2018	End of November 2019	Change	
				% of change
				(¥mn)
Current assets	107,904	122,428	14,524	13.5%
Cash and deposits	44,510	44,918	408	0.9%
Real estate for sale	26,181	28,637	2,456	9.4%
Real estate for sale under construction	34,886	46,339	11,453	32.8%
Non-current assets	54,595	96,374	41,779	76.5%
Property and equipment	46,539	78,420	31,881	68.5%
Intangible assets	172	172	0	0.0%
Investments and other assets	7,883	17,781	9,898	125.6%
Total assets	162,500	218,803	56,303	34.6%
Current liabilities	19,779	22,581	2,802	14.2%
Short-term borrowings	1,340	2,315	975	72.8%
Current portion of long-term debt	9,470	16,387	6,917	73.0%
Non-current liabilities	80,282	124,593	44,311	55.2%
Long-term debt	78,362	112,224	33,862	43.2%
Bonds with share acquisition rights	-	10,000	10,000	-
Net assets	62,438	71,627	9,189	14.7%
Total liabilities and net assets	162,500	218,803	56,303	34.6%
Interest-bearing debt	89,172	140,927	51,755	58.0%
Shareholders' equity	61,533	71,027	9,494	15.4%
Equity ratio	37.9%	32.5%	-5.4pt	-

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 decreased 0.4% YoY to ¥74,806mn and segment profit rose 11.1% to ¥17,272mn, as sales were generally flat YoY while profits increased. Net sales were a high level due to development securitization, including from sales of 12 properties in the S-RESIDENCE series (17 properties in FY11/18) and 2 hotels developed in-house*. In particular, against the backdrop of strong investment demand from overseas funds, it can be said that high sales prices and the sales of large-scale hotels contributed to the net sales. Also, net sales grew significantly due to the sale of 38 properties of renovation securitization (25 properties in FY11/18). In contrast, sales in condominiums for investment declined due to the drop in units sold to 119 units (383 properties in FY11/19), but this was within the expected range. This is because the purchase needs for single buildings are strong, and the Company is selling development securitization properties with high sales efficiency and profitability. Sales declined in asset management, as acquisition fees temporarily declined YoY, despite management and administration fees, which are a stable source of earnings, steadily being pulled up alongside the growth in SRR's asset management balance. In profits, a major increase in profits was realized from sales of development properties with high profit margins, such as hotels, and the segment profit margin increased significantly to 23.1% (versus 20.7% in FY11/18).

* S-PERIA INN Osaka Honmachi, Mercure Kyoto Station (land only)

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Results trends

(2) Property Leasing Business

Net sales decreased 1.6% YoY to ¥6,698mn, while segment profit increased 29.1% to ¥2,462mn, resulting in lower sales but significantly higher profits. For real estate owned, the high occupancy rates were maintained, but rental income temporarily decreased because the Company actively sold properties owned. Meanwhile, the Company also actively acquired income properties, and at the end of the period the Company owned 78 properties (non-current assets). In terms of profits, there was a significant increase in profits as profitability increased due to the sale of Pieri MoriYama and other factors.

(3) Other Business

Net sales increased 78.0% YoY to ¥4,434mn while segment profit declined 9.6% to ¥75mn, as net sales increased significantly while profit declined. The hotels business grew considerably due to operations at cruising speed, such as at S-PERIA HOTEL Hakata, and also due to the openings of S-PERIA INN Nihombashihakozaki, S-PERIA INN Osaka Hommachi and S-PERIA HOTEL Kyoto. On the other hand, profit declined as the newly opened hotels were not yet operating at cruising speed.

2. The development plan (pipeline) situation

The conditions for development of the S-RESIDENCE series and condominiums for investment are that 28 properties (1,815 units) will be completed in 2020, 42 properties (2,733 units) in 2021, and 9 properties (719 units) in 2022, for a total of 79 properties (5,267 units). This indicates that the Company has steadily built up a pipeline leading to future business growth, even compared to the end of the previous fiscal year (total of 45 properties and 2,957 units). For hotel and office building development, which is another main area of focus, 4 properties are scheduled to open for business in FY2020, 3 properties in FY2021, and 3 properties in FY2022 (the details are given below).

■ Topics

Making steady progress on strategic investments and the hotel business. Also working to expand the sales areas and develop business overseas

1. Investment made

As previously mentioned, the Company acquired 38 development sites (acquisition amount: ¥27.3bn) and 54 income real estate properties (acquisition amount: ¥58.8bn). Of the 38 development sites (32 residences, 5 hotels, and 1 office), there are 11 in the Tokyo metropolitan area, 15 in Chubu, 11 in Kansai, and 1 in Kyushu. Also, of the 54 income real estate properties (49 residences, 1 hotel, and 4 offices*), there are 7 in Hokkaido, 8 in the Tokyo metropolitan area, 11 in Chubu, 13 in Kansai, 2 in Chugoku and 13 in Kyushu, and these properties are being developed nationwide. The Company was able to achieve results for investment in regional urban areas as set out in the medium-term management plan. In addition, it is planning investment of a total amount (including construction expenses) of approximately ¥300bn for the 3 years (FY11/19 to FY11/21), and at the current time (first year of the plan) it is making steady progress toward this, having invested ¥153.6bn (included completed contracts and scheduled payments).

* Acquired office buildings include the Daiwa Securities Osaka Branch (Kita-ku, Osaka, along Midosuji Boulevard), which is known as a prime location.

Topics

2. Expansion of the hotel business

In terms of expansion of the hotel business, the Company opened S-PERIA INN Osaka Hommachi in February 2019 and S-PERIA HOTEL Kyoto in April 2019, its third and fourth hotel development projects. Besides these, the Company is currently developing 8 properties. In addition to hotels, the Company has plans to develop office buildings, centered on major cities throughout Japan, and is developing 2 such properties. The Company has positioned the hotel and office building development businesses as new engines for future growth as those businesses are expected to be highly profitable as the Company is involved from the development stage.

Hotel and office building development plans

Fiscal year of completion	Project name (provisional)	Property type	No. of rooms
2020	Mercure Kyoto Station	Hotel	225
	Ibis Styles Nagoya	Hotel	284
	Yodogawa-ku Nishimiyahara 1cho-me PJ	Office	-
	Chuo-ku Odorinishi 5cho-me PJ	Office	-
2021	Agora Kyoto Shijo Karasuma North Tower	Hotel	80
	Agora Kyoto Shijo Karasuma South Tower	Hotel	140
	Kyoto Oike HOTEL PJ	Hotel	120
2022	Haneda HOTEL PJ	Hotel	362
	Fukuoka HOTEL PJ	Hotel	87
	Hotel Takayama PJ	Hotel	161

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

3. Sales areas

With respect to expanding the sales area, which is one of the key priority measures in the medium-term management plan, the Company opened the Shinjuku Business Office of the Tokyo Branch Office and the Yokohama Business Office in April 2019, and also opened the Hiroshima Branch Office in December 2019. In addition, it seems that the Company is working to bolster each office's purchase teams.

4. Initiatives with Daiwa Securities Group Inc.

(1) Hotel business

In addition to working on preparing to jointly form a hotel development fund during FY11/20, the Company is aiming to list a hotel REIT in the fall of 2020. Concerning the hotel REIT, the Company has already secured properties to be included in the portfolio upon establishment (approximately ¥55.0bn), and has already been acquired for properties to be included in portfolio in the future (approximately ¥55.0bn). In addition, as an initiative different from the development fund, the Company is in the process of jointly promoting the Hotel Takayama Project (Takayama City, Gifu Prefecture).

(2) Establishment of Overseas Subsidiaries

In February 2019, the Company established SAMTY ASIA INVESTMENTS PTE. LTD. in Singapore through joint investment with Daiwa Securities Group company ACA Investment Pte Ltd., and opened an office in November (two staff). Daiwa Securities Group has invested* a total of approximately ¥3.0bn in development funds in two developers in Ho Chi Minh City, and the plan is to manage investments carefully from close by. Going forward, in addition to real estate investment information, the Company plans to obtain a wealth of information on the M&A of real estate-related companies, and is also aiming for investment diversification in other Southeast Asian countries as well as giving consideration to real estate development through joint ventures and other methods, all with the goal of kicking the overseas business into high gear.

* Investment in a complex facility in the Thu Thiem district of Ho Chi Minh City. In addition to commercial facilities, there are plans to construct luxury condominiums.

Earnings outlook

Expecting a large increase in both net sales and profits in FY11/20. Aiming to list hotel REIT in fall 2020.

For FY11/20, the Company expects significant increases in both sales and profits, as it is forecasting net sales of ¥100,000mn, up 16.9% YoY, operating income of ¥17,500mn, up 13.7%, ordinary income of ¥14,600mn, up 10.7%, and profit attributable to owners of parent of ¥10,100mn, up 3.7%.

Net sales are expected to increase in all three businesses: the Real Estate Business, the Property Leasing Business, and the Other Business (hotel management). In particular, the Company expects sales of properties developed in-house, including the S-RESIDENCE series and hotels, to drive the increase in net sales. The Company is planning to sell 21 properties in development securitization (17 properties in FY11/19), 30 properties in renovation securitization (38 properties in FY11/19), and is planning to sell 6 properties in investment condominiums (2 properties in FY11/19).

In profits, the Company expects profits to increase due to the higher sales, despite expenses incurred in creating a hotel development fund and preparing to list a hotel REIT. The Company also expects to maintain a high operating income margin level of 17.5%.

In the investment plan, approximately ¥26.5bn is scheduled for development sites and approximately ¥48bn for income real estate, as the Company looks to continue its proactive investment policy in line with the medium-term management plan.

At FISCO, we think that the Company is fully capable of achieving its forecasts considering the favorable external environment (in addition to residence demand in central Tokyo, the structural supply-demand gap for offices and hotels in major regional cities) and internal factors (including the accumulation of a pipeline and progress in the hotel business). On the other hand, a near-term risk factor is how much of an impact the deterioration in the Japan-South Korea relationship and the spreading novel coronavirus will have on Japan's economy. Particularly close attention must be paid to changes in hotel occupancy rates. In addition, from a medium- to long-term perspective, a close eye should be kept on movement towards creating a hotel development fund and listing a hotel REIT, as well as progress on the medium-term management plan (especially investment in development sites and income real estate).

Earnings outlook

FY11/20 forecast

	FY11/19		FY11/20		Change	
	Results	% of net sales/ profit margin	Initial forecast	% of net sales/ profit margin		% of change
Net sales	85,552		100,000		14,448	16.9%
Real Estate Business	74,806	87.4%	87,000	87.0%	12,194	16.3%
Property Leasing Business	6,698	7.8%	8,600	8.6%	1,902	28.4%
Other Business	4,434	5.2%	4,800	4.8%	366	8.3%
Adjustment	-387	-	-400	-	-13	-
Cost of sales	60,793	71.1%	-	-	-	-
SG&A expenses	9,363	10.9%	-	-	-	-
Operating income	15,395	18.0%	17,500	17.5%	2,105	13.7%
Real Estate Business	17,272	23.1%	21,000	24.1%	3,728	21.6%
Property Leasing Business	2,462	36.8%	2,900	33.7%	438	17.8%
Other Business	75	1.7%	300	6.3%	225	300.0%
Adjustment	-4,414	-	-6,700	-	-2,286	-
Ordinary income	13,193	15.4%	14,600	14.6%	1,407	10.7%
Profit attributable to owners of parent	9,740	11.4%	10,100	10.1%	360	3.7%

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

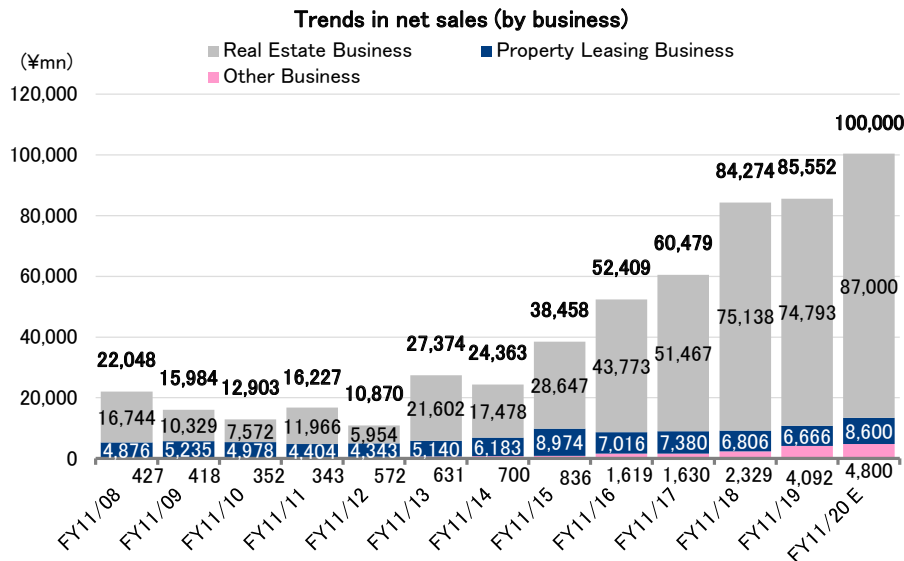
Results trends

Substantial growth in Real Estate Business amid strong real estate market

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 under 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 particular, the Company has achieved a significant expansion in business over the past few years, aided by the establishment of a business model centered on SRR which listed on the stock market in October 2015, as well as increased demand from overseas investors. 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 securitization, and in FY11/19 it has reached a high ordinary income margin of over 15.0%.

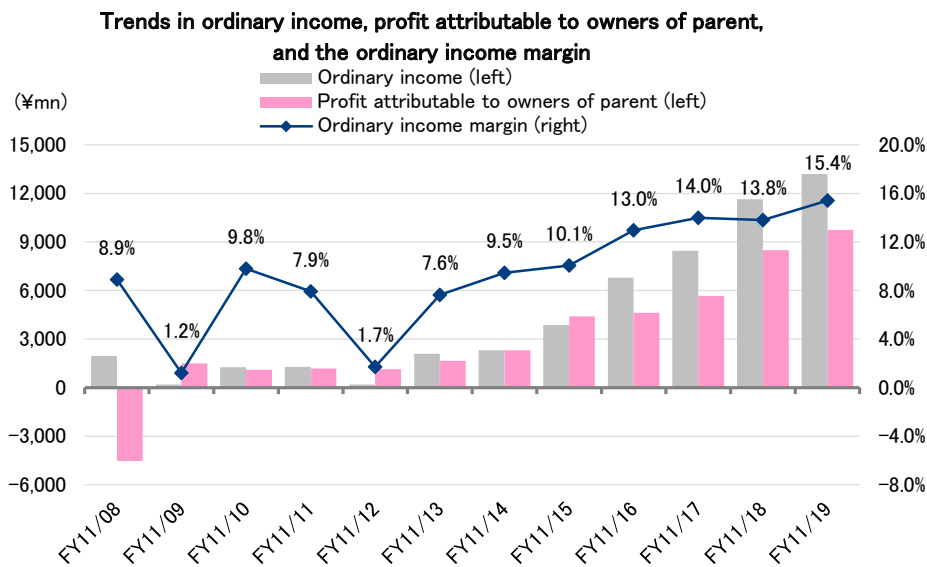
Results trends



Note: Excluding internal sales

FY11/20 forecast figures are prior to the elimination of inter-segment transactions

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



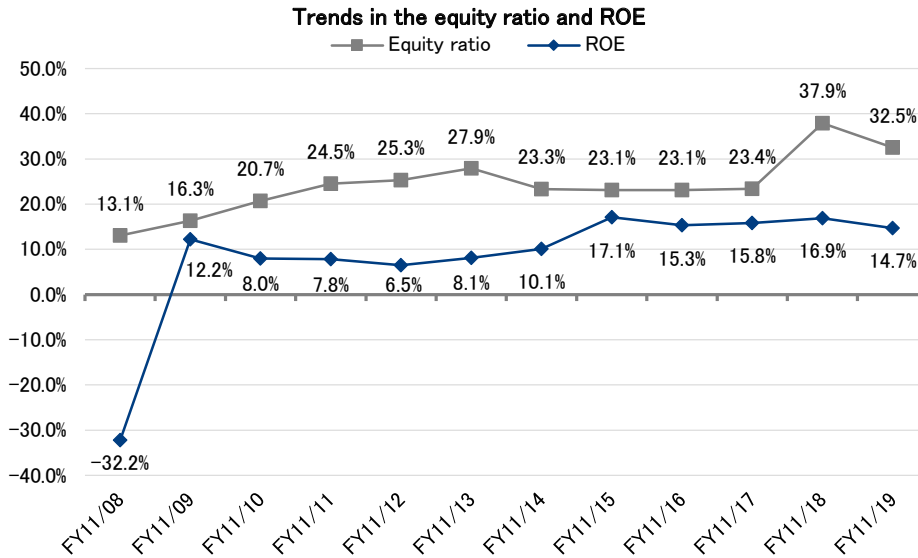
Source: Prepared by FISCO from the Company's financial results

Although the equity ratio increased to 27.9% in FY11/13 following the implementation of a capital increase through a public offering (approximately ¥2bn), it has been at a level of around 23% since FY11/14 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 due to the disposition of treasury shares (approximately ¥2.7bn) in conjunction with the capital and business alliance with Daiwa Securities Group in May 2019, the equity ratio as of November 30, 2019, was 32.5%.

* The Company issued new shares by allotting listed-type stock acquisition rights without contribution to existing shareholders.

Results trends

On the other hand, ROE, which indicates capital efficiency, has trended upward alongside the improvement in the profit margin. In FY11/19, it had reached the high level of 14.7%.



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

Industry environment

Real estate market conditions expected to remain favorable due to good supply-demand environment and stable, low long-term interest rates

The J-REIT market will have a significant impact on the Company's growth strategy in the future. As of the end of December 2019, its market capitalization stood at around ¥16,438.0bn (+26.7% YoY), and there were 64 J-REITs listed (+1 YoY). 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 commercial facilities and hotels 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 including solar power plants. Therefore, a variety of investment opportunities are being created, yet at the same time there remains considerable room for the market to grow.

Industry environment

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. Despite uncertainty about the future with respect to the economic situation in Japan and overseas, including the impacts of the U.S.-China trade friction, Brexit, and spread of the novel coronavirus, further declines in long-term interest rates as market players look to avoid risk will work positively for the J-REIT market. In addition, the medium-term outlook for J-REITs looks strong amid continued monetary easing and a strong real estate market (improving vacancy rates and rising rents).

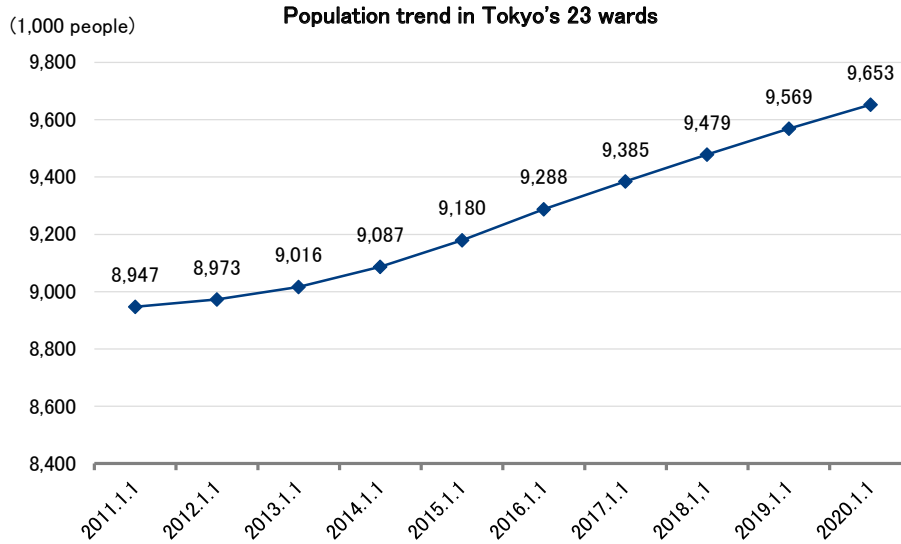
Trends in the TSE REIT index



Source: Prepared by FISCO from various materials

The market for condominiums for investment is also trending favorably, supported by the strong demand from both tenants (users) and investors. According to data published by the Tokyo Metropolitan Government Bureau of General Affairs, the population of Tokyo's 23 wards, which constitutes most of the region to which the Company supplies properties, is continuing to increase against the backdrop of the large number of people moving to metropolitan Tokyo. In particular, there has been a 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 studio-type 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.

Industry environment



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 have remained high against a backdrop of increased inbound demand. In addition to some in the market being concerned about a deterioration in the supply-demand situation after the Tokyo Olympic and Paralympic Games, there is currently concern about a decline in foreign visitors to Japan due to the deterioration of the relationship between Japan and South Korea as well as the spread of the novel coronavirus centered on China. However, at FISCO we think stable management over the medium to long term is possible considering the structural supply-demand balance, 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 in 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 the rise in land prices, soaring construction costs and insufficient personnel numbers, as well as purchasing land in city centers, which has become slightly more difficult.

Growth strategy

The Company will promote its new medium-term management plan, the Samty Toughening Plan, and will aim for sustainable profit growth while emphasizing the balance sheet

1. Medium-term management plan

The Company is advancing its medium-term management plan which covers the three-year period from FY11/19 to FY11/21. The Company is looking to succeed and further strengthen the key priority measures and financial strategies of the previous medium-term management plan “Challenge 40” which it achieved two years ahead of schedule in FY11/18. Thus, the Company will work on the following: 1) Developing a business model centered on SRR (strengthening the fee income business); 2) Strategically investing in regional metropolitan areas (expanding business area); and 3) Expanding the hotel development and office building development businesses (develop new growth engines). Also, the Company is placing more of a focus on managing the balance sheet in order to prepare for a future correction phase, and as a part of this, the Company is putting maximum emphasis on strengthening its financial base, centered on rental cash flow. The Company is looking to realize sustainable growth while maintaining an equity ratio of at least 30%. The Company is aiming for operating income around the ¥20.0bn level, ROE around the 15.0% level, and ROA around the 7.0% level by focusing on productivity and capital efficiency, while purposely not setting a net sales target.

New medium-term management plan Samty Toughening Plan (numerical targets)

	FY11/18 Results	FY11/19 Results	FY11/21 Targets	
Operating income	¥14,033mn	¥15,395mn	¥20,000mn	level
ROE	16.9%	14.7%	15.0%	level
ROA*	8.5%	8.1%	7.0%	level
Equity ratio	37.9%	32.5%	30.0%	or higher

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. Key priority measures 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 launch new management funds*1 in addition to SRR and increase acquisition fees. Furthermore, in addition to creating a mechanism to acquire MC fees by bringing hotel management operations in-house*2, the Company will bolster the fee income business by growing rental income and acquiring overseas income, along with other initiatives.

*1 As previously mentioned, the Company aims to launch a large-scale hotel development fund jointly with the Daiwa Securities Group and to form a hotel REIT by FY2020 (asset management operations will be entrusted to the Company's Group).

*2 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.

Growth strategy

(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. Moreover, while working on further expanding its business area, the Company will purchase income properties and develop residential buildings, office buildings, and hotels in the Tokyo metropolitan area and other key regional cities throughout Japan.

(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 it plans to invest approximately ¥85bn (land + construction expenses) over three years. In the hotel development business, there have been openings up to the 4th project so far, and 8 development projects are currently being progressed. These hotels have room sizes of 25 to 40 square meters, and the Company's policy is to develop them to be a class of one rank higher than business hotels under the brand names of well-known foreign hotels. For offices, it intends to supply newly built B/C class* offices, for which there is little supply or competition, after carefully selecting the areas and sites, mainly in major regional cities where the office demand-supply balance is tight.

* In general, grade-B office buildings have between 2,000 and 9,999 tsubo of total floor space (and at least 200 tsubo or more 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).

The direction the Company is focused on not only a flow type earnings structure from repeated buying and selling, but also converting to a stock-type earnings structure that stably accumulates earnings. At FISCO, we evaluate this strategy to be rational, because it minimizes the impact of the business cycle and enables it to achieve sustainable growth. Toward achieving these aims, an important theme is pursuing economies of scale by increasing the size of projects and expanding sales areas while advancing the Company's unique business model. Therefore, it is highly likely that the current capital and business alliance with the Daiwa Securities Group will be a major turning point for the Company to progress toward a different stage it has never faced. The Company is already making progress on specific initiatives, including preparations to create a hotel development fund and the establishment of overseas subsidiaries, and going forward, at FISCO we shall be paying attention to the progress the Company will make, including new developments from the hotel REIT and crowdfunding through the alliance with the Daiwa Securities Group.

■ Returns to shareholders

Upwardly revised the FY11/20 dividend forecast. There remains considerable room for the dividend to increase in the future from profit growth

The Company is aware that retuning 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.

Returns to shareholders

The annual dividend for FY11/19 was upwardly revised twice after the initial forecast, and the actual annual dividend was ¥79 per share (interim dividend of ¥35, period-end dividend of ¥44), which is ¥11 higher than the previous fiscal year (dividend payout ratio of 32.0%). For FY11/20, the Company is planning to pay an annual dividend of ¥82 per share (interim dividend of ¥38, period-end dividend of ¥44), which would be a ¥3 YoY increase. If this is paid as planned, it will be the eighth consecutive fiscal year of higher dividends since FY11/12. The Company targets a dividend payout ratio of around 30%, but at FISCO, we think that considerable room remains for the dividend to increase in the future from profit growth.

The Company also conducts a shareholder benefits program. It provides shareholders with discounted rates, or coupons to stay at three of the hotels* developed and managed by the Company for free (according to the number of shares held).

| * Center Hotel Tokyo, S-PERIA INN Nihombashihakozaki, and S-PERIA INN Osaka Hommachi |



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