COMPANY RESEARCH AND ANALYSIS REPORT

FJ NEXT CO., LTD.

8935

Tokyo Stock Exchange First Section

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Index

Summary

Developing asset-management type condominiums under the Gala brand
Achieved record-high net sales for the third consecutive fiscal year in FY3/18
Plans to greatly increase the dividend through growing profits and raising the dividend payout ratio

1. Company profile

FJ NEXT CO., LTD. <8935> (hereafter, also "the Company) conducts its mainstay business of the development and sales of the Gala Condominium series, which are asset-management type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily for the properties that it has sold. It secures high occupancy rates through planning and design that are based on the residents' perspectives, such as for design features, safety, and comfort. In this way, it has increased the value of the Gala brand and boasts the leading sales performance in the Tokyo metropolitan area. The Company's results are steadily expanding because demand is strong from individuals who feel concerns about the future, such as about receiving a pension, and also who are facing new problems, like the steps to take in response to inheritance tax.

2. Summary of the FY3/18 results

In the FY3/18 results, sales increased but income decreased, with net sales rising 9.1% year-on-year (YoY) to ¥67,008mn, but operating income falling 9.7% to ¥7,238mn. However, both sales and income were above the initial forecasts, and an evaluation that the Company continued to achieve positive results seems fair. In particular, net sales achieved a new record high for the third consecutive fiscal period. Benefitting from the favorable external environment, the real estate development business greatly expanded, including from the rise in the number of condominium units sold. On the other hand, the reason for the lower income was that the operating income margin declined, including due to land purchase prices and construction costs remaining at high levels and the increase in advertising costs. However, all of the cost factors were within the expected range, and therefore the Company was able to secure higher-than-forecast income due to the increase in net sales above their forecast. Inventory assets, which will affect the growth of results in the future, also steadily increased, up 17.7% on the end of the previous fiscal year to ¥42,485mn, even while the Company continued to prioritize profitability for its land purchases

3. FY3/19 forecast

For the FY3/19 results, the Company is forecasting higher sales and income, with net sales to rise 13.4% YoY to ¥76,000mn and operating income to increase 7.8% to ¥7,800mn. Continuing from before, the outlook is for the expansion of the real estate development business to drive the growth in the results. In particular, it seems that the plan is to grow sales of family condominiums. The Company also intends to greatly increased the dividend by ¥12 YoY (based on the ordinary dividend) by growing profits and raising the dividend payout ratio.

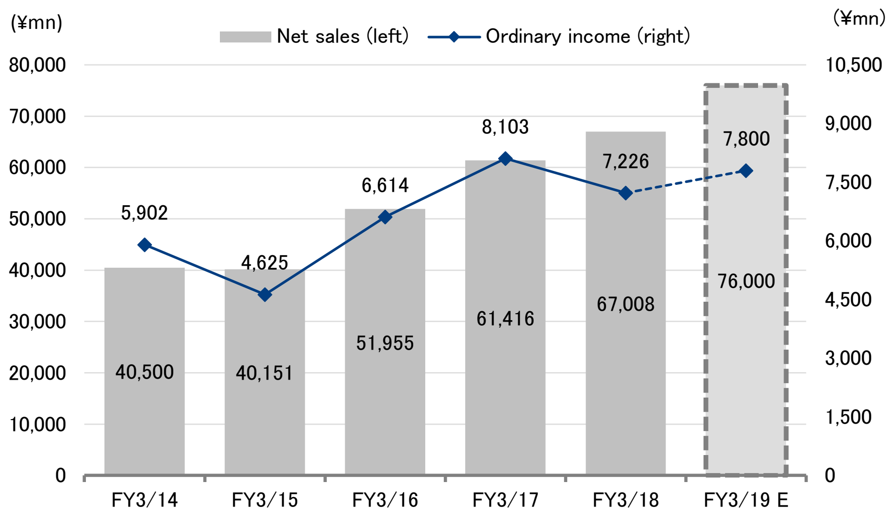
4. Growth strategy

The Company's policy is to realize sustainable growth by playing a social significant role through its asset-management type condominiums business, including by providing high-quality housing in the city-center areas into which the population is regressing, and providing opportunities for long-term asset management, mainly for general salaried workers. Recently, there has been a trend for major developers to enter the market for asset-management type condominiums, and there are some who are expressing concerns about the intensification of competition, including for land purchases. But from another viewpoint, this can be said to be evidence of the fact that this market is recognized to be attractive. If the industry acquires greater recognition and becomes more active from the entry of major developers, it is considered that for the Company, which has competitive advantages, including having the expertise and information capabilities from having cultivated a top niche position, it is highly likely that the development of the industry as a whole will lead to opportunities for its own growth.

Key Points

- In FY3/18, achieved record high net sales for the third consecutive fiscal period (although income declined, mainly due to the rise in the cost ratio, it still exceeded the initial forecast).
- In addition to the expansion in rental demand in the Tokyo metropolitan area, the Company's growth is being supported by the improved recognition of its products as an asset-management method
- Sales are expected to continue to increase in FY3/19, while the plan is to greatly increase the dividend through growing profits and raising the dividend payout ratio
- Is pursuing a niche top strategy, in which the development of the market as a whole leads to its own growth

Results trends



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

Company profile

Focuses on an asset-management type condominiums business based in central Tokyo

1. Business overview

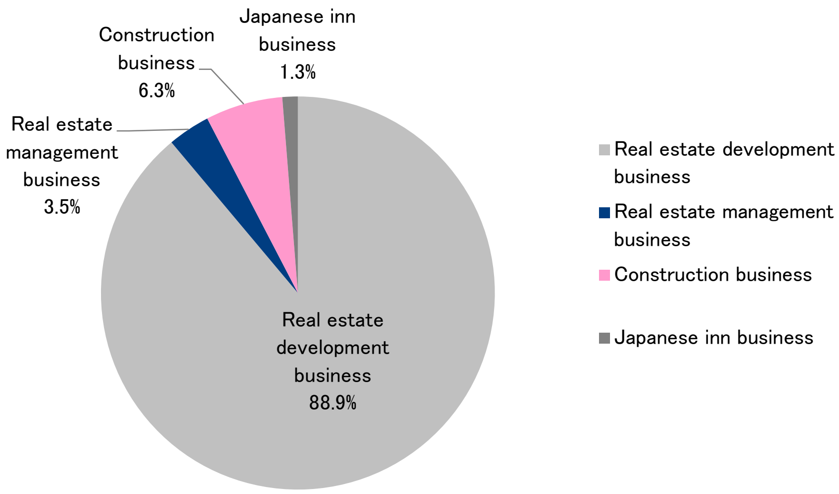
The Company's mainstay business is the development and sales of the Gala Condominium series, which are asset-management type condominiums located mainly in the center of Tokyo, and the Gala Residence series, which are condominiums for families. It also conducts a real estate management business, primarily of the properties that it has sold. It has four business segments; "the real estate development business," "the real estate management business," "the construction business," and "the Japanese inn business." The mainstay real estate development business contributes 88.9% of net sales.

Business content by segments

Real estate development business	The Company plans, develops, and conducts sub-lot sales of the studio condominium Gala Condominium series, which are mainly for asset management, and the family condominium Gala Residence series. It also conducts sub-lot sales, sales, and a brokerage business for land and properties in the Izu region. It is actively working to expand purchases and sales of previously-owned condominiums.
Real estate management business	The Company mainly conducts a rental building management business of its sub-lot condominiums. It is conducted by the Company's consolidated subsidiary, FJ Community Co., Ltd.
Construction business	It mainly conducts the design, construction, inspection, and renovation of condominiums and other buildings. It is conducted by the Company's consolidated subsidiary Resitec Corporation.
Japanese inn business	It manages the Ito Yukitei and Ito Yukitei Kawana Bettei hot spring ryokans (Japanese inns) in Ito City, Shizuoka Prefecture, and the Gyokuhokan hot spring ryokan in Kawazu Town, Kamo District, Shizuoka Prefecture. The Company's consolidated subsidiary in this segment is FJ Resort Management Co., Ltd.

Source: Prepared by FISCO from the Company's materials

Sales ratios by segment (FY3/18)



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

2. History

Mr. Yukiharu Hida, the Company's current President and CEO, has said that "We want to support customers' asset management and increase the value of their real estate by creating high-level living spaces that people will enjoy living in, and by building a comprehensive asset management and management system in order to maintain asset value over the long term," while its management philosophy is "Contributing to the formation of an affluent society through taking on the challenge of creating urban living spaces." Based on these philosophies, the Company was established in July 1980 as Fudo Juhan Co., Ltd.

In 1991, it changed its company name to FJ NEXT Co., Ltd. (with the "FJ" written in Japanese characters. In 2007, it changed how "FJ" was written to using Western characters). In 1994, it launched sales of the Gala Condominium series, which is its own brand, and its results have steadily expanded against the backdrop of the growth in rental demand for asset-management type condominiums and also the demand for purchases. In particular, the Company's results have been supported by the improvement in the trust placed in and the awareness of the Gala brand, which prioritizes profitability with an approach of returning income to investors.

After being listed on JASDAQ in 2004, its creditworthiness, financial strength and other attributes from being a listed company further increased its advantages in the areas of sales, and purchases and development. This was in addition to its track record of supplying properties up to that time, and they accelerated the Company's growth. In 2005, it achieved first place for the first time in the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.). Its listing was changed to the Tokyo Stock Exchange (TSE) 2nd Section in March 2007, and then it was designated onto the 1st Section in October 2013.

For two consecutive years, in 2015 and 2016, and for the first half of 2017 (January-June) it was first in the ranking of the number of investment condominiums supplied in the Tokyo metropolitan area (from research by the Real Estate Economic Institute Co., Ltd.), and it has established an immovable, leading position in the industry.

Characteristics of the Company

Leveraging its position in the industry, its strengths are creditworthiness, financial strength, and information volume

1. Growth model

The Company's growth model is comprised of two growth drivers; expanding the asset-management type condominiums market itself, and maintaining and improving its market share. In other words, to understand its growth potential, it is important to ascertain two aspects; how will the asset-management type condominiums market in the Tokyo metropolitan area (particularly the city center) develop, and within this development, how will the Company be able to demonstrate its competitive advantages? In addition, a feature of the real estate management business, which is ancillary to the main business, is that it supports profits as a stock business that accumulates income.

Moreover, recently, the Company has been active in areas such as the development and sale of family condominiums and the handling of previously-owned condominiums. Its main business is ultimately providing asset-management type condominiums on the assumption that they will be held for the long term. But business development into fields utilizing the management resources it has cultivated up to the present time (including its financial base and information capabilities) can be expected to improve results while also keeping-down risk, and thereby have the effect of adding depth to the profit structure (management stability).

2. An overview of asset-management type condominiums and their future development potential

In order to judge the future development potential of asset-management type condominiums, it is necessary to understand their mechanism, product characteristics, and social significance.

(1) Mechanism

The objective for asset-management type condominiums is not for the purchaser (the owner) to live in them, but to earn rental income by renting them to a third party. Therefore, the Company stably generates rental income, and thereby builds the trust of the owners, by securing high occupancy rates through the development of condominiums that ascertain the needs of residents, in addition to having good locations.

(2) Their aim and merits for the owners

Following the increased awareness of its products, many owners in recent years have been general salaried workers, and in most cases they purchase with the aim of conducting asset management for the future. While securing the funds for the purchase from a home loan, generally, the monthly repayments are within the range of rental income and the owners' plan is to complete the repayments by the time they retire. Therefore, in principle, they can carry out asset management for the future from a long-term perspective without it affecting their daily lives. Also, in addition to the fact that stable rental income plays the role of a private pension in old age, a feature of the products is that they has various other merits, including replacing life insurance from the purchase of a home loan as a set with group credit life insurance, responding to inheritance tax measures (which has the effect of keeping down the inheritance tax valuation amount), and they also have the effect of diversifying investments. In particular, in addition to the introduction of a negative interest rate policy and concerns about receiving a pension in the future, the need for new measures to respond to inheritance tax means that asset-management type condominiums are attracting attention.

(3) Social significance

The main customer group for asset-management type condominiums is general salaried workers, and the business has the social significance of providing opportunities for long-term asset management, and at the same time, of providing high-quality rental properties in city center areas into which the population is regressing. In the future also, it is forecast that the trends of an increase in the number of single-person households and the regression of the population to city centers will continue. In particular, it is highly likely that these trends will be further accelerated in the period up to the holding of the Tokyo Olympic Games, so it considered that the importance of providing infrastructure to support single persons living in city centers will increase more and more.

3. The Company's features (competitive advantages)

The Company continues to boast the highest number of units sold in the Tokyo metropolitan area, and its competitive advantages can be arranged as follows.

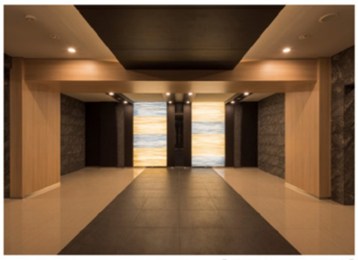
(1) Provides high-quality living environments based on a clear product concept

The Company is developing the asset-management type Gala Condominium series and the family-condominium type Gala Residence series as its own brands. It conducts planning and development from the perspective of residents, which has increased the value of the Gala brand, and this is demonstrated by its track record of supplying properties and high occupancy rates up to the present time. In particular, the features of its mainstay, asset-management type Gala Condominium series are entrances with a feeling of luxury, an external appearance featuring excellent designs, safety, and facilities specifications that emphasize comfort. Gala Hills Shinjuku won the National Association of Living Industries'[*1] 4th Excellent Project Award[*2] in 2014, and Gala Precious Kawasaki won the 7th award in 2017. In addition, based on the expertise that the Company has cultivated for asset-management type condominiums, the features of the family-condominiums Gala Residence series are easy traffic access, a surrounding environment that is rich in amenities and convenience, and advanced design features with high basic performance.

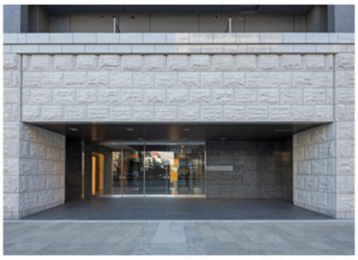
*1 This organization has 1,500 companies in all Japan in the real estate industry, mainly consisting of mid-sized companies but also including listed companies.
*2 With the aim to promote quality housing provision and development of living environments, etc., this award is given to an excellent project selected out of projects by members from the National Association of Living Industries, that excels in creativity to form good living environments, with sociability, product planning, residential performance and designing, as well as harmony with the townscape and the surrounding environment, etc.

Gala Precious Kawasaki


【Exterior】


【Entrance hall】


【Front services counter】

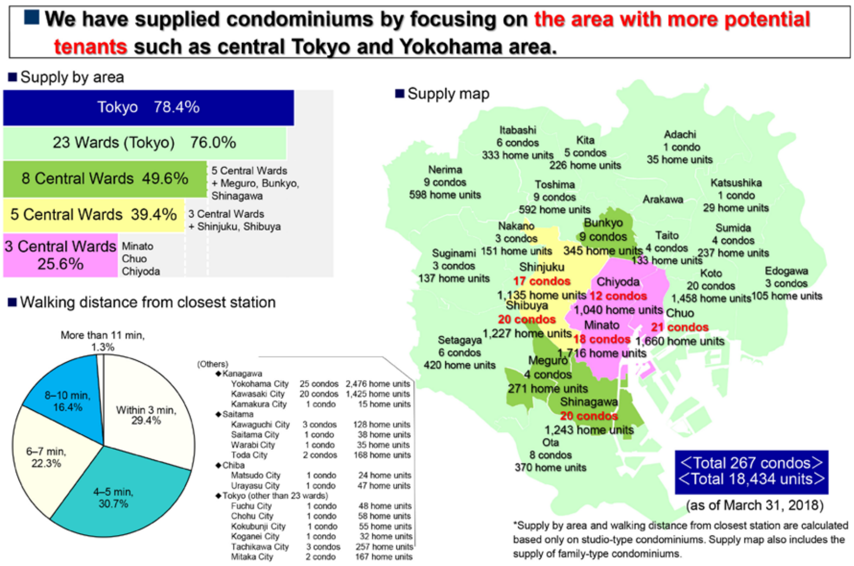

【Entrance】

Source: The Company's press release

(2) Focuses on good locations and information capabilities

It goes without saying that the most important element in the evaluation of the asset value of rental housing is a good location. Therefore, whether a company is able to purchase land in good locations will greatly influence its competiveness. On the other hand, there is a tendency for location information to gather in companies with a track record of results and financial strength, so there is an industry structure in which the strong become even stronger. In the case of the Company, it has industry-leading sales results, strong brand power, and a stable financial base. It also has a competitive advantage in terms of information capabilities, and it is considered that this is producing a virtuous circle, as it further improves its sales results and brand power, which in turn increases its information capabilities. The Company specializes in areas in which the need for housing is high, particularly in central Tokyo, Yokohama, and Kawasaki. In addition, it carefully selects and provides locations; for example, more than 98% of its properties are within 10 minutes of their nearest station.

Supply area of Gala condominiums series



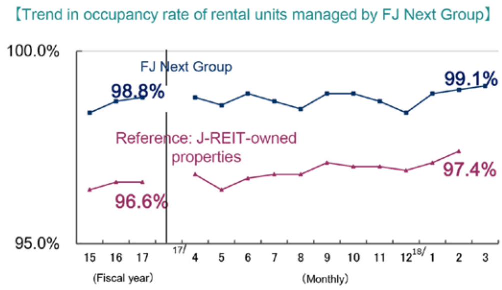
Source: The Company's results briefing materials

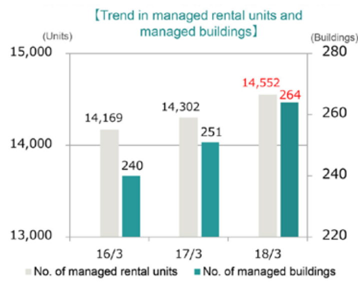
(3) High level rental management expertise and extensive after-sales support

The Company aims to maintain its occupancy rates through maintaining its assets by conducting real estate management of the properties it sells, and through providing services that are useful for the residents' lives (concierge services). In addition, it offers complete after-sales support, such as reviewing asset management plans and providing consultations on selling properties, which earns it the strong trust of owners. Looking at the results for the number of managed rental units, this number has grown steadily year by year alongside the results for the supply of its own-brand properties, and by the end of FY3/18, it had increased to 14,552 units. On the other hand, the occupancy rates have trended stably at extremely high levels, averaging approximately 99.1% at the end of FY3/18, due to the Company's strict selection of good locations and its accumulation of management expertise.

* For your reference, the occupancy rate for properties included in J-REIT is an average of approximately 97.7% (from the Investment Trusts Association), so the Company's occupancy rate is above this average.

Trend in occupancy rate and number of managed rental units





Source: The Company's results briefing materials

(4) Attributes of owners and residents

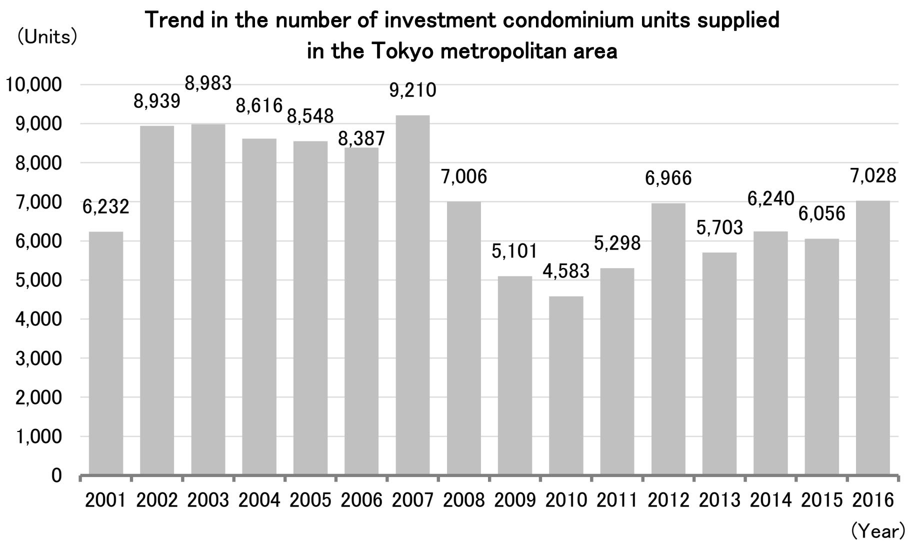
The owners are nearly all general salaried workers, with approximately 80% aged in their twenties through to forties. Also, even though the locations of the properties are in the Tokyo metropolitan area, the owners live throughout the country, showing that their objective for their purchase is long-term asset management. On the other hand, the residents are often single company workers in their twenties and thirties, because the properties have excellent locations, facilities, and specifications, so there is strong demand for them as company housing. They are also very popular among women thanks to their high-level security and kitchen and bathroom facilities.

Industry environment

Investment condominiums market in Tokyo metropolitan area is trending strongly due to firm demand

1. Sales environment

The number of investment condominiums supplied in the Tokyo metropolitan area steadily grew from the second half of the 1990s to the first half of the 2000s. However, it subsequently trended downward due to the bankruptcies and withdrawals of a succession of businesses because of the effects of soaring land prices and the economic crisis triggered by the Lehman Brothers bankruptcy in 2008. But this decline bottomed-out in 2010, and in the last few years, rental demand in the Tokyo metropolitan area has been growing against the backdrop of the increase in the number of single-person households and the regression of the population to the city center. Furthermore, in addition to the continuing low interest rates and concerns about receiving a pension in the future, a new need has emerged for measures to respond to inheritance tax (which was increased by lower the basic deduction). While the overall condominium industry is headed towards a consolidation phase due to a rise in lease prices the number has trended strongly, supported by the robust demand for purchases from individuals. The background to this is considered to be that as an asset management method for the future, compared to other methods, such as stocks, investment trusts, and bonds, purchasing an investment condominium can be expected to have tax-saving effects and an insurance function, while it also offers a sense of security from providing a stable cash flow and as an investment in a tangible asset.



Source: Prepared by FISCO from Real estate Economic Institute materials

2. The purchase and development environment

On the other hand, in terms of purchases and development, as land-purchase prices and construction costs remain at high levels, it has become even more important to ascertain which sites will be profitable, and it is increasingly likely that business results will be determined by the outcomes of land purchases. The Company utilizes its credit-worthiness, financial strength, and abundant information capabilities, and its consistent policy since its establishment has been to purchase sites while prioritizing profitability.

3. Competitive environment

Its industry peers are mostly specialists in investment condominiums, and the industry structure is that there are many companies that are comparatively small scale. In this situation, the Company has constantly achieved the leading sales results in the ranking of the number of investment condominium units supplied in the Tokyo metropolitan area. Very recently, there has been a movement toward entry by major developers that have an eye on the market's expansion.

Results trends

Results are steadily expanding, benefiting from the favorable external environment Secures a stable and high-level financial base

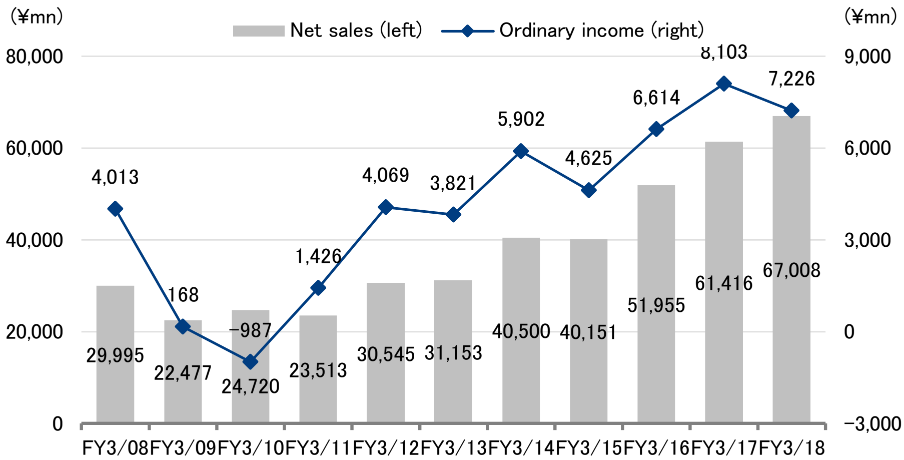
1. Trends in past results

On looking back on past results, we see that as a whole they have trended steadily, supported by the growth in rental demand and the demand for purchases of asset-management type condominiums in the Tokyo metropolitan area. The results hit bottom in FY3/09 due to the effects of the economic recession following the Lehman Shock. But based on its policy of not simply pursuing a balance of purchases and instead continuing to purchase land that matched its profitability standard, by steadily advancing property development, the Company was able to ride-out the recession with a comparatively small decline compared to the real estate industry as a whole, which suffered greatly. Subsequently, its results expanded steadily alongside the economic recovery. In FY3/15, there was a temporary levelling-off of results due to the timing of construction completion, but since FY3/16, its sales and income have continued to increase significantly, and net sales achieved record highs for three consecutive periods. This shows that even though the Company is now quite experienced as a company, it is still in a growth process.

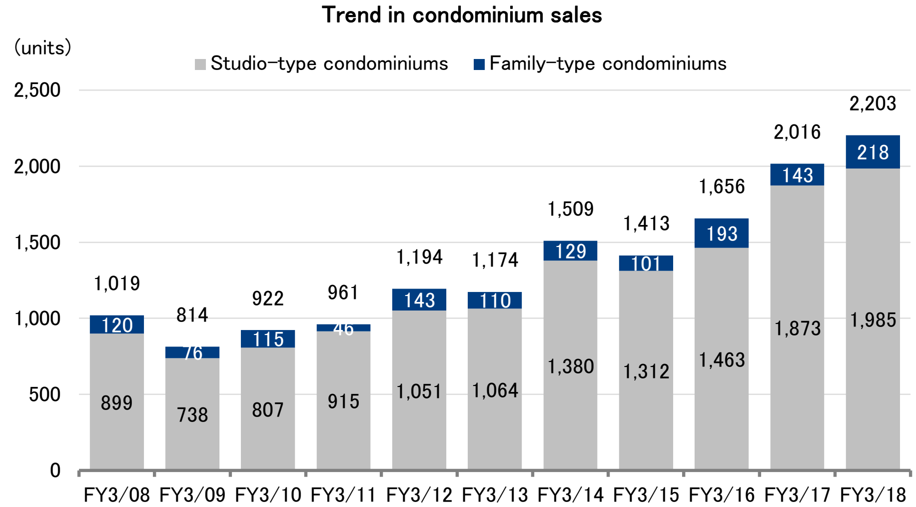
Financially, the interest bearing debt balance has increased alongside the growth in the results, while the equity ratio is also being maintained at a high level due to the accumulation of internal reserves, and there are no concerns about the stability of its financial base.

The reasons why the Company was able to ride-out the severe market environment that followed the economic crisis triggered by the Lehman Brothers bankruptcy comparatively smoothly can be said to be as follows; the high asset value of the Gala brand that prioritizes profitability from an approach of returning income to investors, including by the strict selection of good locations, and the stability of its financial base.

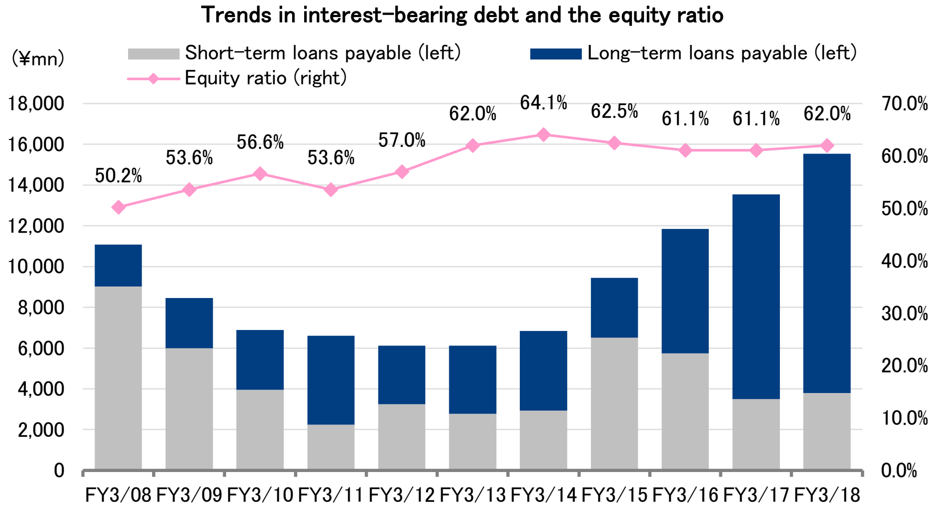
Trends in net sales and ordinary income



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



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



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

2. Summary of the FY3/18 results

In the FY3/18 results, sales increased but income decreased, with net sales rising 9.1% YoY to ¥67,008mn, operating income declining 9.7% to ¥7,238mn, ordinary income falling 10.8% to ¥7,226mn, and net income attributable to shareholders of parent company decreasing 14.3% to ¥4,689mn. However, both sales and income were above their initial forecasts, and an evaluation that the Company continued to achieve positive results seems fair. In particular, net sales achieved a new record high for the third consecutive fiscal period.

Benefitting from the favorable external environment, the real estate development business greatly expanded from the rise in the number of condominium units sold and the increase in sales prices. In particular, the number of condominium units sold rose greatly to 2,203 units (+187 YoY, +132 compared to the forecast)*, and it is considered that the addition from sales of previously-owned condominiums was the main factor behind the result exceeding the forecast. In other businesses also, the real estate management business realized steady growth from the increase in the number of units managed (up +250 YoY), while results in the Japanese inn business also trended strongly. Conversely, the YoY decline in results in the construction business was due to the reaction of the recording of wholesales of condominiums in the previous fiscal period, and it seems to have been within the expected range.

* Within the 2,203 condominium units sold, 1,985 were studios (+112 YoY), and 218 were family condominiums (+75).

On the other hand, the reason for the decline in income was that the operating income margin fell to 10.8% (13.1% in the previous fiscal year) due to land purchase prices and construction costs remaining at high levels and an increase in advertising costs*, and also because of the increase in the percentage of total sales from previously-owned condominiums that have a relatively low profit margin. However, all of the cost factors were within the expected range, and therefore the Company was able to secure higher-than-forecast income due to the increase in net sales above their forecast.

* Includes advertising costs relating to family condominiums scheduled to be sold in this fiscal period (upfront costs)

The balance of inventory assets (the pipeline), which will affect results in the future, is also accumulating greatly for both real estate for sale (completed condominiums) and real estate for sale in process (for inventory assets as a whole, up 17.7% on the end of the previous fiscal year to ¥42,485mn). In particular, real estate for sale rose significantly, up 26.1% on the end of the previous fiscal year to ¥19,687mn, which was largely due to the previously-owned condominiums that are being held for strategic reasons, as well as from the effects of the completion of new buildings at the end of the fiscal period (a temporary factor). In addition, real estate for sale in process was steadily accumulated, up 11.4% to ¥22,798mn, even while the Company continues to prioritize profitability for its land purchases. Going forward, the plan for the previously-owned condominiums is to sequentially conduct sales while aiming to coordinate this with the completion schedule for newly built properties. These condominiums also have the aspect of being a stock business, with rental income being obtained during the period in which they are held. At FISCO, we are focusing on the point that these efforts for previously-owned condominiums are securing opportunities for income, which means that the Company is not reliant only on newly constructed properties. Moreover, for the owners, the activation (the depth of the liquidity) of the previously-owned condominiums market can be evaluated as having significant merits, for as and when they are needed.

* Within the real estate for sale of 1,045 properties, previously-owned condominiums account for 720 properties.

Financially, total assets increased to ¥63,432mn (up 8.2% on the end of the previous fiscal period) due to the rise in inventory assets, while shareholders' equity grew to ¥39,343mn (up 9.9%) because of the accumulation of internal reserves. As a result, the equity ratio was 62.0% (61.1% at the end of the previous fiscal year), maintaining its previous high level. Interest-bearing debt rose to ¥15,536mn (up 14.6% on the end of the previous fiscal period) alongside the accumulation of inventory assets, but the current ratio remained high at 648.0% (560.3% at the end of the previous fiscal year), with no concerns regarding its financial stability. On the other hand, ROE, which shows capital efficiency, maintained a double-digit level at 12.5% (16.3% in previous fiscal year) and it can be said that its finances are well balanced.

Overview of FY3/18 results

(¥mn)

	FY3/17		FY3/18		Change		FY3/18		
	Results	% of net sales	Results	% of net sales		% change	Forecast	% of net sales	vs. forecast
Net sales	61,416		67,008		5,592	9.1%	64,000		104.7%
Real estate development	53,409	87.0%	59,570	88.9%	6,161	11.5%	-	-	-
Real estate	2,156	3.5%	2,336	3.5%	180	8.3%	-	-	-
Construction	5,011	8.1%	4,251	6.3%	-760	-15.2%	-	-	-
Japanese inn	839	1.4%	850	1.3%	11	1.3%	-	-	-
Cost of sales	45,642	74.3%	51,114	76.3%	5,472	12.0%	-	-	-
Gross profit	15,774	25.7%	15,894	23.7%	120	0.8%	-	-	-
SG&A expenses	7,759	12.6%	8,656	12.9%	897	11.6%	-	-	-
Operating income	8,015	13.1%	7,238	10.8%	-777	-9.7%	6,000	9.4%	120.6%
Real estate development	6,584	12.3%	5,915	9.9%	-669	-10.2%	-	-	-
Real estate	783	36.3%	858	36.7%	75	9.6%	-	-	-
Construction	557	11.1%	386	9.1%	-171	-30.7%	-	-	-
Japanese inn	62	7.4%	51	6.0%	-11	-17.7%	-	-	-
Adjustment	27	-	26	-	-1	-	-	-	-
Ordinary income	8,103	13.2%	7,226	10.8%	-877	-10.8%	6,000	9.4%	120.4%
Net income attributable to shareholders of parent company	5,474	8.9%	4,689	7.0%	-785	-14.3%	3,900	6.1%	120.2%
Condominium sales	2,016		2,203		187	9.3%	2,071		106.4%
Studio-type	1,873		1,985		112	6.0%	-		-
Family-type	143		218		75	52.4%	-		-
Balance of inventory assets	36,089		42,485		6,396	17.7%			
Real estate for sale	15,615		19,687		4,072	26.1%			
Real estate for sale in process	20,474		22,798		2,324	11.4%			
Total assets	58,631		63,432		4,801	8.2%			
Shareholders' equity	35,804		39,343		3,539	9.9%			
Equity ratio	61.1%		62.0%		0.9pt	-			
Interest-bearing debt ratio	13,553		15,536		1,983	14.6%			
ROE	16.3%		12.5%		-3.8pt	-			

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

Increase in sales expected to continue in FY3/19

3. FY3/19 forecast

For FY3/19, the Company forecasts that net sales will increase 13.4% YoY to ¥76,000mn, operating income will increase 7.8% to ¥7,800mn, ordinary income will rise 7.9% to ¥7,800mn, and net income attributable to shareholders of parent company will rise 6.6% to ¥5,000m. So the forecasts are for the increase in sales and profits.

As all of the businesses are continuing to perform well, expansion of the real estate development business is expected to drive performance growth. While the number of condominium units sold will be around the same level as the previous fiscal year, of 2,200 units for the year, the Company plans for the growth in sales of newly constructed family condominiums to contribute greatly to the higher sales. It will also work to actively engage in the buying and selling of previously-owned condominiums. In the other businesses also, the real estate management business will realize stable growth from the increase in the number of units managed, while the outlook is for the construction business to expand greatly from the significant growth from implementing projects for orders in progress. The aim is also to improve the profit margin of the Japanese inn business by further increasing the number of customers and reducing the various costs.

Conversely, for income, the Company's estimates are conservative, such as that land purchase prices will rise and that construction costs will remain at a high level. So it considers that the operating income margin will decline slightly to 10.3% (10.8% in the previous fiscal period), but it is still expecting to secure higher income from the increase in sales.

At FISCO, we think that, despite the intensifying competition for land purchases, it is fully possible that the Company will achieve the net sales forecast, as the external environment (rental demand and purchase demand) will continue to trend stably, and it had steadily accumulated inventory assets by the end of the previous fiscal year. Rather, it is necessary to be aware of the potential for an increase in the number of units sold from previously-owned condominiums, the same as in the previous fiscal year. Also, in order to judge results from the next fiscal period onwards, we shall be paying attention to the land-purchase conditions.

Forecast for FY3/19

(¥mn)

	FY3/18		FY3/19		Change	
	Results	% of net sales	Forecast	% of net sales		% change
Net sales	67,008		76,000		8,992	13.4%
Operating income	7,238	10.8%	7,800	10.3%	562	7.8%
Ordinary income	7,226	10.8%	7,800	10.3%	574	7.9%
Net income attributable to shareholders of parent company	4,689	7.0%	5,000	6.6%	311	6.6%

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

Growth strategy

A niche top strategy, of the expansion of the market as a whole leading to growth for the Company

The Company's growth strategy would seem to be to further improve management efficiency and its competitive advantages by specializing in asset-management type condominiums in the Tokyo metropolitan area (particularly in the city center), and also a top niche strategy, of the expansion of the market as a whole leading to its own growth. Looking at this from the opposite direction, we can see there is a growth bottleneck (constraint), in which growth is determined by market trends. Therefore, a key point for the Company itself, which leads its industry, would seem to be how it will promote the sound development of the asset-management type condominiums market. Including through partnerships with other companies, it is creating a database of prospective customers who have expressed an interest in its products (potential owners) and it is focusing its efforts into expanding the market base from a long-term perspective by aiming to increase awareness and understanding of asset-management type condominiums through various measures, including by regularly providing potential and actual customers with information by email and other means, and these CRM operations are conducted through Gala Navi*. In April 2016, it newly established its own seminar room, and every month it holds seminars on themes in accordance with the various needs of customers, from beginner investors through to owners, including in a seminar format and as individual consultation sessions. We will also be paying attention to the results of other activities, like organizing seminars in collaboration with financial institutions. Moreover, the Company is progressing measures to respond to new needs, including the establishment of a local subsidiary in Taiwan (October 2014), whose role is to quickly and accurately ascertain the needs of Taiwanese investors.

* A site for disseminating information on asset-management type condominiums (regularly provides information on the website and also via an email magazine), with more than 130,000 members (currently, member numbers are rapidly rising alongside the increase in interest).

In addition, while focusing on asset-management type condominiums, the Company is aiming to further expand the scope of its business and acquire earning opportunities, while its policy for its family condominiums business is to steadily accumulate a track record of results.

At FISCO, we think that it is highly likely that the Company will achieve sustainable growth. This judgment is because, despite the concerns about the effects of rising land-purchase prices and construction costs, the demand from residents and owners for asset-management type condominiums in the Tokyo metropolitan area is strong and there remains sufficient room for growth in the future. It is also because the Company is deploying a comparatively robust business model (such as a conservative purchasing policy and financial strength, and a focus on high-quality rental housing) and a stock business (for example, rental management operations and asset management operations, including for the properties of other companies).

Recently, there has been a trend for major developers to enter-into the asset-management type condominiums market, and there are some who are expressing concerns about the intensification of competition, including for land purchases. But from another viewpoint, this can be said to be evidence of the fact that this market is recognized to be attractive. If the industry acquires greater recognition and becomes more active from the entry of major developers, it is considered that for the Company, which has competitive advantages, such as having the expertise and information capabilities from having cultivated a top niche position, it is highly likely that the development of the industry as a whole will lead to opportunities for its own growth.

CSR and information security measures

Actively practicing CSR as the leading company

As the leading company representing its industry, the Company is actively conducting corporate social responsibility (CSR) activities and environmental measures. Specifically, it is adopting various environmentally friendly equipment, including LED lighting and environmentally friendly plywood (including sustainable timber supplied from forests with permission for afforestation from the government of the producing country), new material hybrid wallpaper (which reduces CO_2 emissions by 56% in the production process compared to the usual vinyl cloth, and which also does not use the substances that cause sick building syndrome), air conditioners that are compliant with energy-saving standards (installed as standard), and water-saving toilets. It is also advancing the greening of the roofs of its condominiums as part of its measures to respond to the heat island effect.

Moreover, the Company is participating in the “Fun to Share” activities to prevent global warming that are being promoted by the Ministry of the Environment, and it is conducting various in-Company eco-activities, including implementing Cool Biz and Warm Biz, converting office lighting to LED, effectively using vinyl umbrellas (the shared used within the Company of umbrellas that are not being used), and establishing an in-Company library (recycling of unwanted books and magazines as an in-Company library). In addition, it supports the environmental conservation activities being conducted in Akagi Nature Park (Shibukawa City, Gunma Prefecture), and it is planting trees in developing countries (in Africa and Asia).

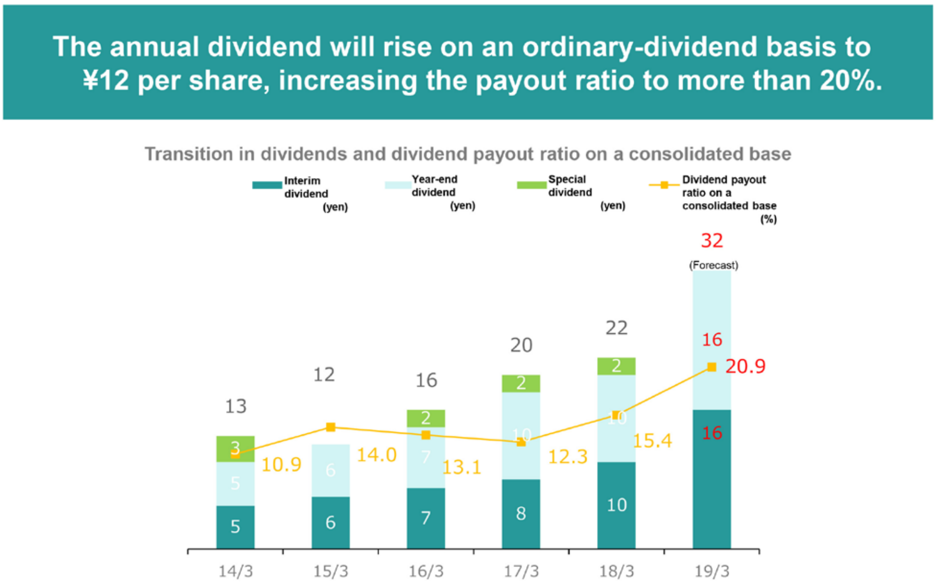
On the other hand, the Company is implementing measures to strengthen information security, including the management of personal information, which is its greatest corporate social responsibility. In November 2006, it acquired the ISO/IEC 27001 certification, which is the international standard for information security management systems. In addition, it is working to build a strict management system through rotating the PDCA cycle.

Shareholder returns and share price valuation

Plans to greatly increase the dividend by growing profits and raising the dividend payout ratio

The Company’s basic policy for returning income to shareholders is to “Stably and continuously pay dividends according to income after comprehensively considering various factors, including internal reserves for active business development and maintaining a financial balance.” It revised the initial dividend forecast upwards for FY3/18 and paid an annual dividend of ¥22 (including a special dividend of ¥2), which was an increase of ¥2 YoY (dividend payout ratio, 15.4%). For FY3/19, due to growing profits and raising the dividend payout ratio, it plans to pay a dividend of ¥32 (dividend payout ratio, 20.9%), which will be an increase of ¥12 on an ordinary-dividend basis. Going forward, we can expect continuous dividends alongside the Company’s income growth, based on the relatively stability of its business and its high level of income.

Trends in dividend per share and dividend payout ratio



Source: The Company's results briefing materials

The Company actively acquires its own shares, and it acquired approximately 830,000 shares in FY3/17 (total acquisition price, around ¥500mn) and 450,000 shares in FY3/18 (total acquisition price, around ¥400mn).

Also, as a measure for individual shareholders and to promote greater understanding of its Business, the Company has introduced a shareholder benefits program in which they can select an item from a department store gift catalog with a value of ¥1,500, and for long-term shareholders, with a value of ¥5,000. It also provides shareholders with vouchers that can be used at the Company Group's hot spring Japanese inns.

The current share price (closing price on July 11, ¥986) is at the levels of PER (forecast) of 6.45 times, PBR (actual) of 0.82 times, and a dividend yield (forecast) of 3.25%. It is not possible to conduct a simple comparative analysis, as there are no similar listed companies with the same growth model. But starting with the fact that the TSE First Section average PER (forecast) is 14.68 times and the PBR (actual) is 1.29 times, and also in consideration of various factors, such as the strong demand for asset-management type condominiums in the Tokyo metropolitan area, future development potential, the Company's comparatively robust business model, and its recent results, there is the sense that its current share price level is still undervalued. Therefore, as its industry's leading company, it is considered that there is plenty of room for its share price to rise from asset-management type condominiums becoming further recognized as a long-term investment product. Also, in August 2017, it was newly selected as a constituent issue in the JPX-Nikkei Mid and Small Cap Index*.

* A stock price index compiled by Tokyo Stock Exchange, Inc., and NIKKEI Inc. This index applies the concept of the JPX-Nikkei Index 400, which is an index comprised of highly attractive listed companies, to mid and small cap equities by selecting companies that focus on capital efficiency and investor-oriented management, and aim to foster greater awareness of such issues among corporate executives. It is comprised of 200 issues selected from the main markets of the TSE 1st Section, 2nd Section, Mothers, and JASDAQ.

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