

# Sansei Landic

Specialist in leasehold land and old underutilized properties businesses;

Enhances asset value through complex property rights realignment

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## Business

**Pioneer in property rights realignment: aims to expand nationwide presence via its leasehold land and old underutilized properties businesses**

Sansei Landic's core business area, the Real Estate Sales segment, accounted for 95.3% of total sales in FY12/18, and its strength lies in leasehold land (land with leasehold interest) and old underutilized properties (such as aging apartments only partially occupied by tenants). Consolidated subsidiary One's Life Home operates the Construction segment, which comprises 4.7% of total sales. These leasehold lands and underutilized properties often have multiple rights holders (landowners, leaseholders, and tenants), making it difficult to renovate or redevelop and causing low asset value. Sansei Landic purchases such property or land rights, adds value by sorting out the relationships between various rights holders, and resells.

Sansei Landic started handling leasehold land in June 1991, and now has a leading market share in the handling of leasehold land and old underutilized properties (we estimate 20–25%).

## Earnings trends

**Sales were up but profits down owing to a slump in the Construction segment and booking of extraordinary losses in FY12/18**

**FY12/18 results:** Sales were JPY16.8bn (+28.5% YoY), operating profit JPY1.8bn (+0.2%), recurring profit JPY1.6bn (-1.5%), and net income attributable to owners of the parent JPY1.0bn (-9.4%). Sales and operating profit at the parent increased significantly both YoY and versus plan on higher sales in the leasehold land and freehold businesses of the Real Estate Sales segment, but consolidated sales and profit fell short of plan due to a slump in the Construction segment. The company also booked extraordinary losses including a JPY51mn loss on valuation of investment securities, a JPY36mn loss on closure of a model home site at a consolidated subsidiary, and a JPY16mn loss on sale of fixed assets (sale of rental properties it had held).

**FY12/19 forecasts:** Company forecasts are sales of JPY18.2bn (+8.2% YoY), operating profit of JPY1.7bn (-5.6% YoY), recurring profit of JPY1.5bn (-6.0% YoY), and net income attributable to owners of the parent of JPY1.0bn (+2.5% YoY). Although the company expects sales to grow thanks to higher sales in the Construction segment, it expects both operating profit and recurring profit to fall due to the hiring of additional personnel and expansion of procurement. The company, however, expects net income to increase without an impact of extraordinary losses seen in FY12/18.

## Medium-term strategy

**Grow existing businesses and make new businesses into third earnings pillar using expertise in rights realignment**

Three-year medium-term plan: FY12/20 targets are operating profit of over JPY2.0bn (+13.5% vs. FY12/17) and recurring profit of over JPY1.9bn (+13.9%), and it aims to maintain an ROA (recurring profit based) of 12% or higher (as in FY12/17).

In addition to the minpaku service (rentals using vacant rooms in private residences) and self-care support service for persons with disabilities, the company inaugurated a Regional Revitalization Project in July 2019. The company will use expertise gained in providing support for recovery after the Great East Japan Earthquake of 2011 in other areas. The company will develop the business by proposing plans tailored to local needs, supporting the formation of rights holders agreements through property rights realignment, participating in business as a land rights holder, and making fundraising proposals.

## Strengths and weaknesses

### Strengths

**Leader in a niche market:** Leader in complicated rights realignment for leasehold land and old underutilized properties (we estimate 20–25% share). TSE1 listing helped it gain name recognition and increase the number of properties it handles.

### Strong rights realignment capability:

Excels in grasping the needs of multiple rights holders and finding solutions.

### Large potential market:

Company estimates Tokyo's leasehold land market at over JPY1.7tn. Its leasehold land sales are still about JPY7bn. Leasehold land projects decline year by year, but needs remain.

### Weaknesses

**Rooted in Japanese property laws:** Time will be needed to expand overseas since the business model is premised on domestic laws

**Synergies remain unclear:** New businesses are in early stages and synergies with core businesses remain unclear.

### New earnings pillar remains

**underdeveloped:** Business portfolio lacks risk diversification.

## Profit growth drivers

**[To date] Leasehold land + comparatively profitable old occupied properties:** Stable earnings from leasehold land (immune to economic fluctuations), and higher sales and profits from higher number of old underutilized properties

**[Medium-term] Growing demand to reconcile interests:** Amid the rise in vacant properties due to an aging, shrinking population, leasehold land and old underutilized properties are being liquidated by the inheriting generation, which seeks to better utilize these assets

Indices	
Market capitalization	JPY6.9 bn

		Earnings results and forecasts											
		Sales		Operating profit		Recurring profit		Net income		EPS	BPS	ROA	ROE
		(JPYmn)	YoY	(JPYmn)	YoY	(JPYmn)	YoY	(JPYmn)	YoY	(JPY)	(JPY)	(RP-based)	
FY12/10	Cons.	7,415	23.8%	655	113.5%	539	104.8%	301	110.3%	50.18	399.68	9.9%	13.4%
FY12/11	Cons.	8,042	8.5%	750	14.5%	747	38.4%	444	47.6%	73.50	469.71	11.6%	15.8%
FY12/12	Cons.	9,475	17.8%	517	-31.0%	437	-41.5%	233	-47.5%	33.80	497.51	6.6%	7.0%
FY12/13	Cons.	9,188	-3.0%	920	77.9%	810	85.3%	456	95.4%	66.04	560.55	10.1%	12.5%
FY12/14	Cons.	10,444	13.7%	1,205	30.9%	1,044	28.9%	626	37.5%	90.23	664.77	11.8%	13.7%
FY12/15	Cons.	11,568	10.8%	1,300	7.9%	1,196	14.6%	724	15.6%	90.08	744.23	11.9%	12.8%
FY12/16	Cons.	12,300	6.3%	1,446	11.3%	1,329	11.1%	854	17.9%	104.94	840.78	12.0%	13.2%
FY12/17	Cons.	13,099	6.5%	1,762	21.9%	1,669	25.6%	1,111	30.2%	134.45	957.50	12.0%	15.0%
FY12/18	Cons.	16,833	28.5%	1,766	0.2%	1,643	-1.5%	1,007	-9.4%	119.62	1,053.94	9.8%	11.9%
FY12/19 Est.	Cons.	18,220	8.2%	1,666	-5.6%	1,544	-6.0%	1,032	2.5%	122.17	-	-	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: On August 31, 2011, the company conducted a 50-for-1 stock split. BPS and EPS data adjusted accordingly.

## Business

### Pioneer in property rights realignment: Aims to expand nationwide presence via the leasehold land and old underutilized properties businesses

#### Overview

Sansei Landic operates the Real Estate Sales segment (95.3% of total sales in FY12/18) and the Construction segment (4.7% of sales). The company was founded by Katsumi Ozawa in February 1976, and is headquartered in Tokyo. Takashi Matsuzaki (born in 1970) joined in May 1993 and took over the role of president from Mr. Ozawa in July 2003. The company started by handling leasehold land\* in June 1991. Now it handles both leasehold land and old underutilized properties\*\*, and engages in property procurement, rights realignment, sales, and management from a head office and eight branches across Japan. Consolidated subsidiary One's Life Home operates the Construction segment.

Unlike typical real estate, leasehold land and old underutilized properties are often tangled up in complex relationships between various rights holders, underpinned by historical land laws (old Act on Land Leases and old Act on Building Leases). As such, realigning these rights requires substantial expertise and communication with various parties. Within the real estate sector, leasehold land and old underutilized properties are a niche market because they require substantial effort in terms of rights realignment, while each property is relatively small. Sansei Landic is the leading player in this market (Shared Research estimates the company's market share at 20–25%). At end-December 2018, the company had 146 employees at the parent and 171 consolidated employees.

\* Leasehold land: Land that is leased out by a landowner, on which a third party (leaseholder) can build housing. The leaseholder owns the house, but not the land on which it is built.

\*\* Old underutilized properties: Old properties such as partially occupied apartment buildings that need renovation or redevelopment, but cannot easily be renovated or torn down due to existing tenants.

## Real Estate Sales segment

The Real Estate Sales segment comprises four businesses: leasehold land, old underutilized properties, freehold, and other.

#### Real Estate Sales businesses

Leasehold land business	Acquire leasehold land, extend roads and negotiate with land rights holders, and sell leasehold land to leaseholders
Old underutilized properties business	Acquire land and old apartment buildings with resident tenants from building owners, negotiate with tenants to vacate, demolish the buildings, and sell land to developers or home builders
Freehold business	Acquire and sell freeholds
Other business	Receive rental revenue and consulting fees

Source: Shared Research based on company data

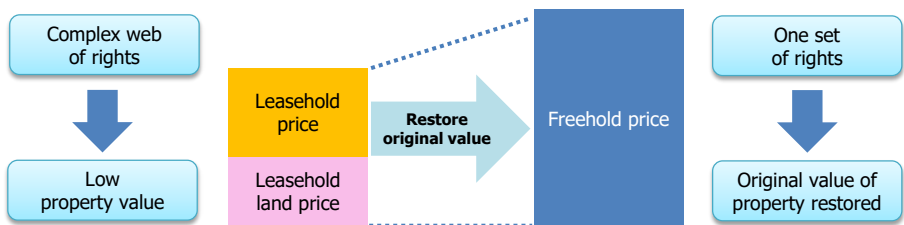
**Business model: Real estate rights realignment business**

The leasehold land and underutilized properties businesses accounted for 42.1% and 30.1% of FY12/18 sales, respectively.

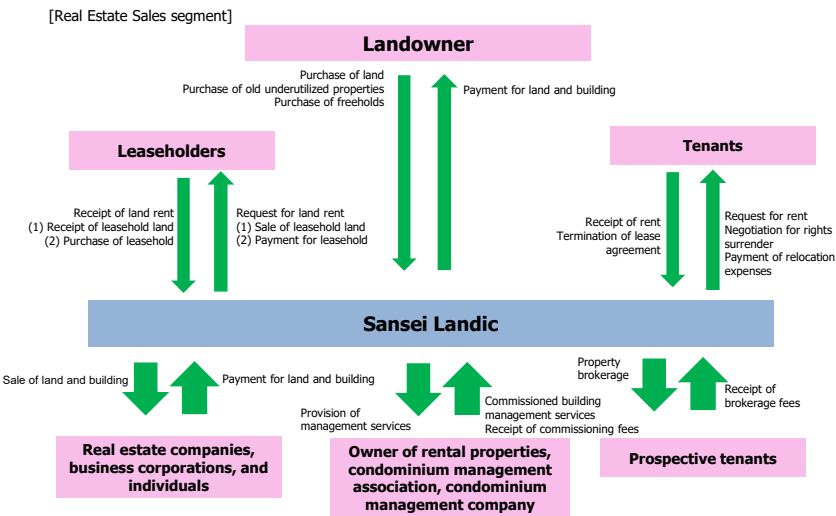
If a property has multiple rights holders (landowner, leaseholder, and tenant), it is difficult to redevelop or otherwise effectively utilize the property, leading to a reduction in asset value. Sansei Landic purchases the land and such properties from owners and consolidates the various rights into one set of rights through realignment of complex web of property rights. Depending on the project, the company may extend roads or make other improvements, raising the value of the property. The company then resells the properties, mainly to leaseholders in the case of leasehold land, and mainly to condominium developers and detached housing businesses in the case of old underutilized properties after dismantling the building and making way for new construction.

The company collects property information primarily from real estate brokers, examines the legal restrictions and various rights relationships of a property, and purchases the land rights following negotiations with the landowner and the building owner.

**Overview of the company's added value**

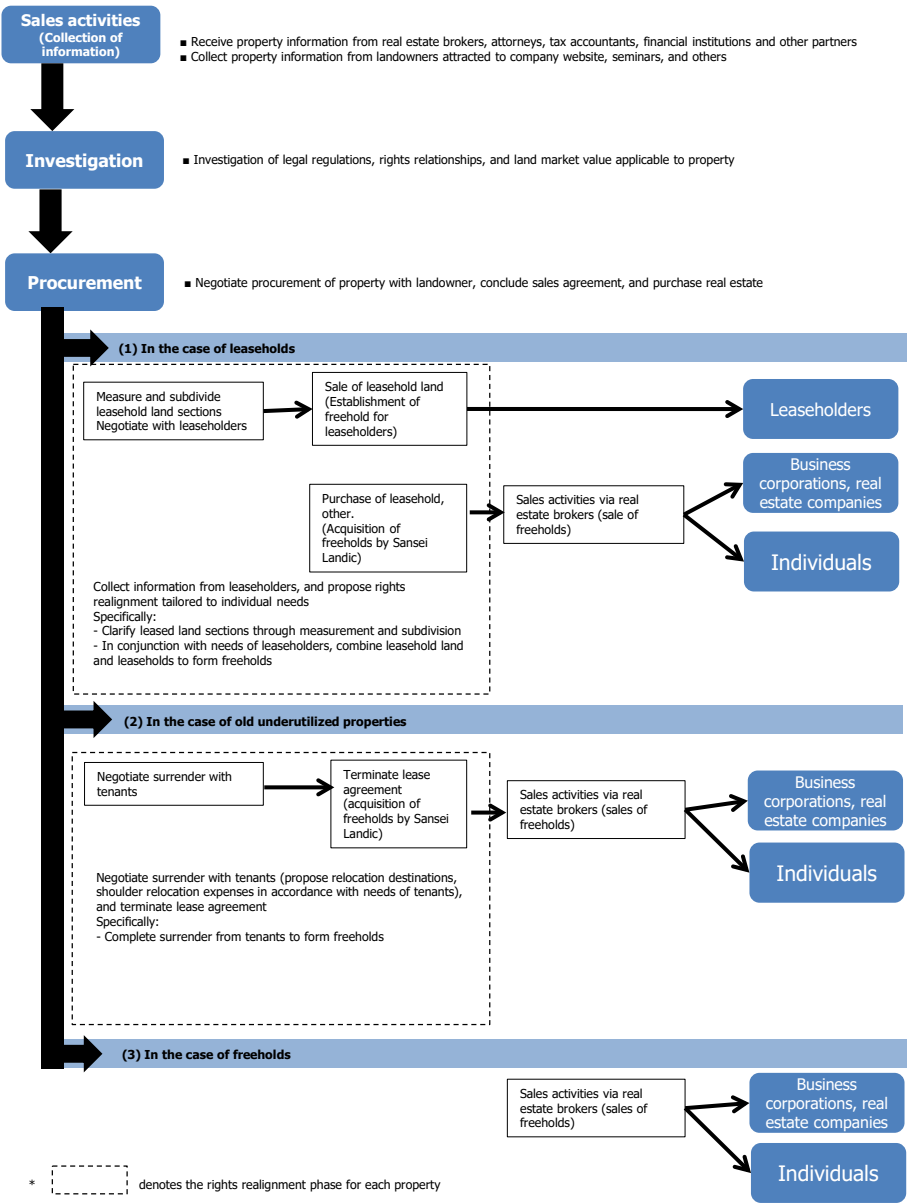


Source: Shared Research based on company data



Source: Shared Research based on company data

Standard workflow in the Real Estate Sales segment



Source: Shared Research based on company data

Leasehold land business

In the case of leasehold land, land and building rights are distinct. The landowner leases the land to the leaseholder, who can build a house on the land, but owns only the house and not the land.

Problems arising from conflicting interests of landowner vs leaseholder

A single piece of land with both a landowner and a leaseholder can lead to problems for both sides. Leaseholders have particularly strong legal rights in Japan. As such, landowners, despite owning the land in question, are barred from using the land as they see fit unless they receive permission from the leaseholders. Because the rent for leasehold land tends to be low, a lack of demand due to poor ability to generate revenue may make it difficult for successors to sell the land. On the other hand, leaseholders cannot rebuild their houses on the leased land without approval from the landowner, and so in many cases end up shouldering the financial burden of living in an older, run-down property. In addition, since leaseholders do not own the land, the standalone value of their land lease is low, making it difficult to sell the lease. In these ways, both parties suffer, and landowners and leaseholders often get stuck in a deadlock that can last several decades. During this time,

accumulated mutual reticence and negative emotions may make it difficult for the two parties to directly resolve any issues. Sansei Landic enters the scene as a mediator, disentangles the complex rights and human relationships, and works to raise the value of the property to an appropriate level.

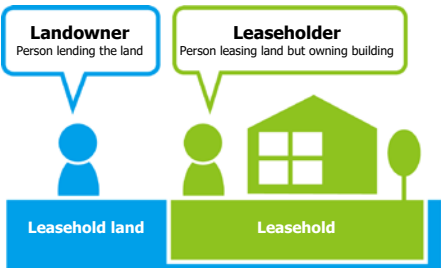
Example of realigning property rights

The following example from Kanagawa Prefecture illustrates Sansei Landic’s process of property rights realignment (refer to following figures). It involved land of roughly 1,000sqm with 12 leaseholders. First, Sansei Landic purchased the land rights from the landowner, who thus managed to sell (liquidate) the land. At the time of acquisition, due to legal restrictions six of the 12 buildings on the land could not be rebuilt because they were not directly adjacent to a road. This kept the values of these properties extremely low.

After a precise measurement work, working with the relevant government office Sansei Landic extended the road, making two of the six properties adjacent to a road. Next, it reallocated the land in such a way as to give all properties access to the road, making rebuilding possible for all 12 properties. This boosted their value considerably.

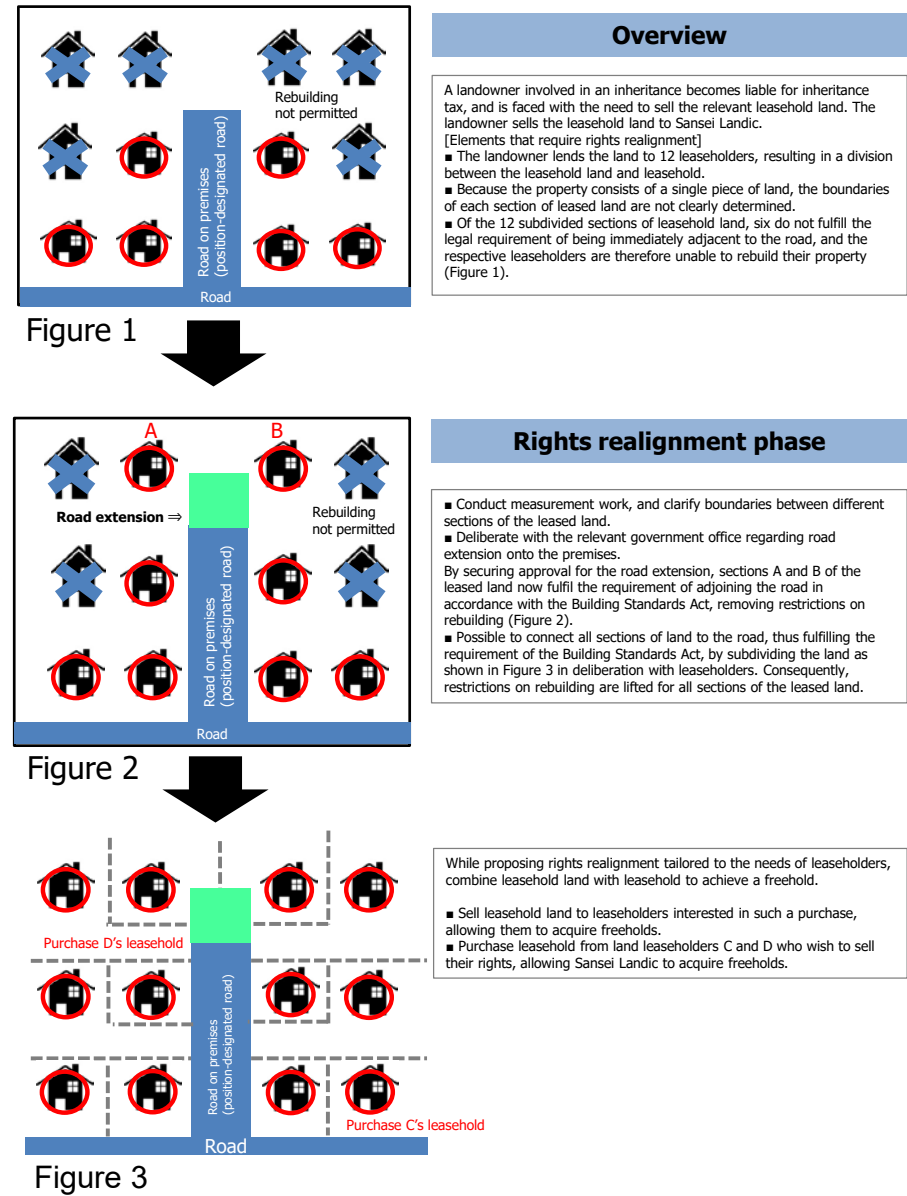
Sansei Landic’s primary objective is to sell to leaseholders the land rights on which their properties are built. The leaseholders, by purchasing these land rights to achieve a freehold, enhance asset value. Some leaseholders are not interested in buying land rights, and instead prefer to sell their leaseholds to the company. In Kanagawa Prefecture, Sansei Landic sold land rights to 10 out of the 12 leaseholders, and purchased the leaseholds from the remaining two. It then sold the two (now freehold) properties to third parties.

Illustration of leasehold land



Source: Shared Research based on company data

Example of property rights realignment



Source: Shared Research based on company data

Earnings structure of the leasehold land business

The price of land is determined by a range of factors including location, shape, and environment. When buying or selling land rights and leaseholds, the common practice is to use the leasehold ratio (ratio of a typical leasehold value to fee simple value), which is used in inheritance tax appraisals. These ratios change in proportion to the property value. The ratio of land rights can vary from 10–70% depending on the location. For most parcels\*, leasehold value exceeds land right value.

\*Parcel: A lot or lots listed as a single parcel in the land registry. It is possible to break down a parcel into smaller plots or to put smaller plots together into a parcel.

Sansei Landic calculates the property sales value for each portion of land based on the leasehold ratio, the area of the site leased by the leaseholder, the lease period, the rent, and other variables. It then subtracts various costs (brokerage commissions, calculated real estate acquisition tax and other taxes, and various other costs necessary for realigning property rights) and a predetermined amount based on the sales price (Sansei Landic’s

profit) to arrive at the procurement price.

If the land rights ratio is 40%, the leaseholder already owns 60% of the land and only needs to buy the remaining 40% to own the full set of rights, so many leaseholders tend to do this. The sales price is often higher than the procurement price, due to the company's initiatives to raise the value of the land, such as road development.

After procurement, Sansei Landic aims to sell 80% of a property within one year, 15% within three years, and the remaining 5% within five years.

#### Old Act on Land Leases and old Act on Building Leases vs. Act on Land and Building Leases

The land Sansei Landic handles is land under the old Act on Land Leases and the old Act on Building Leases. Not long after the Great Kanto Earthquake of 1923, Japan moved into the Showa Era (1926–1989). A concurrent population inflow into urban areas led to a surge in real estate prices, raising the need to protect leaseholders. This resulted in revisions to the Act on Land Leases and Act on Building Leases in 1941 (now referred to as the Old Act on Land Leases and Act on Building Leases). Under the revised laws, landowners were no longer permitted to terminate land lease agreements or refuse renewals without justifiable grounds. After the Second World War, the Act on Temporary Treatment of Rental Land and Housing in Cities Damaged by War was enacted with the aim of promoting post-war recovery, and this included expanding the supply of leased land. During Japan's period of rapid economic growth, land prices soared, and population inflows into urban areas continued. Although many aging buildings on leasehold land required reconstruction, securing the necessary approval from landowners often proved problematic. This led to further revisions to the Act on Land Leases and Act on Building Leases in 1966. The revised laws allowed leaseholders who could not obtain approval for reconstruction or expansion of their properties from their landowner to secure such authorization from a court. The old laws, enacted during the period of turmoil surrounding the Second World War, failed to properly address many of the issues that arose in connection with the sharp leap in the number of land or building leases, resolve problems related to roads, and clarify the boundaries of adjacent land, lease agreement details, and rights relationships.

In 1992, the new Act on Land and Building Leases was enacted, introducing the concept of fixed-term leaseholds. Land lease contracts established after the new law took effect are subject to a fixed term. However, there is still substantial leasehold land governed by the old laws. Leasehold land is now being liquidated as land established before and after the Second World War is transferred to successors and others, and as there are calls to shed outdated regulations. The property rights realignment business has emerged amid this backdrop.

### **Market size for leasehold land**

There is no objective sector data on the market size for leasehold land in Japan, but according to the 2013 Housing and Land Survey of the Ministry of Internal Affairs and Communication (MIC), Japan had roughly 1mn leaseholds (survey held every five years, so results of 2018 survey scheduled for release in 2020). Since leaseholds are for leasehold lands, we can assume the same number of land right parcels. The Tokyo metropolitan area alone has 155,200 land right parcels, and Sansei Landic estimates the corresponding market size at over JPY1.7tn. The company sold 333 leasehold lands in FY12/18 for sales of just JPY7.1bn. This implies a large untapped market.

Sansei Landic mainly operates in the Kanto and Kansai areas. Although sales per property are low, the business enjoys stable sales without being swayed by economic fluctuations, as leaseholders benefit from buying land rights.

FY12/18 sales of leasehold land came to JPY7.1bn (42.1% of total sales). The company sold 333 properties at average sales per property of JPY21mn, an improvement on the average of JPY17mn in FY12/17. The average price of leasehold land is lower than for old underutilized properties, but the margin is relatively higher due to added value arising from rights realignment.

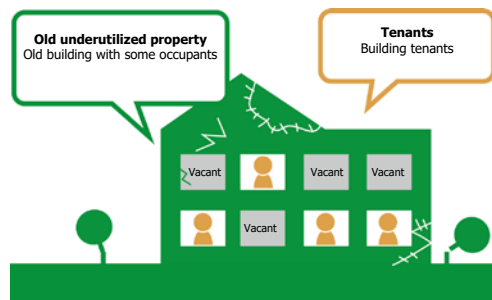
### **Old underutilized properties business**

Old underutilized properties refer to old revenue-generating properties, such as a 30-year-



old wooden apartment building. Whereas highly profitable properties are generally new buildings with low vacancy rates and high rents, the properties the company deals with in the old underutilized properties business are older buildings with high vacancy rates and low rents.

#### Old underutilized property



Source: Shared Research based on company data

#### Example of realigning rights of an old underutilized property

The following example is from a property in Nagoya city. Sansei Landic purchased land with an area of roughly 430sqm and an accompanying 30-year-old run-down wooden apartment building on the land. Due to a lack of maintenance, the building had a high vacancy rate, and thus generated limited rental revenue. The land and building owner, by selling to Sansei Landic, was able to liquidate a property with sluggish margins. Three of the eight residential units were occupied. Sansei Landic negotiated with these three tenants, offering to help them find new housing with better conditions and shouldering the relocation costs. Consequently, all three moved out and their existing lease agreements were dissolved. Once the premises were vacant, Sansei Landic demolished the building and sold the vacant lot to a provider of built-for-sale housing.

#### Market size for old underutilized properties

According to the 2013 Housing and Land Survey by the MIC, of the privately owned rental dwellings in Japan built in 1990 or earlier, 1,852,900 are wooden structures, accounting for 3.6% of total dwellings. The company converted and sold just 59 old underutilized properties in FY12/18, with sales at JPY5.1bn. This suggests a large potential market compared to the company's performance, similar to the leasehold land business.

In FY12/18, the company's sales of converted old underutilized properties accounted for 30.1% of total sales at JPY5.1bn. The average sales per property were JPY86mn. Although the sales per property was roughly 4x that of leasehold land, margins are relatively low.

Sansei Landic operates this business mainly in the Sapporo, Nagoya, and Fukuoka areas. It sells vacant lots to condominium developers and detached housing businesses, so proactively provides information. Given the growing demand for vacant land, the company is expecting an increase in the size of properties handled as well as a rise in margins.

#### Freehold business

In the freehold business, the company procures and sells the full set of property rights (freeholds do not require the realignment of property rights). The company adds value by procuring the full set of property rights and putting conditions in order, then sells the freehold property. For example, it may convert farmland into residential land and arrange road development, then sell the land as a large parcel of subdivided lots, or it may purchase land adjoining a parcel of leasehold land it already owns to sell the combined land as part of a larger parcel.

In FY12/18, the company recorded JPY3.5bn in sales for the freehold business (20.5% of total sales). It sold a total of 27 freehold properties, with average sales per property of approximately JPY128mn. In FY12/17, the company sold 21 freehold properties for sales of



JPY899mn, with average sales per property of approximately JPY43mn. As these figures show, sales per property in the business can vary significantly. Over the last three to four years, the number of properties valued at around JPY100mn has increased, but the company anticipates the freehold business to account for a significantly higher percentage of overall sales in FY12/18 because of a large project in Sapporo (valued at about JPY1.3bn).

### Other business

The other business includes revenue from renting out property and consulting fees. The company also offers outsourcing services to landowners. Landowners can outsource all land lease management operations to the company, including land rent collection, arrears payment notifications, and renewal procedures. Having Sansei Landic manage land leases not only reduces the burden on the landowner but also facilitates efficient utilization of the leasehold land. For Sansei Landic, through these services it may be able to create future procurement opportunities.

### Earnings trends in the Real Estate Sales segment

Sansei Landic's mainstay operations, the leasehold land and old underutilized properties businesses, have the following earnings trends.

The earnings composition of the leasehold land, old underutilized properties, and freehold businesses vary each year, leading to fluctuations in sales and profits. A higher share of the leasehold land business tends to translate into modest sales growth but higher margins, resulting in a sizeable jump in profits. An increase in the share of the old underutilized properties business leads to higher sales but lower margins, resulting in smaller profit growth. The company aims for a certain margin level when procuring properties, but because it needs to act in accordance with the intentions of the various rights holders when it sells those rights, profit margins fluctuate between individual projects.

For the same reason, the timing of booking sales also fluctuates, leading to earnings fluctuations each quarter. During periods of stagnant real estate prices (such as after the 2008 global financial crisis) the company tries to raise the share of the leasehold land business, which enjoys stable sales. Conversely, when real estate prices recover, the company increases the share of sales of the old underutilized properties business. In doing so, profits have trended upward over the five years through FY12/17.

In FY12/18, the Real Estate Sales segment posted sales of JPY16.1bn, operating profit of JPY2.9bn, and a profit margin of 18.0%. Profit margin fell in FY12/18 since the share of sales of the relatively low-margin freehold business significantly increased, but the profit margin has remained high around 20% since FY12/13.

### Earnings trends in the Real Estate Sales segment

(JPYmn)	FY12/10 Act.	FY12/11 Act.	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.	FY12/18 Act.	FY12/19 Est.
Sales	6,057	6,887	7,701	7,599	8,839	10,241	10,959	11,969	16,050	16,243
Leasehold land	3,394	4,379	3,765	3,690	4,134	5,300	5,413	5,066	7,088	7,308
Old underutilized properties	882	1,991	2,725	2,311	3,034	3,851	3,404	5,649	5,062	7,491
Freehold	1,556	282	1,084	1,279	1,348	691	1,792	899	3,454	991
Other	225	236	196	320	323	398	350	353	446	453
Segment profit	1,099	1,208	976	1,580	1,779	2,018	2,251	2,742	2,881	-
Segment profit margin	18.1%	17.5%	12.6%	20.8%	20.1%	19.7%	20.5%	22.9%	18.0%	-

Source: Shared Research based on company data

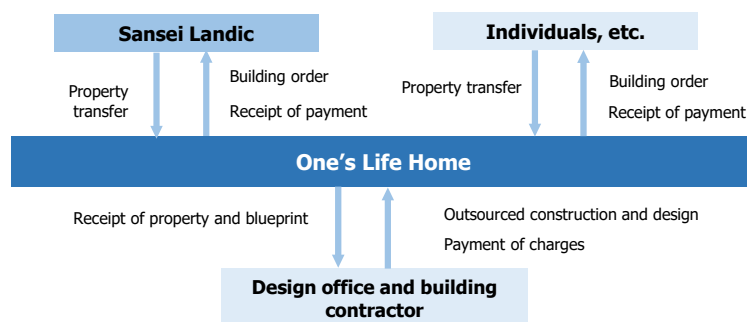
Note: Figures may differ from company materials due to differences in rounding methods.

### Construction segment

One's Life Home, a consolidated subsidiary of Sansei Landic, provides fully custom-designed detached housing, designer-led renovations, and related management services. It specializes in custom-built housing that features natural materials and uses minimal amounts of harmful chemicals to provide a healthier living environment, and offers

consumers a change to collaborate with architects to turn their ideas into reality.

#### Overview of Construction segment



Source: Shared Research based on company data

#### Earnings trends in the Construction segment

Segment sales have ranged between JPY1.1bn and JPY1.7bn during the nine years through FY12/17, peaking at JPY1.7bn in FY12/12 and declining since then. The segment posted losses in six of these years, and relatively low profits in the other three years.

The company has reviewed its strategy and implemented a number of initiatives to help it break free from these disappointing results. Sales fell in FY12/17, but losses narrowed thanks to higher operational efficiency. In January 2019, subsidiary One's Life Home relocated its headquarters and also opened a showroom that matches its business concept, Seijo Design Gallery, next to the headquarters. In addition, to focus sales efforts on pertinent channels and reduce fixed costs, it closed a display space at Komazawa in March 2019.

Following improvement in order status from 2H FY12/18, the company plans to move into the black in FY12/19 by reducing the time between project acquisition and delivery as well as continuing to work on managing costs, forecasting sales of JPY2.0bn for the segment.

#### Earnings trends in the Construction segment

(JPYmn)	FY12/10 Act.	FY12/11 Act.	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.	FY12/18 Act.	FY12/19 Est.
Sales	1,363	1,196	1,738	1,663	1,624	1,359	1,391	1,203	884	1,977
Segment profit	19	-34	21	-105	35	-39	-56	-44	-174	-
Segment profit margin	1.4%	-2.8%	1.2%	-6.3%	2.2%	-2.8%	-4.0%	-3.7%	-19.7%	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

#### Competition and market share

Sansei Landic is the market leader in operations related to leasehold land and old underutilized properties (Shared Research estimates the company's market share at 20–25% by transaction value).

The company has seven or eight competitors, but not one specializes in these areas or has a nationwide presence as Sansei Landic does. Listed companies that handle leasehold land include Arealink Co., Ltd. (TSE Mothers: 8914) and Yamada Servicer Synthetic Office (JASDAQ: 4351), but neither specialize in this area, and their transaction values are just JPY3.7bn (in FY12/18 for property revitalization and liquidation services including leasehold land business) and JPY296mn (FY12/18) respectively. Arealink's sales from property revitalization and liquidation services nearly doubled YoY, but the company believes this includes project types other than leasehold land. In the Tokyo area, Sansei Landic's largest competitor is Tokyo City-Development Co., Ltd. (unlisted), which is strong in direct sales to landowners and has developed proprietary information channels. Its sales have been growing in recent years, but are not as high as Sansei Landic's. Another competitor in Tokyo is Heisei Toshi Keikaku Co., Ltd. (unlisted), which is about one-fifth the size of Sansei

Landic. Nihon Tatemono Co., Ltd. (previously Toukai Tatemono; unlisted) is another rival, headquartered in Osaka, and mainly competes with the company in Kansai and Nagoya. It changed its name because it aims to increase the areas in which it operates and its leasehold land sales appear to be growing. Unlike Sansei Landic, it acquires leaseholds from leaseholders, and after it freeholds, it builds for-sale detached houses. It seems smaller than Sansei Landic. Another competitor, Kumasyu Co., Ltd. (unlisted), which is headquartered in Osaka, has also been competing with the company in Tokyo recently.

### Comparison with peers

Ticker	Company	Fiscal year	Sales (JPYmn)	OP (JPYmn)	OPM	ROA (RP-based)	ROE	Equity ratio	Net debt / Equity ratio	Main businesses (% of sales)
3299	Mugen Estate	FY12/18	53,931	5,985	11.1%	8.3%	16.3%	32.9%	1.40	Purchase and sale (renovation) (94)
8940	Intellex	FY05/19	36,981	1,673	4.5%	4.0%	8.0%	29.0%	1.73	Renovation and sale of pre-owned condominiums (77)
3230	Star Mica	FY11/18	30,282	3,839	12.7%	5.5%	13.2%	26.9%	2.34	Renovated condominium (sale and rental) (73)
8914	Arealink	FY12/18	28,828	2,782	9.7%	7.5%	10.3%	49.5%	0.26	Property management (87), property revitalization and liquidation (13)
3277	Sansei Landic	FY12/18	16,833	1,766	10.5%	9.8%	11.9%	53.1%	-0.26	Real Estate Sales (95), Construction (5)
4351	Yamada Servicer Synthetic Office	FY12/18	2,039	-195	-9.6%	-4.1%	-6.1%	70.8%	-0.46	Servicer (24), staffing (63), real estate solutions (14)
	Average		28,149	2,642	6.5%	5.2%	8.9%	43.7%	0.83	

Source: Shared Research based on each company data  
Note: Figures rounded to the nearest million yen.

## Earnings trends

### Quarterly earnings

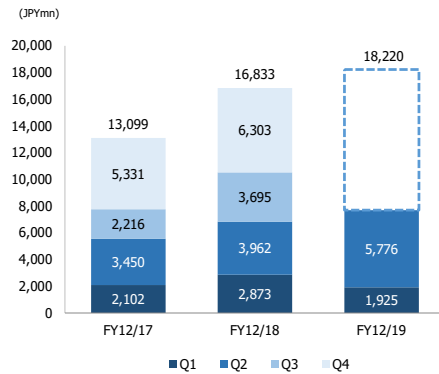
Consolidated earnings		FY12/18				FY12/19		FY12/19			
Cumulative (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Sales		2,873	6,835	10,530	16,833	1,925	7,701	102.3%	7,530	42.3%	18,220
YoY		36.7%	23.1%	35.6%	28.5%	-33.0%	12.7%		10.2%		8.2%
Cost of sales		2,139	4,539	7,478	12,028	1,346	5,360				
YoY		30.2%	19.5%	42.4%	40.4%	-37.1%	18.1%				
Cost ratio		74.4%	66.4%	71.0%	71.5%	69.9%	69.6%				
Gross profit		734	2,296	3,052	4,805	579	2,341	105.3%	2,223		
YoY		60.0%	31.0%	21.3%	6.0%	-21.1%	2.0%		-3.2%		
GPM		25.6%	33.6%	29.0%	28.5%	30.1%	30.4%		29.5%		
SG&A expenses		676	1,478	2,212	3,039	696	1,551	98.5%	1,575		
YoY		14.2%	17.1%	13.3%	9.7%	2.9%	4.9%		6.5%		
SG&A ratio		23.5%	21.6%	21.0%	18.1%	36.2%	20.1%		20.9%		
Operating profit		58	817	840	1,766	-117	790	122.0%	648	47.4%	1,666
YoY		-	66.8%	49.0%	0.2%	-	-3.3%		-20.7%		-5.6%
OPM		2.0%	12.0%	8.0%	10.5%	-6.1%	10.3%		8.6%		9.1%
Recurring profit		30	745	733	1,643	-147	751	128.1%	586	48.6%	1,544
YoY		-	63.1%	45.9%	-1.5%	-	0.7%		-21.4%		-6.0%
RPM		1.1%	10.9%	7.0%	9.8%	-7.6%	9.7%		7.8%		8.5%
Net income		3	435	376	1,007	-112	473	129.0%	367	45.9%	1,032
YoY		-	66.6%	28.3%	-9.4%	-	8.9%		-15.6%		2.5%
Net margin		0.1%	6.4%	3.6%	6.0%	-5.8%	6.1%		4.9%		5.7%

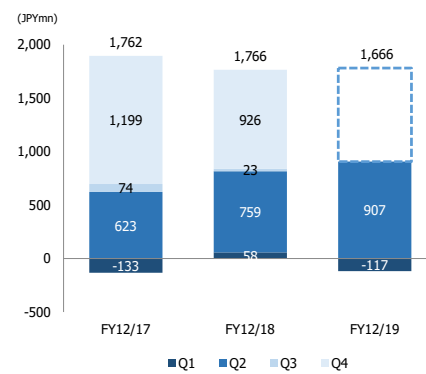
Consolidated earnings		FY12/18				FY12/19	
Quarterly (JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2
Sales		2,873	3,962	3,695	6,303	1,925	5,776
YoY		36.7%	14.8%	66.8%	18.2%	-33.0%	45.8%
Cost of sales		2,139	2,400	2,939	4,550	1,346	4,014
YoY		30.2%	11.3%	102.2%	37.3%	-37.1%	67.2%
Cost ratio		74.4%	60.6%	79.5%	72.2%	69.9%	69.5%
Gross profit		734	1,561	756	1,753	579	1,762
YoY		60.0%	20.7%	-0.8%	-13.1%	-21.1%	12.8%
GPM		25.6%	39.4%	20.5%	27.8%	30.1%	30.5%
SG&A expenses		676	802	734	827	696	854
YoY		14.2%	19.6%	6.5%	1.1%	2.9%	6.5%
SG&A ratio		23.5%	20.2%	19.9%	13.1%	36.2%	14.8%
Operating profit		58	759	23	926	-117	907
YoY		-	21.9%	-69.4%	-22.8%	-	19.5%
OPM		2.0%	19.2%	0.6%	14.7%	-6.1%	15.7%
Recurring profit		30	715	-12	910	-147	897
YoY		-	18.6%	-	-22.0%	-	25.5%
RPM		1.1%	18.0%	-0.3%	14.4%	-7.6%	15.5%
Net income		3	431	-59	631	-112	585
YoY		-	9.8%	-	-22.9%	-	35.7%
Net margin		0.1%	10.9%	-1.6%	10.0%	-5.8%	10.1%

Source: Shared Research based on company data  
Note: Figures may differ from company materials due to differences in rounding methods.

## Quarterly sales



## Quarterly operating profit



Source: Shared Research based on company data

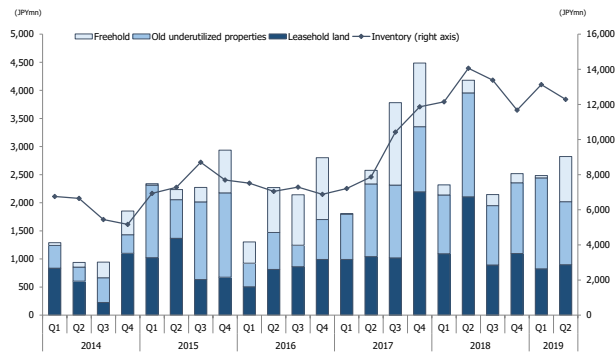
## Quarterly earnings by segment

Segment sales and profit (JPYmn)		FY12/18				FY12/19		FY12/19			
		Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Sales	YoY	2,873	6,835	10,530	16,833	1,925	7,701	102.3%	7,530	42.3%	18,220
		36.7%	23.1%	35.6%	28.5%	-33.0%	12.7%	10.2%			8.2%
Real Estate Sales	YoY	2,758	6,577	10,140	16,050	1,576	6,972	102.2%	6,823	42.9%	16,243
		44.6%	29.5%	44.7%	34.1%	-42.8%	6.0%	3.7%			1.2%
% of total		96.0%	96.2%	96.3%	95.3%	81.9%	90.5%				
Leasehold land	YoY	611	2,961	4,095	7,088	1,087	2,632	68.0%	3,869	36.0%	7,308
		26.5%	25.9%	38.5%	39.9%	77.7%	-11.1%	30.6%			3.1%
% of total		21.3%	43.3%	38.9%	42.1%	56.4%	34.2%				
Old underutilized properties	YoY	725	1,850	2,642	5,062	351	4,008	151.4%	2,648	53.5%	7,491
		-45.4%	-19.2%	-11.4%	-10.4%	-51.6%	116.7%	43.2%			48.0%
% of total		25.2%	27.1%	25.1%	30.1%	18.2%	52.0%				
Freehold	YoY	1,322	1,545	3,062	3,454	28	116	148.7%	78	11.7%	991
		8655.1%	495.9%	278.7%	284.0%	-97.9%	-92.5%	-95.0%			-71.3%
% of total		46.0%	22.6%	29.1%	20.5%	1.5%	1.5%				
Other	YoY	99	221	342	446	110	214	94.7%	226	47.2%	453
		22.3%	25.1%	31.2%	26.3%	11.1%	-3.3%	2.1%			1.6%
% of total		3.4%	3.2%	3.2%	2.6%	5.7%	2.8%				
Construction	YoY	115	258	390	784	349	729	103.1%	707	36.9%	1,977
		-40.9%	-45.5%	-48.8%	-30.6%	202.6%	182.6%	174.1%			152.2%
% of total		4.0%	3.8%	3.7%	4.7%	18.1%	9.5%				
Operating profit	YoY	58	817	840	1,766	-117	790	122.0%	648	47.4%	1,666
		-143.7%	66.8%	49.0%	0.2%	-	-3.3%	-20.7%			-5.6%
Real Estate Sales	YoY	335	1,406	1,710	2,881	162	1,361				
		223.3%	44.2%	30.7%	5.1%	-51.7%	-3.2%				
OPM	YoY	12.2%	21.4%	16.9%	18.0%	10.3%	19.5%				
Construction	YoY	-52	-111	-158	-174	-32	-73				
		-	-	-	-	-	-				
OPM	YoY	-45.0%	-43.2%	-40.6%	-22.2%	-9.1%	-10.1%				
Adjustments	YoY	-225	-478	-711	-942	-247	-497				
		-	-	-	-	-	-				
Segment sales and profit (JPYmn)		FY12/18				FY12/19					
		Q1	Q2	Q3	Q4	Q1	Q2				
Sales	YoY	2,873	3,962	3,695	6,303	1,925	5,776				
		36.7%	14.8%	66.8%	18.2%	-33.0%	45.8%				
Real Estate Sales	YoY	2,758	3,819	3,563	5,909	1,576	5,396				
		44.6%	20.4%	84.9%	19.1%	-42.8%	41.3%				
% of total		96.4%	96.6%	97.3%	94.4%	82.1%	93.5%				
Leasehold land	YoY	611	2,350	1,133	2,993	1,087	1,545				
		26.5%	25.7%	88.1%	41.8%	77.7%	-34.2%				
% of total		21.4%	59.5%	31.0%	47.8%	56.6%	26.8%				
Old underutilized properties	YoY	725	1,124	792	2,420	351	3,657				
		-45.4%	16.8%	14.5%	-9.3%	-51.6%	225.2%				
% of total		25.3%	28.4%	21.6%	38.7%	18.3%	63.4%				
Freehold	YoY	1,322	223	1,518	392	28	88				
		8655.1%	-8.8%	176.2%	331.3%	-97.9%	-60.5%				
% of total		46.2%	5.6%	41.5%	6.3%	1.5%	1.5%				
Other	YoY	99	122	120	104	110	104				
		22.3%	27.4%	44.3%	12.3%	11.1%	-15.1%				
% of total		3.5%	3.1%	3.3%	1.7%	5.7%	1.8%				
Construction	YoY	115	143	132	394	349	380				
		-40.9%	-48.7%	-54.2%	7.0%	202.6%	166.4%				
% of total		4.0%	3.6%	3.6%	6.3%	18.2%	6.6%				
Adjustments	YoY	12	9	35	46	5	8				
		-	-	-	-	-	-				
Operating profit	YoY	58	759	23	926	-117	907				
		-143.7%	21.9%	-69.4%	-22.8%	-	19.5%				
Real Estate Sales	YoY	335	1,071	303	1,172	162	1,199				
		223.3%	22.9%	-9.0%	-18.3%	-51.7%	11.9%				
OPM	YoY	12.2%	28.0%	8.5%	19.8%	10.3%	22.2%				
Construction	YoY	-52	-59	-47	-15	-32	-42				
		-	-	-	-	-	-				
OPM	YoY	-45.0%	-41.7%	-35.6%	-3.9%	-9.1%	-10.9%				
Adjustments	YoY	-225	-253	-233	-231	-247	-250				
		-	-	-	-	-	-				

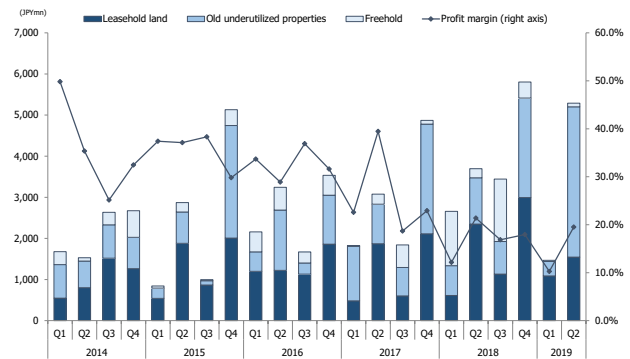
Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

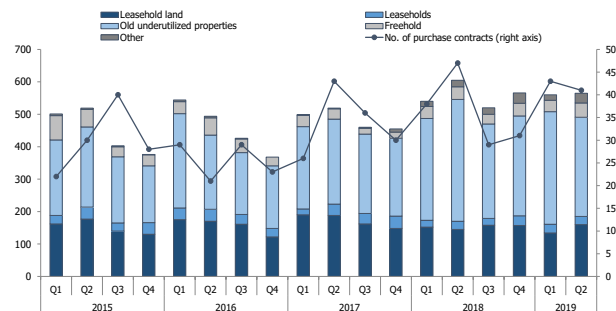
## Real Estate Sales segment procurement value



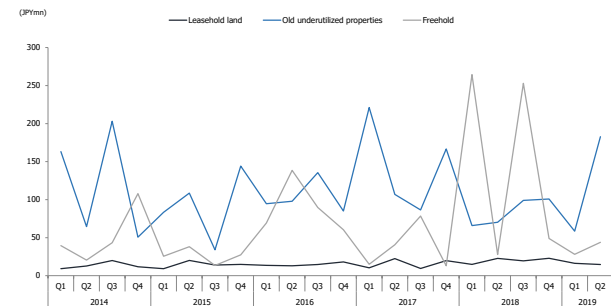
## Real Estate Sales segment sales



## Number of properties and number of purchase commitments



## Sales per property



Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## 1H FY12/19 results

## Overview

1H FY12/19 sales came to JPY7.7bn (+12.7% YoY), operating profit to JPY790mn (-3.3% YoY), recurring profit to JPY751mn (+0.7% YoY), and net income attributable to owners of the parent to JPY473mn (+8.9% YoY).

Sales progressed 102.3% versus 1H forecast. Profits outpaced forecasts by a wide margin, with operating profit progressing 122.0%, recurring profit 128.1%, and net income attributable to owners of the parent 129.0%.

GPM fell -3.2pp YoY from 33.6% to 30.4%, but OPM only fell 1.7pp YoY from 12.0% to 10.3% because the increase in SG&A expenses stemming from the hiring of additional personnel and an increase in the wage base was JPY24mn lower than expected at JPY72mn. Interest-bearing debt fell 4.5% YoY to JPY5.8bn from repayment of loans following the sale of properties.

## Segment results

## Real Estate Sales segment

In 1H FY12/19, segment sales were JPY7.0bn (+6.0% YoY), progressing 102.2% versus forecast. Segment profit was JPY1.4bn (-3.2% YoY) and the margin (segment profit divided by segment sales; adjustments not made) was 19.5%, down 1.9pp from 21.4% in 1H FY12/18.

Sales of leasehold land decreased by 11.1% YoY to JPY2.6bn, progressing 68.0% versus forecast. The decline was due to delay in booking sales as it took longer than expected to sell properties procured in FY12/18. Procurement value was down 46.1% YoY at JPY1.7bn. The company expects sales of JPY7.3bn (+3.1% YoY) in FY12/19.

Sales of old underutilized properties came to JPY4.0bn (+116.7% YoY). A large project expected to be sold in 2H FY12/19 was moved up to 1H FY12/19, causing the business to exceed forecasts by 51.4%. Procurement value was down 5.4% YoY at JPY2.7bn. The

company expects sales of JPY7.5bn (+48.0% YoY) in FY12/19.

Sales of freeholds fell 92.5% YoY to JPY116mn, affected by the sale of a large project in 1H FY12/18, yet came in 47.3% above plan. Procurement value was up 108.1% YoY at JPY844mn. The company expects sales of JPY991mn (-71.3% YoY) in FY12/19.

#### Construction segment

Segment sales were JPY729mn (+182.6% YoY), pushing 3.1% above plan. Project acquisitions improved in 1H FY12/19, compared to 2H FY12/18 as a result of strong demand before the consumption tax hike planned for October 2019 in addition to website revisions and improved efficiency of sales activities by channel. Since the tax rate before hike applied to contracts concluded by the end of March, there was an increase in orders followed by a temporary slump in April and May. However, orders recovered in June and have remained steady since, with orders reaching JPY1.4bn (+175.7% YoY). The company expects sales of JPY2.0bn (+152.2% YoY) in FY12/19.

## FY12/19 forecasts

### Overview

Sansei Landic forecasts FY12/19 sales of JPY18.2bn (+8.2% YoY), operating profit of JPY1.7bn (-5.6% YoY), recurring profit of JPY1.5bn (-6.0% YoY), and net income attributable to owners of the parent of JPY1.0bn (+2.5% YoY). By segment, it forecasts sales of JPY16.2bn (+1.2% YoY) for Real Estate Sales, and JPY2.0bn (+152.2% YoY after adjustments) for Construction. It has not disclosed profit forecasts by segment.

There remains the possibility it will take even more time to sell leasehold properties that are already behind schedule. On the other hand, the company may be able to achieve its sales target through the sale of newly procured properties not included in forecasts. In terms of profits, the company expects a positive effect on profitability from an increase in the sales ratio of leasehold land and old underutilized properties, but expects profitability to remain flat YoY overall as the market slows in reaction to a recent scandal involving fraudulent housing loans.

Order backlog was roughly JPY1.3bn as of end-1H FY12/19. With the addition of new remodeling orders it looks possible that the company will meet its segment sales target. Real estate for sale remaining in inventory (the source of future earnings) as of end-1H FY12/19 totaled JPY12.3bn, up 5.2% from JPY11.7bn at end-FY12/18.

## Medium-term plan (FY12/18 to FY12/20)

### Progress on medium-term plan

The company's medium-term plan for the three years from FY12/18 to FY12/20 sets out three core initiatives: growth, stability, and returns.

#### Promotion and monetization of new businesses: Growth

In regard to new businesses, Sansei Landic intends to develop a third pillar in addition to the leasehold land and old underutilized properties businesses. It has launched two new businesses: minpaku service (rentals using vacant rooms in private residences), and self-care support service for persons with disabilities.

The minpaku service began operation of its first properties in Ota-ku, Tokyo in April 2016 (Matcha House) and November 2018 (Azuki House), both of which are performing well. The low capacity (five people) Azuki House was almost completely booked over the summer holidays in FY12/19, perhaps due to the convenience it offers small groups of travelers. The company intends to enlist properties held for use in the minpaku service, but has not formulated any concrete plans yet owing to a large amount of competition and strict regulations.

In addition to the businesses above, the company inaugurated a Regional Revitalization Project in July 2019. This initiative aims to utilize expertise gained from supporting recovery in Ishinomaki City in the aftermath of the Great East Japan Earthquake in other areas. The company will develop the business by proposing plans tailored to local needs, supporting the formation of land rights owners agreements through rights realignment, participating in business as a landowner, and making fundraising proposals (including support with partial fundraising).

The main areas it targets are regional cities that have experienced population decline as a result of declining birthrate and societal aging, areas with complex rights relationships, cities engaging in disaster response measures. The company has begun hearings with local governments and is currently in the information gathering stage.

#### **Stability: Maintain steady growth of existing businesses**

As mentioned above, recently leasehold land turnover has declined and it is taking time to make sales which has resulted in sales being pushed back to later periods. The company formed a new department in April 2019 for the purpose of improving the situation and promoting the monetization of unsold properties.

Additionally, the company plans to achieve continuously improved earnings and stabilization as it remains in the black if it can maintain sales around the JPY2.0bn mark in the Construction segment.

#### **Shareholder returns: Return profits to shareholders, society, and employees**

In regard to returns, Sansei Landic tries to maintain stable dividends, providing increases as profits increase. It plans a JPY2 dividend increase in FY12/18 to JPY23.

The company has received over 200 contributions to the project it established as part of CSR activities to support children's futures. It is exploring activities aimed at eliminating abuse and poverty with educational institutions and is set to provide concrete support through a project team in the near future.

Furthermore, it continuously raises the wage base and takes other measures to improve its treatment of employees.

FY12/20 targets are operating profit of over JPY2.0bn (+13.5% versus FY12/17) and recurring profit of over JPY1.9bn (+13.9%), and it aims to maintain an ROA (recurring profit based) of 12% or higher (as in FY12/17).

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## **Strengths and Weaknesses**

### **Strengths**

**Dominant position in a niche market:** The company is a leading player in the niche markets of realigning property rights for leasehold land and old underutilized properties. (We estimate the company's market share at 20–25%). Both businesses require substantial time and effort in terms of property rights realignment, yet each project is comparatively small. Major real estate developers are less likely to enter this market where they will have difficulty in achieving economies of scale. At the same time, smaller real estate developers may find it difficult to raise the necessary capital for procurement given the low collateral value of leasehold land and other properties handled by Sansei Landic.

Sansei Landic's listing on the first section of the Tokyo Stock Exchange is helping it gain name recognition nationwide and increase the number of properties it handles around the country. The company has developed a broad, nationwide network, which gives it an edge in collecting information on properties by funneling much of the information on leasehold land to the company. Unlike its competitors, which operate in a single region, Sansei Landic has a nationwide foothold, with nine sales offices (including the head office)



spanning from Sapporo to Fukuoka. The company has traditionally obtained most of its information from real estate brokers, but it is now leveraging its credibility as a listed company to organize seminars in cooperation with financial institutions and partner with tax accountants to expand its procurement channels.

**Strong rights realignment capability:** Sansei Landic started handling leasehold land in June 1991 and has developed significant expertise and ability in rights realignment. One of its greatest strengths is employees with the knowledge and skill required to conduct negotiations and arrive at resolutions suited to the needs of relevant parties. It conducts rights realignment training for newly hired college graduates, so that they can transition from procurement to sales within three years. These skills involve ongoing careful communication with certain customers to understand their needs. In many cases, employees will need to concurrently manage the interests of multiple leaseholders. The company is identifying patterns in the various problems faced by leaseholders and the corresponding solutions.

**Large potential market:** The leasehold land market in Tokyo is worth over JPY1.7tn (based on Sansei Landic estimates). Considering the company only has leasehold land sales of roughly JPY7bn, the untapped market is substantial. Since many of the leasehold land parcels established in the period of turmoil surrounding the Second World War are being transferred to successors, liquidations are likely to continue. According to the 2013 Housing and Land Survey of the MIC, there are 1,034,200 leaseholds nationwide, down 11.6% from 2008. Although the number of leasehold lands decrease year by year, properties change hands primarily as part of the inheritance process, so the need for handling leasehold lands will continue.

As the society ages, and with the 2020 Tokyo Olympics on the horizon, there is likely to be more trading in housing stock. The company therefore feels the number of properties with complex rights situations will grow as land with unknown owners, vacant houses, areas with many wooden buildings, urban redevelopment, and other real estate-related issues become apparent.

## Weaknesses

**Business is rooted in real estate practices that are unique to Japan:** The company's core businesses are premised on a legal context that is unique to Japan (the old Act on Land and old Act on Building Leases). There are situations in which the land and building of a given property has different rights holders overseas, equivalent to leasehold land in Japan, but there would be some large hurdles for the company to clear were it to try to capture that business.

**Synergies yet to be found:** The company's two core segments, Real Estate Sales and Construction, operate independently, and there is little scope for synergies between the two. In FY12/18, the Construction segment had sales of JPY784mn but posted an operating loss of JPY174mn. The company's new medium-term plan calls for greater coordination on projects where synergies may be expected, but the build-for-sale business using land left vacant after rights realignment has so far only worked on two projects, and there are no concrete plans for coordination with the minpaku business, so it remains unclear what sort of contribution the business will make to earnings.

**New earnings pillar remains underdeveloped:** The leasehold land business and old underutilized properties business accounted for 72.2% of total sales in FY12/18, pointing to insufficient diversification of the business portfolio. The company has started building new businesses it hopes to shape into a third earnings pillar such as the operation of the minpaku business (accommodation in private homes for travelers) in Ota-ku, Tokyo, and assistance for those having trouble finding housing (elderly or handicapped individuals) in

Funabashi, Chiba Prefecture. However, these initiatives are still only being explored on a local level. Other new businesses have yet to show any indications of turning a profit and it seems it will take time for them to contribute to earnings.

## Income statement

(JPYmn)	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons. Est.
Sales	7,415	8,042	9,475	9,188	10,444	11,568	12,300	13,099	16,833	18,220
YoY	23.8%	8.5%	17.8%	-3.0%	13.7%	10.8%	6.3%	6.5%	28.5%	8.2%
Cost of sales	5,167	5,557	7,061	6,254	7,055	7,798	8,344	8,566	12,028	-
YoY	21.1%	7.6%	27.1%	-11.4%	12.8%	10.5%	7.0%	2.7%	40.4%	-
Cost ratio	69.7%	69.1%	74.5%	68.1%	67.6%	67.4%	67.8%	65.4%	71.5%	-
Gross profit	2,248	2,485	2,415	2,934	3,389	3,769	3,957	4,532	4,805	-
YoY	30.4%	10.5%	-2.8%	21.5%	15.5%	11.2%	5.0%	14.6%	6.0%	-
GPM	30.3%	30.9%	25.5%	31.9%	32.4%	32.6%	32.2%	34.6%	28.5%	-
S&A expenses	1,594	1,735	1,898	2,014	2,184	2,470	2,510	2,770	3,039	-
YoY	12.4%	8.9%	9.3%	6.1%	8.5%	13.1%	1.6%	10.3%	9.7%	-
S&A ratio	21.5%	21.6%	20.0%	21.9%	20.9%	21.4%	20.4%	21.1%	18.1%	-
Operating profit	655	750	517	920	1,205	1,300	1,446	1,762	1,766	1,666
YoY	113.5%	14.5%	-31.0%	77.9%	30.9%	7.9%	11.3%	21.9%	0.2%	-5.6%
OPM	8.8%	9.3%	5.5%	10.0%	11.5%	11.2%	11.8%	13.5%	10.5%	9.1%
Non-operating income	25	135	5	12	14	15	15	12	28	-
YoY	-14.0%	439.6%	-96.4%	141.0%	17.1%	6.3%	5.0%	-20.0%	122.8%	-
% of sales	0.3%	1.7%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	-
Non-operating expenses	140	138	85	122	174	118	133	106	150	-
YoY	93.9%	-1.4%	-38.4%	43.2%	42.9%	-32.3%	12.7%	-20.0%	41.3%	-
% of sales	1.9%	1.7%	0.9%	1.3%	1.7%	1.0%	1.1%	0.8%	0.9%	-
Recurring profit	539	747	437	810	1,044	1,196	1,329	1,669	1,643	1,544
YoY	104.8%	38.4%	-41.5%	85.3%	28.9%	14.6%	11.1%	25.5%	-1.5%	-6.0%
RPM	7.3%	9.3%	4.6%	8.8%	10.0%	10.3%	10.8%	12.7%	9.8%	8.5%
Net income attributable to owners of parent	301	444	233	456	626	724	854	1,111	1,007	1,032
YoY	110.3%	47.6%	-47.5%	95.4%	37.5%	15.6%	17.9%	30.2%	-9.4%	2.5%
Net margin	4.1%	5.5%	2.5%	5.0%	6.0%	6.3%	6.9%	8.5%	6.0%	5.7%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Per-share data (JPY, after stock split adjustment)

	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons. Est.
Shares issued (year-end)	120,000	6,900,000	6,900,000	6,900,000	7,915,000	8,108,500	8,149,500	8,357,300	8,447,800	-
EPS	50.18	73.50	33.80	66.04	90.23	90.08	104.94	134.45	119.62	122.17
EPS (fully diluted)	-	-	-	-	88.58	88.74	104.03	133.52	119.17	-
Dividend per share	2.60	6.00	3.00	3.00	6.00	10.00	12.00	18.00	21.00	23.00
Book value per share	399.68	469.71	497.51	560.55	664.77	744.23	840.78	957.5	1053.94	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: On August 31, 2011, the company conducted a 50-for-1 stock split. BPS and EPS data adjusted accordingly.

## Balance sheet

(JPYmn)	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Current assets	5,796	5,251	6,256	8,023	7,835	10,366	9,749	15,874	15,745
Cash and deposits	892	1,155	859	1,185	2,275	2,253	2,435	3,558	3,594
Inventories	4,653	3,704	4,840	6,354	5,180	7,705	6,900	11,873	11,691
Other	250	391	557	482	379	406	413	442	460
Fixed assets	1,005	834	836	895	957	1,031	1,083	1,042	1,032
Tangible fixed assets	109	136	134	568	603	572	590	467	458
Intangible fixed assets	72	85	79	100	96	76	87	81	69
Investments and other assets	822	612	621	226	257	382	405	494	505
Total assets	6,801	6,085	7,092	8,918	8,792	11,397	10,832	16,916	16,777
Current liabilities	3,017	2,663	3,097	4,586	3,164	4,909	3,750	8,430	6,160
Interest-bearing debt	1,805	1,732	2,094	3,361	2,094	3,777	2,624	7,074	4,726
Other	1,212	930	1,002	1,224	1,070	1,132	1,126	1,356	1,433
Fixed liabilities	1,385	181	562	464	366	453	225	479	1,710
Interest-bearing debt	1,334	146	525	418	320	179	87	362	1,320
Other	51	34	36	46	46	273	138	117	390
Total liabilities	4,403	2,844	3,659	5,051	3,531	5,363	3,976	8,909	7,869
Total net assets	2,398	3,240	3,432	3,867	5,261	6,034	6,856	8,006	8,908
Total liabilities and net assets	6,801	6,084	7,091	8,918	8,792	11,397	10,832	16,916	16,777

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Cash flow statement

(JPYmn)	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.
Cash flows from operating activities	-1,621	970	-953	-664	1,761	-1,451	1,611	-3,666	1,617
Cash flows from investing activities	-106	127	-15	-175	-111	-116	-184	107	-64
Cash flows from financing activities	1,842	-877	692	1,136	-612	1,588	-1,278	4,667	-1,495

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Financial ratios

	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.
ROA (RP-based)	9.9%	11.6%	6.6%	10.1%	11.8%	11.9%	12.0%	12.0%	9.8%
ROE	13.4%	15.8%	7.0%	12.5%	13.7%	12.8%	13.2%	15.0%	11.9%
Inventory turnover	2.2	1.9	2.2	1.6	1.8	1.8	1.7	1.1	1.4
Tangible fixed assets turnover	63.6	65.6	70.2	26.2	17.8	19.7	21.2	28.0	36.7
Current ratio	192.1%	197.2%	202.0%	174.9%	247.6%	211.1%	260.0%	188.3%	255.6%
Equity ratio	35.3%	53.3%	48.4%	43.4%	59.8%	52.9%	63.3%	47.3%	53.1%

Source: Shared Research based on company data

## Historical performance

### FY12/18 results

#### Overview

FY12/18 sales came to JPY16.8bn (+28.5% YoY), operating profit to JPY1.8bn (+0.2% YoY), recurring profit to JPY1.6bn (-1.5% YoY), and net income attributable to owners of the parent to JPY1.0bn (-9.4% YoY).

FY12/18 sales for the Real Estate Sales segment were JPY16.1bn (+34.1% YoY) and for the Construction segment were JPY884mn (-26.6% YoY), or JPY784mn (-30.6% YoY) excluding intersegment transactions. Higher sales in the leasehold land and freehold businesses of the Real Estate Sales segment helped sales and operating profit at the parent to increase significantly both YoY and versus plan, but a slump in the Construction segment caused consolidated sales and profit to fall short of plan. The company also booked extraordinary losses including a JPY51mn loss on valuation of investment securities, a JPY36mn loss on closure of a model home site at consolidated subsidiary One's Life Home, and a JPY16mn loss on sale of fixed assets (sale of rental properties it had held).

In terms of procurement, the number of lots for the leasehold land business increased considerably, and the procurement value was JPY11.2bn (-11.7% YoY). The company procured large properties in the freehold business in FY12/17, so the value was actually down YoY, but was still 6.5% above plan. In terms of sales, the leasehold land business performed fairly much in line with plan, with record sales of JPY7.1bn. Properties handled by the old underutilized properties business were generally smaller than in FY12/17, so sales were down 10.4% YoY. The freehold business sold large properties procured in FY12/17, resulting in a significant increase in sales, with growth centered on northern Japan.

#### Segment results

##### Real Estate Sales segment

Segment sales were JPY16.1bn (+34.1% YoY). Segment profit came to JPY2.9bn (+5.1% YoY) and profit margin (segment profit/segment sales, excluding adjustments) to 18.0%, down 4.9pp from 22.9% in FY12/16. This segment is divided into four businesses based on sales items: leasehold land, old underutilized properties, freehold, and other (rental revenue, consulting fees, etc.). In FY12/18, it was noteworthy that sales in leasehold land and freehold businesses significantly increased.

In FY12/18, the Real Estate Sales segment's procurement value was JPY11.2bn (-11.7% YoY). In FY12/17, the leasehold land business procured a number of large properties, taking both procurement value and inventory value to record highs. However, for FY12/18 Sansei Landic had forecast a procurement value of JPY10.4bn, so FY12/18 was actually fairly much in line with plan. Of the total procurement value, the leasehold land business was responsible for JPY5.2bn (-1.1% YoY) as it procured lots chiefly in the Kanto area. The old underutilized properties business was responsible for JPY5.2bn (+14.4% YoY) as procurement in Osaka, Aichi, and other parts of western Japan steadily proceeded. On the other hand, procurement in the freehold business declined significantly to JPY764mn (-73.1% YoY) after large properties were purchased in FY12/17. Inventory value has remained above JPY10.0bn since Q3 FY12/17.

### Construction segment

In FY12/18, Construction segment sales were JPY884mn (-26.6% YoY), or JPY784mn (-30.6% YoY) excluding intersegment transactions. The number of properties sold (including detached houses and renovations) was unchanged from FY12/17 at 130, but sales fell significantly short of the company forecast at just 54.3%. This is because, although orders increased YoY for the full year, 1H orders were below plan and longer-than-expected time was required between applying for and starting construction.

Segment loss widened to JPY174mn (loss of JPY44mn in FY12/17). Sansei Landic is currently conducting drastic reform of its sales structure to reduce costs further. In January 2019, subsidiary One's Life Home relocated its headquarters and also opened a showroom next to the headquarters, which matches its business concept. In addition, to focus sales efforts on pertinent channels, it closed a display space at Komazawa in March 2019.

### Results versus initial plan

Results vs. Initial Est. (JPYmn)	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Cons.
Sales (Initial Est.)	10,852	10,845	12,088	11,162	14,670	14,448	17,482
Sales (Results)	9,475	9,188	10,444	11,568	12,300	13,099	16,833
<b>Results vs. Initial Est.</b>	<b>-12.7%</b>	<b>-15.3%</b>	<b>-13.6%</b>	<b>3.6%</b>	<b>-16.2%</b>	<b>-9.3%</b>	<b>-3.7%</b>
Operating profit (Initial Est.)	664	1,059	1,242	1,401	1,466	1,466	1,830
Operating profit (Results)	517	920	1,205	1,300	1,446	1,762	1,766
<b>Results vs. Initial Est.</b>	<b>-22.1%</b>	<b>-13.1%</b>	<b>-3.0%</b>	<b>-7.2%</b>	<b>-1.3%</b>	<b>20.2%</b>	<b>-3.5%</b>
Recurring profit (Initial Est.)	497	854	1,139	1,291	1,374	1,374	1,703
Recurring profit (Results)	437	810	1,044	1,196	1,329	1,669	1,643
<b>Results vs. Initial Est.</b>	<b>-12.1%</b>	<b>-5.2%</b>	<b>-8.3%</b>	<b>-7.4%</b>	<b>-3.3%</b>	<b>21.4%</b>	<b>-3.5%</b>
Net income (Initial Est.)	253	517	705	848	929	929	1,157
Net income (Results)	233	456	626	724	854	1,111	1,007
<b>Results vs. Initial Est.</b>	<b>-7.8%</b>	<b>-11.9%</b>	<b>-11.2%</b>	<b>-14.6%</b>	<b>-8.1%</b>	<b>19.6%</b>	<b>-13.0%</b>

Source: Shared Research based on company data

Note: Figures may differ from company data due to differences in rounding methods.

## Shareholder returns

Sansei Landic regards the return of profits to shareholders as a key management priority and aims to maintain stable dividends.

It aims to continue increasing dividends as profit increases and plans a JPY2 dividend increase in FY12/19 to JPY23 (increased for the past six consecutive years). At the interim results, the company sends shareholder benefits in the form of bread products (emergency food with a three-year shelf life) and increases the amount for long-term shareholders.



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