

**3Q Results: Sales +3%, OP -64% due to impact from COVID-19**  
Current earnings trend is recovering, aiming at achieving revised full-term guidance

► **Impact of COVID-19: In person sales visits greatly affected**

—For mainstay Real Estate Sales Business mainly in leasehold land and old unutilized properties, in person sales visits are essential since rights adjustments of concerned parties are key. As a result of restrictions on sales activities due to the spread of COVID-19 infections, delays and push outs of real estate sales arose, having a major impact on earnings.

—At the same time, the Company raised its cash position by selling a portion of real estate holdings and carrying out asset conversion

—After the declaration of a state of emergency was lifted, the Company cautiously resumed sales activities after implementing required COVID-19 countermeasures. Currently sales contracts and settlements are apparently progressing favorably. (However, the recent new wave of infections nationwide should be monitored closely)

► **3Q Cumulative FY12/20 Results: Sales +3%, OP -64%**

—Net sales ¥10,835mn (+3.1%), OP ¥265mn (-64.3%), ordinary profit ¥152mn (-77.5%), and profit attributable to owners of parent ¥92mn (-78.3%).

—Real Estate Sales Business sales managed to increase +2.6% thanks to the 11-fold increase in Freehold, despite declines in Leasehold Land (-4%) and Old Unutilized Properties (-25%). Segment OP declined -31.3%.

—At the same time, Construction Business sales increased +6.8%, and the operating loss shrank.

► **FY12/20 Full-term Guidance: Sales ¥16.7bn (-7%), OP ¥647mn (-65%)**

—The Company revised down 1H and full-term guidance on 7/31 in light of the impact of COVID-19, with revised full-term guidance for sales -7% and OP -65%. 2Q results in particular were severely impacted by COVID-19, however currently, having entered the 4Q, sales including the delayed portion until then appear to be progressing favorably, and the Company is confident it can achieve revised guidance.

► **Will a share price revaluation proceed? P/B ratio remains low**

—After dipping following the downward revision on 7/31, the share price has been gradually recovering. The situation of the P/B ratio trading below 1.0x has continued in recent years, however ROE has been trending over 10%, and this term the Company is indicating a dividend hike. Going forward, as the company makes progress in countermeasures for COVID-19 and when earnings are on a recovery path, we believe there is room for a re-rating of the share price.

| JPY mn       | Net Sales | YoY (%) | Oper. Profit | YoY (%) | Ord. Profit | YoY (%) | Profit ATOP | YoY (%) | EPS ¥  |
|--------------|-----------|---------|--------------|---------|-------------|---------|-------------|---------|--------|
| FY2016/12    | 12,300    | 6.3     | 1,446        | 11.3    | 1,328       | 11.1    | 853         | 17.9    | 104.94 |
| FY2017/12    | 13,098    | 6.5     | 1,762        | 21.9    | 1,668       | 25.6    | 1,111       | 30.2    | 134.45 |
| FY2018/12    | 16,833    | 28.5    | 1,765        | 0.2     | 1,642       | -1.5    | 1,006       | -9.4    | 119.62 |
| FY2019/12    | 18,020    | 7.1     | 1,860        | 5.4     | 1,758       | 7.0     | 1,158       | 15.1    | 137.08 |
| FY2020/12(E) | 16,752    | -7.2    | 647          | -65.2   | 450         | -74.4   | 268         | -76.8   | 31.81  |
| FY2019/12Q3  | 10,512    | -0.2    | 743          | -11.5   | 676         | -7.8    | 425         | 13.1    | 50.34  |
| FY2020/12Q3  | 10,835    | 3.1     | 265          | -64.3   | 152         | -77.5   | 92          | -78.3   | 10.95  |

**FOLLOW-UP**



**Focus Points:**

Provides solutions to Japanese RE issues through 'real estate rights adjustments' cultivated through many years of experience and know-how. While Leasehold Land and Old Unutilized Property is niche business, the latent market is huge.

**Key Indicators**

|                     |       |
|---------------------|-------|
| Share price (2/12)  | 747   |
| YH (20/1/19)        | 927   |
| YL (20/3/13)        | 560   |
| 10YH (18/1/26)      | 1,506 |
| 10YL (16/11/4)      | 172   |
| Shrs out. (mn shrs) | 8.47  |
| Mkt cap (¥ bn)      | 6.32  |
| EV (¥ bn)           | 9.78  |
| Equity ratio (6/30) | 48.8% |
| FY12/20 P/E (CE)    | 23.5x |
| FY12/19 P/B (act)   | 0.64x |
| FY12/19 ROE (act)   | 12.3% |
| FY12/20 DY (CE)     | 3.34% |

**Share price chart (52 weekly)**



Source: SPEEDA

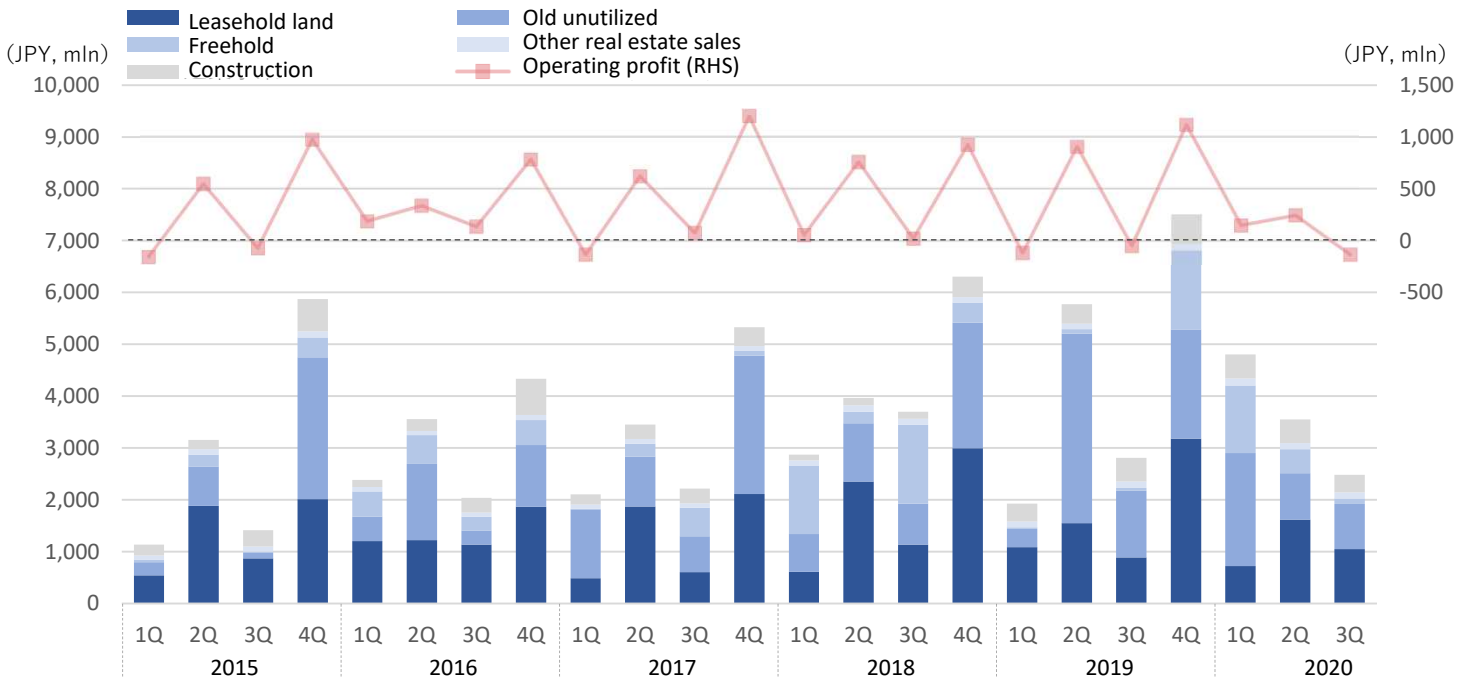
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### Quarterly Trend of Sales by Segments and Total OP



Source: compiled by Sessa Partners from company's IR materials.

#### ① 3Q Cumulative FY12/20 Financial Results

1) Sales +3%, OP -64% due to significant impact from COVID-19

—Looking at the first 9 months results by quarters:

i) 1Q sales +150% YoY, with no impact from COVID-19

ii) 2Q sales -39%, OP -73%, suffering a significant impact from COVID-19, in a quarter which is seasonally normally a high profit period

iii) 3Q sales -12%, operating loss expanded YoY (see table on P5)

—To begin with, since transaction amounts are large, real estate transaction negotiations normally require in person meetings, but it is especially important to build relationships of trust in the case of 'real estate rights adjustments' targeted by the Company, and restrictions on sales activities had a significant impact due to COVID-19 on progress of business.

#### 2) Trends by Segments

a) Real Estate Sales Business: sales ¥9,586mn (+3%), OP ¥1,083mn (-31%)

—Leasehold Land: sales ¥3,376mn (-4%). Due to issuance of the declaration of a state of emergency, sales negotiations were suspended or postponed, causing delays. -11.8% relative to plan. There were some properties sold on reduced margins to promote monetization, resulting in a profit margin below plan.

—Old Unused Properties: sales ¥3,949mn (-25%). Due to delays in surrender negotiations and postponement of contracts, there were some push outs. -5.7% relative to plan.

—Freehold: sales ¥1,876mn (up 11-fold). There was a low base in the previous term, and sales grew sharply. -6.1% relative to plan.

—Regarding actual purchases, purchasing increased for all categories.

### Changes in the Amount of Purchases and Inventories



### Changes in the Number of Projects and Number of Purchasing Contracts



Source: Company materials (earnings presentation for 3Q FY12/20)

b) Construction Business: sales ¥1,267mn (+7%), OP loss (¥5mn) versus (¥65mn) loss the previous term.

—Due to the spread of COVID-19, there were delays in negotiations and some contracts were postponed. While the amount of sales increased, the number of projects declined -3%.

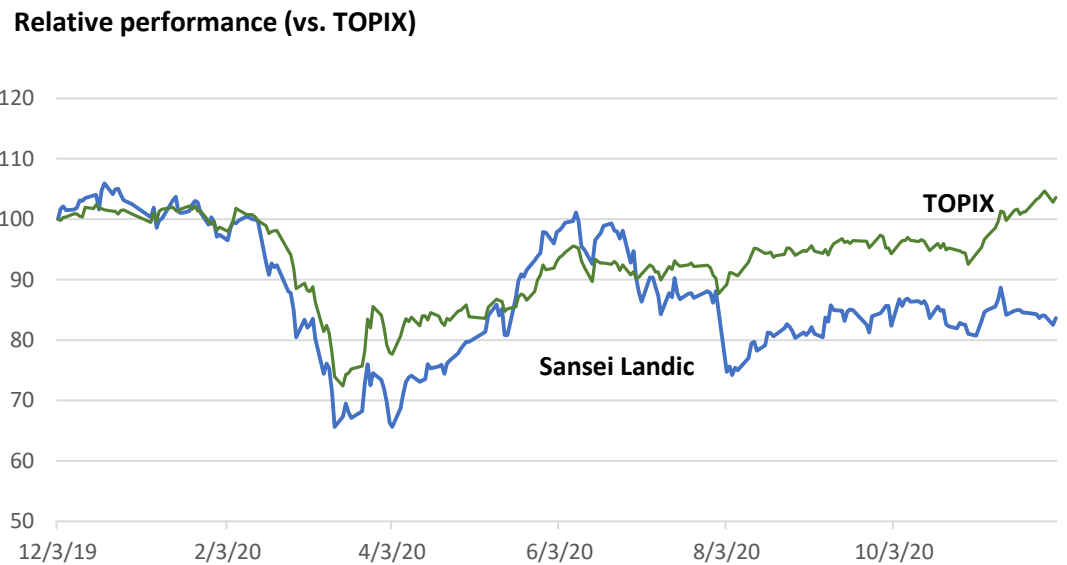
—There was also a significant impact on orders, with both new orders and backlogs declining by half YoY. Due to the slowdown in sales, prospects for turning profitable on a full-term basis appear to have become difficult.

#### ② FY12/20 Full-term Guidance: Sales ¥16.7bn (-7%), OP ¥647mn (-65%)

—Taking into account the significant change in the business environment as a result of the spread of COVID-19, the Company revised down 1H and full-term guidance on 7/31. Full-term FY12/20 sales: ¥21,552mn → ¥16,725mn, OP: ¥1,686mn → ¥647mn, ordinary profit: ¥1,559mn → ¥450mn, and profit attributable to owners of parent: ¥1,047mn → ¥268mn.

—The progress ratio relative to full-term guidance as of the end of the 3Q is 65%, but seasonally both sales and profits tend to concentrate in the 2Q and 4Q, and currently sales conditions appear to be progressing favorably. Since revised full-term guidance factored in a cautious outlook, the Company is confident that it can achieve revised full-term guidance. (However, the recent new wave of infections nationwide and countermeasures should be monitored closely)

—Management considers shareholder rebates to be an important issue, and it is indicating a dividend hike for the 7<sup>th</sup> consecutive term in FY12/20, forecasting annual DPS of ¥25.



Source: Sessa Partners from SPEEDA data.

### ③ Share Price Trend

—Relative performance over the last 12 months has been essentially parallel with TOPIX, but a divergence opened up after the downward revision on 7/31.

—At the same time, the P/B ratio has been consistently below 1.0x in recent years. While it will first be necessary to break free from the impact of COVID-19 and once again re-enter a growth orbit, considering that ROE has consistently been above 10%, undervaluation will likely begin to stand out.

### Historical Valuation Trend



Source: Sessa Partners from SPEEDA data.

## Quarterly Consolidated Earnings Trend

|                                | 2018/12      |              |              |              | 2019/12      |              |              |              | 2020/12      |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           |
| <b>Net sales</b>               | <b>2,873</b> | <b>3,961</b> | <b>3,696</b> | <b>6,303</b> | <b>1,925</b> | <b>5,776</b> | <b>2,811</b> | <b>7,508</b> | <b>4,807</b> | <b>3,547</b> | <b>2,481</b> |
| YoY                            | 36.7%        | 14.8%        | 66.8%        | 18.3%        | -33.0%       | 45.8%        | -23.9%       | 15.0%        | 149.7%       | -38.6%       | -11.7%       |
| <b>Real estate sales</b>       | <b>2,757</b> | <b>3,819</b> | <b>3,564</b> | <b>5,909</b> | <b>1,576</b> | <b>5,396</b> | <b>2,353</b> | <b>6,941</b> | <b>4,339</b> | <b>3,092</b> | <b>2,137</b> |
| YoY                            | 44.6%        | 20.4%        | 85.0%        | 19.1%        | -42.8%       | 41.3%        | -34.0%       | 17.5%        | 175.3%       | -42.7%       | -9.2%        |
| % of SLS                       | 96.0%        | 96.4%        | 96.4%        | 93.7%        | 81.9%        | 93.4%        | 83.7%        | 92.4%        | 90.3%        | 87.2%        | 86.1%        |
| <b>Leasehold land</b>          | <b>611</b>   | <b>2,350</b> | <b>1,133</b> | <b>2,993</b> | <b>1,086</b> | <b>1,546</b> | <b>889</b>   | <b>3,176</b> | <b>719</b>   | <b>1,613</b> | <b>1,044</b> |
| YoY                            | 26.5%        | 25.7%        | 88.2%        | 41.8%        | 77.7%        | -34.2%       | -21.5%       | 6.1%         | -33.8%       | 4.3%         | 17.4%        |
| % of SLS                       | 21.3%        | 59.3%        | 30.7%        | 47.5%        | 56.4%        | 26.8%        | 31.6%        | 42.3%        | 15.0%        | 45.5%        | 42.1%        |
| <b>Old unutilized</b>          | <b>725</b>   | <b>1,124</b> | <b>792</b>   | <b>2,420</b> | <b>351</b>   | <b>3,657</b> | <b>1,283</b> | <b>2,108</b> | <b>2,180</b> | <b>897</b>   | <b>872</b>   |
| YoY                            | -45.4%       | 16.8%        | 14.5%        | -9.3%        | -51.6%       | 225.4%       | 62.0%        | -12.9%       | 521.1%       | -75.5%       | -32.0%       |
| % of SLS                       | 25.2%        | 28.4%        | 21.4%        | 38.4%        | 18.2%        | 63.3%        | 45.6%        | 28.1%        | 45.4%        | 25.3%        | 35.1%        |
| <b>Freehold</b>                | <b>1,322</b> | <b>222</b>   | <b>1,518</b> | <b>392</b>   | <b>28</b>    | <b>88</b>    | <b>55</b>    | <b>1,532</b> | <b>1,305</b> | <b>465</b>   | <b>106</b>   |
| YoY                            | 8713.3%      | -9.0%        | 176.5%       | 330.8%       | -97.9%       | -60.4%       | -96.4%       | 290.8%       | 4560.7%      | 428.4%       | 92.7%        |
| % of SLS                       | 46.0%        | 5.6%         | 41.1%        | 6.2%         | 1.5%         | 1.5%         | 2.0%         | 20.4%        | 27.1%        | 13.1%        | 4.3%         |
| <b>Other real estate sales</b> | <b>99</b>    | <b>122</b>   | <b>120</b>   | <b>104</b>   | <b>110</b>   | <b>104</b>   | <b>126</b>   | <b>126</b>   | <b>133</b>   | <b>117</b>   | <b>116</b>   |
| YoY                            | 22.2%        | 28.4%        | 42.9%        | 11.8%        | 11.1%        | -14.8%       | 5.0%         | 21.2%        | 20.9%        | 12.5%        | -7.9%        |
| % of SLS                       | 3.4%         | 3.1%         | 3.2%         | 1.7%         | 5.7%         | 1.8%         | 4.5%         | 1.7%         | 2.8%         | 3.3%         | 4.7%         |
| <b>Construction</b>            | <b>115</b>   | <b>142</b>   | <b>133</b>   | <b>393</b>   | <b>349</b>   | <b>380</b>   | <b>457</b>   | <b>567</b>   | <b>468</b>   | <b>455</b>   | <b>344</b>   |
| YoY                            | -41.0%       | -48.9%       | -54.0%       | 7.1%         | 203.5%       | 167.7%       | 243.6%       | 44.3%        | 34.1%        | 19.7%        | -24.7%       |
| % of SLS                       | 4.0%         | 3.6%         | 3.6%         | 6.2%         | 18.1%        | 6.6%         | 16.3%        | 7.6%         | 9.7%         | 12.8%        | 13.9%        |
| <b>Cost of sales</b>           | <b>2,139</b> | <b>2,400</b> | <b>2,939</b> | <b>4,550</b> | <b>1,346</b> | <b>4,014</b> | <b>2,076</b> | <b>5,466</b> | <b>3,866</b> | <b>2,557</b> | <b>1,934</b> |
| YoY                            | 30.2%        | 11.3%        | 102.1%       | 37.3%        | -37.1%       | 67.3%        | -29.4%       | 20.1%        | 187.2%       | -36.3%       | -6.8%        |
| <b>Gross profit</b>            | <b>734</b>   | <b>1,562</b> | <b>756</b>   | <b>1,753</b> | <b>579</b>   | <b>1,762</b> | <b>736</b>   | <b>2,042</b> | <b>942</b>   | <b>989</b>   | <b>548</b>   |
| YoY                            | 59.9%        | 20.7%        | -0.8%        | -13.1%       | -21.1%       | 12.8%        | -2.7%        | 16.5%        | 62.7%        | -43.9%       | -25.5%       |
| GPM                            | 25.5%        | 39.4%        | 20.5%        | 27.8%        | 30.1%        | 30.5%        | 26.2%        | 27.2%        | 19.6%        | 27.9%        | 22.1%        |
| <b>SG&amp;A expense</b>        | <b>676</b>   | <b>802</b>   | <b>734</b>   | <b>827</b>   | <b>696</b>   | <b>855</b>   | <b>783</b>   | <b>924</b>   | <b>792</b>   | <b>744</b>   | <b>678</b>   |
| YoY                            | 14.2%        | 19.5%        | 6.5%         | 1.1%         | 3.0%         | 6.6%         | 6.7%         | 11.7%        | 13.8%        | -13.0%       | -13.4%       |
| SG&A ratio                     | 23.5%        | 20.2%        | 19.9%        | 13.1%        | 36.2%        | 14.8%        | 27.9%        | 12.3%        | 16.5%        | 21.0%        | 27.3%        |
| <b>Operating profit</b>        | <b>58</b>    | <b>759</b>   | <b>23</b>    | <b>926</b>   | <b>(117)</b> | <b>907</b>   | <b>(47)</b>  | <b>1,118</b> | <b>150</b>   | <b>246</b>   | <b>(131)</b> |
| YoY                            | -            | 21.8%        | -68.9%       | -22.7%       | -            | 19.5%        | -            | 20.7%        | -            | -72.9%       | -            |
| Operating profit margin        | 2.0%         | 19.2%        | 0.6%         | 14.7%        | -6.1%        | 15.7%        | -1.7%        | 14.9%        | 3.1%         | 6.9%         | -5.3%        |
| <b>Ordinary profit</b>         | <b>30</b>    | <b>715</b>   | <b>(12)</b>  | <b>910</b>   | <b>(147)</b> | <b>898</b>   | <b>(75)</b>  | <b>1,083</b> | <b>103</b>   | <b>189</b>   | <b>(140)</b> |
| YoY                            | -94.4%       | -            | -            | -22.0%       | -            | 25.6%        | -            | 19.0%        | -            | -79.0%       | -            |
| Ordinary profit margin         | 1.0%         | 18.1%        | -0.3         | 14.4%        | -7.6%        | 15.5%        | -2.7%        | 14.4%        | 2.1%         | 5.3%         | -5.6%        |
| <b>Profit (Loss) ATOP</b>      | <b>3</b>     | <b>432</b>   | <b>(59)</b>  | <b>631</b>   | <b>(112)</b> | <b>585</b>   | <b>(48)</b>  | <b>734</b>   | <b>67</b>    | <b>115</b>   | <b>(90)</b>  |
| YoY                            | -99.2%       | -            | -            | -22.9%       | -            | 35.4%        | -            | 16.3%        | -            | -80.3%       | -            |
| Net profit margin              | 0.1%         | 10.9%        | -1.6%        | 10.0%        | -5.8%        | 10.1%        | -1.7%        | 9.8%         | 1.4%         | 3.2%         | -3.6%        |

Source: compiled by Sessa Partners from company's IR materials. Due to rounding, there may be a slight discrepancy with the company's financial results.

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