URBANET CORPORATION

Develops and sells studio apartment buildings (for investment purposes); elite organization leveraging extensive outsourcing

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Business

Develops and sells studio apartment buildings (for investment) in Tokyo's 23 wards, within a 10-minute walk of train stations

Selling buildings to companies that sell condos: URBANET develops studio apartment buildings (for investment not residence) and wholesales the buildings to condominium sales companies (B2B). In FY06/18, URBANET wholesaled 72% of the properties it developed. Buildings it develops are mostly located in Tokyo's 23 wards and are within a 10-minute walk of a train station. URBANET also directly sells development properties (whole buildings) to companies, funds, and individuals, and develops and sells subdivided condos. By making thorough use of outsourcing and primarily selling entire buildings instead of individual units, the company achieves high efficiency and limits risk.

Leverages building design capabilities in land acquisition and condo development: Now a condo developer, URBANET got its start in building design and real estate consulting. (The company was established in July 1997 by first-class architect Shinji Hattori.) While development companies typically delegate building design to design offices, URBANET creates general designs itself, so it can quickly make land procurement decisions. According to the company, its studio apartments generate higher monthly rents (JPY5,000 above market) and occupancy rates because its building designs—such as monotone exteriors, spacious bathrooms, and entranceways furnished with three-dimensional art—attract tenants (72% of whom are under 35).

Earnings

Company forecast for FY06/19: Selling 647 units (+91 YoY; agreements concluded/anticipated for 599 units)

FY06/18: Revenues were JPY16.1bn (-9.6% YoY) and operating profit JPY1.7bn (-31.0%). This was the first time both revenues and profit were down YoY since FY06/11, but revenues were 0.5% and operating profit 11.2% above URBANET's initial forecasts. Of 12 URBANET-developed properties (489 units), there were no sales of buildings to individuals (the most profitable sales route), while only two properties (136 units) were sold to funds. This meant a 3.7pp YoY drop in GPM.

FY06/19 company forecast: The company expects revenues of JPY17.6bn (+9.1% YoY), operating profit of JPY1.8bn (+4.9% YoY), recurring profit of JPY1.5bn (+4.8%), and net income attributable to owners of the parent of JPY1.0bn (+4.1% YoY). It has land contracts to develop 647 units (+91 units YoY; sales agreement concluded/anticipated for 599 of them in 10 properties). In addition, URBANET expects to sell five apartment buildings (45 units) and three terraced housing units.

Medium-term strategy

Expand existing, recurring revenue, and B2C businesses; develop hotels

URBANET's medium-term strategy has four parts: expand the existing business developing and selling studio apartment buildings for investment purposes (B2B); expand development and sales of subdivided condos (take on the risk of selling to generate higher margins); diversify recurring revenue businesses (boost holdings of income properties, which generate recurring revenues); and grow businesses targeting end users, ie consumers (B2C). The company is steadily expanding its purchasing of development properties using a new committed line of credit (JPY2.0bn) based on syndicated loan agreements.

Started new businesses: The company realized that having only one business segment (Real Estate) limits its growth and moved into the bed and breakfast (B&B) type roadside hotel business in FY06/18 (started leasing six established hotels it had acquired). In FY06/19, it will begin developing hotels.

Strengths and weaknesses

Strengths

Solid relationships with condo sales companies: Core business is developing and selling entire buildings to condo sales companies, so risk is limited.

Development locations in Tokyo's 23 wards: Concentrates management resources in Tokyo's 23 wards, which are characterized by a continued population influx and rise in the number of single households, to take advantage of business opportunities.

Design strength a differentiator: Strong building design capabilities due to its start as a design office leads to quick decision-making on land purchases and attracts residents.

Weaknesses

Retail selling capabilities: Although a focus on wholesaling allows the company to limit risk, it has little experience in retailing to investors and tenants.

Little B2C business experience: To expand business targeting end users, the company established wholly owned subsidiary URBANET LIVING CO., LTD. three and a half years ago in March 2015.

Low collateral: URBANET plans to increase income properties it can use as collateral, but as of end-FY06/18, this revenue was only JPY420mn.

Profit growth drivers

[Currently] Studio apartment buildings for investment (B2B)

[Medium term] Studio apartment buildings for investment (B2B) and consumers (B2C)

Indices	
Market capitalization	JPY8.4 bn
Stock price (2018/09/05)	JPY334
Issued shares	25,144,100 shares
Foreign stockholding ratio	1.54 %
BPS (FY06/18)	JPY296.01
PBR (FY06/18)	1.13 x
PER (FY06/19 Est.)	8.2 x
Dividend (FY06/19 Est.)	JPY15.00
Dividend yield (FY06/19 Est.)	4.49 %
ROE (06/19 Est.)	13.8 %
Net debt / Equity ratio (FY06/18)	191.0 %

Note: Number of shares issued includes treasury stock.

Trends and results													
	Sales (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Recurring profit (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
FY06/09	9,388	0.4%	-1,479	nm	-1,597	nm	-1,802	nm	-131.06	52.70	-14.2%	-107.8%
FY06/10	10,593	12.8%	211	nm	99	nm	98	nm	6.20	56.73	1.6%	11.6%
FY06/11	5,026	-52.5%	237	12.5%	132	33.6%	127	30.4%	7.49	60.48	3.1%	12.7%
FY06/12	6,818	35.6%	461	94.8%	422	219.7%	421	231.2%	24.79	80.90	8.2%	34.6%
FY06/13	7,092	4.0%	758	64.2%	628	48.8%	724	71.9%	39.67	128.12	8.9%	35.8%
FY06/14	10,485	47.8%	1,186	56.5%	992	57.8%	764	5.4%	36.96	153.34	10.3%	26.2%
FY06/15	11,911	13.6%	1,653	39.4%	1,396	40.8%	873	14.4%	41.57	203.43	10.6%	21.1%
FY06/16	17,705	48.6%	2,005	21.3%	1,720	23.3%	1,139	30.5%	45.64	234.60	10.0%	20.8%
FY06/17	17,789	0.5%	2,419	20.6%	2,159	25.5%	1,466	28.6%	58.59	275.54	10.2%	23.0%
FY06/18	16,085	-9.6%	1,668	-31.0%	1,441	-33.3%	989	-32.5%	39.36	296.01	5.5%	13.8%
FY06/19 Est.	17,550	9.1%	1,750	4.9%	1,510	4.8%	1,030	4.1%	40.96	-	-	-

Note: Figures rounded to nearest JPYmn (company rounds down figures under JPY1mn)
Note: Figures may differ from company data due to differences in rounding methods

Business

Develops and wholesales studio apartment buildings in Tokyo's 23 wards, 10-minute walk from train stations

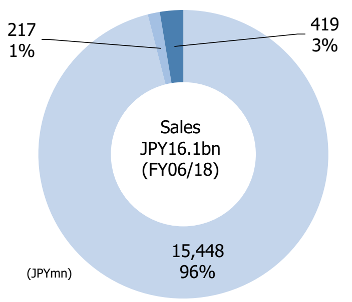
Company overview

URBANET's main business is developing and wholesaling studio apartment buildings (for investment purposes) to condominium sales companies. Development sites are located in Tokyo's 23 wards, within a 10-minute walk of a train station. The company directly sells entire buildings to companies, funds, and individuals, and also develops and sells subdivided condos. In 2017, the supply of investment condos in Greater Tokyo totaled 6,074 units (according to the Real Estate Economic Institute Co., Ltd.). URBANET's condos for investment in FY06/18 totaled 489, or 8.1% of that figure. The company was established in July 1997 by architect Shinji Hattori (URBANET's CEO). Executives and employees numbered 56 as of end FY06/18.

The company has one business segment, the Real Estate segment, and three subsegments:

- Real Estate Development and Sales (96% of FY06/18 revenues): Develops and sells studio apartment buildings for investment purposes; develops and sells condos for subdivision, detached homes, and smaller apartments; buys land for commercial use
- Real Estate Purchase and Sales (1% of revenues): Buys and resells pre-owned family condos and other properties developed by other companies
- Other (3% of revenues): Real estate leasing and brokerage

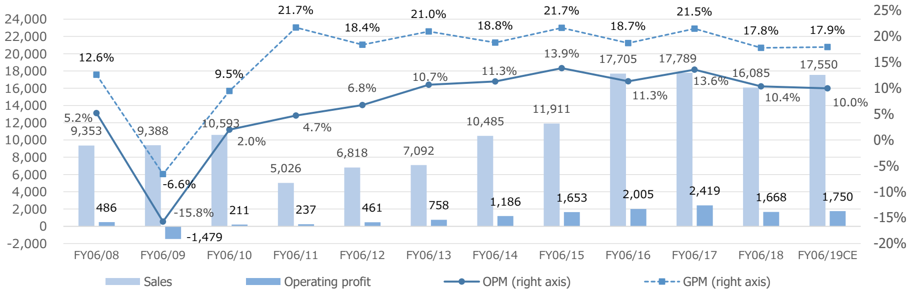
Revenues by subsegment (FY06/18)



Source: Shared Research based on company data

The company booked an operating loss in FY06/09, affected by the global financial crisis (September 2008). In FY06/17, revenues and profits rose for the sixth consecutive year since FY06/12. In FY06/18, however, due to land purchasing conditions for development properties, the number of properties resulting in the booking of revenues declined, resulting in lower revenues and operating profit YoY. URBANET forecasts higher YoY revenues and operating profit for FY06/19.

Earnings trends



Source: Shared Research based on company data (rounded below JPY1mn)

Business model

Condos developed by URBANET

URBANET has 56 executives and employees developing 10–15 studio apartment buildings for investment* each year (mainly in Tokyo's 23 wards, within 10 minutes' walk of a train station**, average floor space of 25sqm). URBANET handles the overall design and buys the land for the properties it develops (thereby taking on some development risk). It outsources detailed building design to design offices and construction to general contractors. While most developers outsource everything including general design, the company handles general design itself, so it can swiftly determine profitability and whether land is suited for developing studio apartment buildings. URBANET wholesales properties it has developed (entire buildings) to condominium sales companies (B2B). As such, it does not bear the risk that comes with selling individual units to investors. The buildings it develops comprise 40–50 studio apartments. Shared Research estimates that each studio wholesales for around JPY20mn, and that the condominium sales companies sell the studios to investors for around JPY25mn each. URBANET also directly sells some studio apartment buildings it has developed to individuals, companies, and funds. In addition, the company develops subdivided condos, detached homes, and apartments, and sells them to individuals.

*Renters (tenants) are the end users of studio apartments.

**The company's principal development area is within Tokyo's 23 wards, in areas 10 minutes' walk from a train station. This is because

(1) Competition to acquire land is high, and the population is expected to continue flowing into Tokyo's 23 wards. (According to the Ministry of Internal Affairs and Communications Bureau of Statistics, the influx into Tokyo's 23 wards is expected to increase until 2035, while the overall Japanese population is decreasing.)

(2) Most people moving into Tokyo (especially Tokyo's 23 wards) are single, and are therefore potential tenants of studio apartments.

(3) Potential tenants tend to select prime locations with convenient access to school or work.

(4) As URBANET's customers buy studio apartments for investment rather than as tenants, the company can generate demand as long as yields are strong.

Note: Certain development properties are outside Tokyo's 23 wards, such as a project in Musashi-Kosugi, in Kawasaki, Kanagawa Prefecture.

In FY06/18, URBANET developed 12 studio apartment buildings (489 units) for investment. Of this figure, it sold whole buildings totaling 353 units (72%; +12pp YoY) to condominium sales companies and 136 units in two buildings (28%; -12pp YoY) directly to funds, but did not sell any buildings to individuals (the most profitable sales route). URBANET also sold 51 subdivided condos, 10 terraced housing units, and six apartments, and booked revenues from the resale of four units. This means a total of 560 units sold.

The company plans to develop and sell about two condo buildings every three years. In FY06/18, it booked revenues on 51 subdivided condos, which have high margins as the company sells them directly (not through a reseller), but involve fixed costs (salespeople) and risk (units could remain unsold).

URBANET's operations are efficient and development risks limited because it outsources most operations other than development, and mainly sells entire buildings, not individual units, to condominium sales companies. The company typically recovers investments on the buildings it develops within four months of completing construction for and selling the buildings, in the form of sales proceeds from condominium sales companies. Sales proceeds are received per unit as the condominium sales companies sell each unit to investors, and the remainder not sold within four months is received from the condominium sales company in full at the end of the contract period. Proceeds are cash transfers (no receivables or promissory notes). URBANET says the process from land acquisition (name transfer on land) through sale (wholesale) takes 1.5–2.5 years. In principle, it relies on bank loans for cash to purchase land. General contractors are paid 10% at the start of construction, 10% when framework goes up, and 80% as payments for each unit are settled. URBANET wholesales buildings to condominium sales companies such as MEIWA CO., LTD. It outsources construction to GODA KOUMUTEN CO., LTD. (HQ in Takamatsu, Kagawa Prefecture) for roughly 50% of the properties it develops.

Business model characteristics

- A small team (11 executives, 33 regular employees, 10 employees at subsidiaries, and 2 contract employees)
  - Revenues per employee: JPY357mn (FY06/18; 45 employees on a consolidated basis)
  - Net income per employee: JPY22mn (FY06/18)
- Concentrates management resources on general design and development of studio apartments for investment purposes (outsources detailed design and construction)
- Mainly wholesales developed properties (sells entire building) to condominium sales companies (no risk of units remaining unsold, as the condominium sales companies sell units on to investors)
- The company bears only the development risk, so it is relatively resistant to economic downturns. Fixed costs are low, while profitability is high and the business can respond flexibly to market fluctuations.

Features of URBANET's studio apartments

- Prime locations: In Tokyo's 23 wards and within 10 minutes' walk of a train station
- Differentiates through impactful exterior design and general design capabilities (eight of 45 consolidated-basis employees handle planning and general design; company got its start in design and real estate consulting.)
  - Distinctive monotone exterior designs (Photo 1)
  - Entrances with three-dimensional art (Photo 2)
  - Spacious unit bath designed by URBANET (Photo 3)
  - Ample storage space (storage capacity maximized without increasing floor space) (Photo 4)
- Tenants are typically young (youngest group, aged 25–29, is 35.1% of the total) (See

pie chart.)

Feature of URBANET's one-room condominiums for investment: Distinctive designs

Photo 1

Photo 2

Photo 3

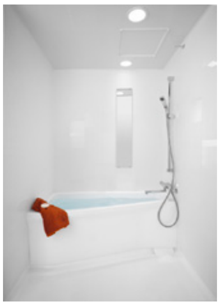
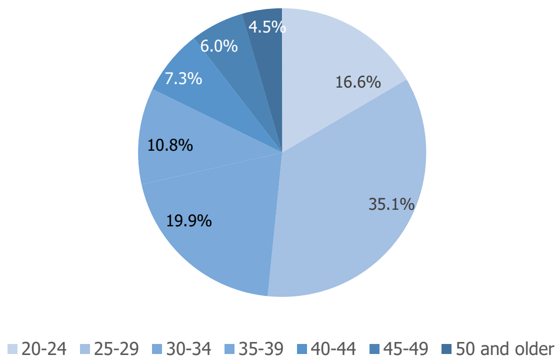


Photo 4

Note: Photos of Gran Tiara Shin-Okachimachi Asyl Court, developed by URBANET
Source: Company data

Age of residents in URBANET's studio apartments



Source: Shared Research based on company data

URBANET analyzes the results of tenant surveys (conducted every two years), and reflects this feedback when next developing next properties.

Purchase and Resale business, and Other business

In the Purchase and Resale business, URBANET buys properties developed by other companies at low costs and resells them. It aims to increase its number of business partners and expand this business.

Started up new business

The company realized that having only one business segment (Real Estate) limits its growth and decided to move into the bed and breakfast (B&B) type roadside hotel business. In FY06/18, it began leasing six established hotels it had acquired as the first stage of the new business. In addition, in FY06/19, it will conduct its first development project in the hotel business using land it purchased to develop one-room condos for investment (see Medium-term strategy section).

URBANET development properties, land and real estate for resale

FY		Project	Type	Units	Sold to	Sales status	Booking
FY06/18 560 units	Land purchased for in-house development: 556 units	Asyl Coffret Nakano-Sakaue	Compact, for subdivision	51	Subdivision	Booked sales	1H, 2H
			One-room, for investment	36	Sales company	Booked sales	1H
		LOVIE Azabu Juban	One-room, for investment	29	Sales company	Booked sales	1H
		SY FORME DEN-EN-CHOFU-MINAMI Asyl Court	One-room, for investment	43	Sales company	Booked sales	1H
		SY FORME UENO Asyl Court	One-room, for investment	38	Sales company	Booked sales	1H
		AXAS Koenji Asyl Court	One-room, for investment	60	Sales company	Booked sales	1H
		AXAS Yoyogi Hachiman Asyl Court	One-room, for investment	31	Sales company	Booked sales	1H, 2H
		Grand Concierge Mishuku Asyl Court	One-room, for investment	36	Sales company	Booked sales	1H, 2H
		LOVIE Ginza Higashi	One-room, for investment	33	Sales company	Booked sales	2H
		Asyl Court Kojiya	One-room, for investment	82	Fund	Booked sales	2H
		Stage First Setagaya Asyl Court	One-room, for investment	44	Sales company	Booked sales	2H
		Asyl Court Nishimagome	One-room, for investment	54	Fund	Booked sales	2H
		AXAS Mejiro Asyl Court	One-room, for investment	38	Sales company	3/38	2H
		Asyl deux Meguro	Terrace house	5	-	2/5	2H
		Asyl deux Ochiai	Terrace house	8	-	Booked sales	2H
		Asyl Maison de Honancho	Condominium	6	-	Booked sales	2H
	Purchase for resale	4 properties	n.a.	4	-	Booked sales	1H, 2H
FY06/19	Land purchased for in-house development: 647 units (599 contracts signed or expected)	10 buildings	One-room, for investment	599		-	-
		5 building	Condominium	45		-	-
			Terrace house	3			
FY06/20	Land purchased for in-house development: 880 units						

Source: Shared Research based on company data

URBANET brands

- Asyl Court (studio apartments)
- Asyl Coffret (compact condos)
- Gran Asyl (family condos)
- Asyl Villa (detached homes)

URBANET's main customers (wholesales: condominium sales companies, direct sales: companies)

Main sales destinations (ten years through FY06/17)												
		FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.
Sales		**9,353**	**9,388**	**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**
	YoY	28.8%	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%
Meiwa Inc.		2,007	2,154	2,226	882	2,204	2,037	3,511	2,881	5,568	5,391	
	YoY	69.9%	7.3%	3.3%	-60.4%	149.9%	-7.6%	72.4%	-18.0%	93.2%	-3.2%	
	% of sales	21.5%	22.9%	21.0%	17.5%	32.3%	28.7%	33.5%	24.2%	31.4%	30.3%	
Assetlead Inc.		-	-	-	-	1,355	2,211	3,333	3,589	5,516	1,121	
	YoY	-	-	-	-	-	63.2%	50.8%	7.7%	53.7%	-79.7%	
	% of sales	-	-	-	-	19.9%	31.2%	31.8%	30.1%	31.2%	6.3%	
Minami Azabu RSIC G.K.		-	-	-	-	-	-	-	-	-	2,408	
	YoY	-	-	-	-	-	-	-	-	-	-	
	% of sales	-	-	-	-	-	-	-	-	-	13.5%	
Individual		-	-	-	-	-	-	-	-	-	2,210	
	YoY	-	-	-	-	-	-	-	-	-	-	
	% of sales	-	-	-	-	-	-	-	-	-	12.4%	
Tokyu Land Corporation		-	-	-	-	-	-	-	-	-	2,122	
	YoY	-	-	-	-	-	-	-	-	-	-	
	% of sales	-	-	-	-	-	-	-	-	-	11.9%	
Vortex Co., Ltd.		-	-	-	-	-	-	-	-	1,450	-	
	YoY	-	-	-	-	-	-	-	-	na	-	
	% of sales	-	-	-	-	-	-	-	-	8.2%	-	
Makes Co., Ltd.		-	-	-	-	-	-	-	1,134	-	-	
	YoY	-	-	-	-	-	-	-	nm	-	-	
	% of sales	-	-	-	-	-	-	-	9.5%	-	-	
Syla Co., Ltd.		-	-	-	-	-	-	1,016	-	-	-	
	YoY	-	-	-	-	-	-	nm	-	-	-	
	% of sales	-	-	-	-	-	-	9.7%	-	-	-	
Prestige Co., Ltd.		-	-	-	-	-	776	-	-	-	-	
	YoY	-	-	-	-	-	nm	-	-	-	-	
	% of sales	-	-	-	-	-	10.9%	-	-	-	-	
Property Investment Managers Co., Ltd.		-	1,192	478	-	-	-	-	-	-	-	
(Now: PIM Co., Ltd.)	YoY	-	nm	40.1%	-	-	-	-	-	-	-	
	% of sales	-	12.7%	4.5%	-	-	-	-	-	-	-	
ITOCHU Property Development, Ltd.		-	-	-	-	660	-	-	-	-	-	
	YoY	-	-	-	-	nm	-	-	-	-	-	
	% of sales	-	-	-	-	9.7%	-	-	-	-	-	
Nisshin Housing Support Co., Ltd.		-	-	-	500	-	-	-	-	-	-	
(Now: Nisshin Property Management Co., Ltd.)	YoY	-	-	-	nm	-	-	-	-	-	-	
	% of sales	-	-	-	9.9%	-	-	-	-	-	-	
Century Tokyo Leasing Corporation		-	-	2,161	-	-	-	-	-	-	-	
	YoY	-	-	nm	-	-	-	-	-	-	-	
	% of sales	-	-	20.4%	-	-	-	-	-	-	-	
Nihon Works Co., Ltd.		-	1,161	-	-	-	-	-	-	-	-	
	YoY	-	nm	-	-	-	-	-	-	-	-	
	% of sales	-	12.4%	-	-	-	-	-	-	-	-	
Kurumi Investments One LLC		1,380	-	-	-	-	-	-	-	-	-	
	YoY	nm	-	-	-	-	-	-	-	-	-	
	% of sales	14.8%	-	-	-	-	-	-	-	-	-	
PIP Invests Two LLC		1,320	-	-	-	-	-	-	-	-	-	
	YoY	nm	-	-	-	-	-	-	-	-	-	
	% of sales	14.1%	-	-	-	-	-	-	-	-	-	
Lupinus Investments One LLC		1,095	-	-	-	-	-	-	-	-	-	
	YoY	nm	-	-	-	-	-	-	-	-	-	
	% of sales	11.7%	-	-	-	-	-	-	-	-	-	
Shin-nihon Tatemono Co., Ltd.		1,037	-	-	-	-	-	-	-	-	-	
	YoY	nm	-	-	-	-	-	-	-	-	-	
	% of sales	11.1%	-	-	-	-	-	-	-	-	-	

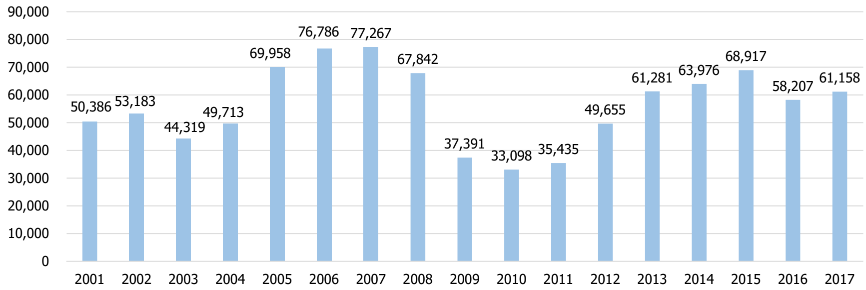
Source: Shared Research based on company data

Market conditions

Demographic trend: Ongoing influx to Tokyo

URBANET generally develops studio apartments for investment within Tokyo's 23 wards, which have seen a net influx of population for 21 consecutive years since 1997. Single households make up the majority of this figure, so the number of people who rent properties developed by URBANET is continually rising. The net inflow into Tokyo's 23 wards was 63,976 in 2014, 68,917 in 2015, 58,207 in 2016, and 61,158 in 2017 (source: "Report on Internal Migration Derived from Basic Resident Registers (2017 Results)" and Ministry of Internal Affairs and Communications Bureau of Statistics). According to the report, growth trends over the past four years for Greater Tokyo have been similar to Tokyo's 23 wards: 119,357 in 2015, 117,868 in 2016, and 119,779 in 2017.

Influx into Tokyo's 23 wards



Source: Shared Research based on the "Report on Internal Migration Derived from Basic Resident Registers (2017 Results)," Ministry of Internal Affairs and Communications Bureau of Statistics

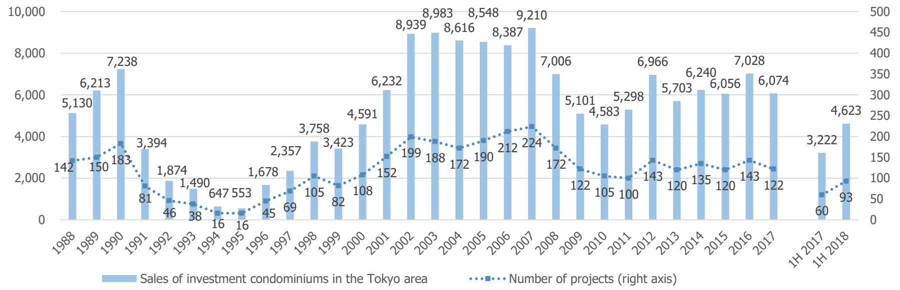
Supply and selling prices of new studio apartments

The supply of studio apartments for investment in Greater Tokyo totaled 6,074 units (122 properties) in 2017 (source: Real Estate Economic Institute Co., Ltd.). This is a decrease of 954 units (21 properties) from 2016. Amid very low interest rates and purchases by investors seeking rental income, the supply of studio apartments for investment in Greater Tokyo in 2016 topped 7,000 units for the first time since 2008, but in 2017 saw a YoY percentage decline in the double digits, finishing in the 6,000 range once again.

The sales price of studio apartments in Greater Tokyo has continued to rise since 2013, reflecting higher land prices and costs of construction materials and other items. The average selling price rose 1.5% YoY to JPY28.3mn or JPY1.1mn per sqm (-0.8% YoY) in 2017 (source: Real Estate Economic Institute Co., Ltd.).

However, supply has increased since the start of 2018. The supply of condos for investment in Greater Tokyo totaled 4,623 units (93 properties) in 1H 2018 (Jan-Jun), up 55.0% YoY in terms of units and 43.5% YoY in the number of properties (source: Real Estate Economic Institute Co., Ltd.). According to the same source, new construction in central Tokyo is likely to remain difficult in the face of fiercer competition for land, but the supply should be stable in the short term as the company expands its reach to the Joto and Johoku areas (Eastern and Northern Tokyo). A further decline in the supply of lower-priced units because of the land price increase may result in areas other than Greater Tokyo and the pre-owned housing market becoming even more popular.

Supply of condos for investment in Greater Tokyo

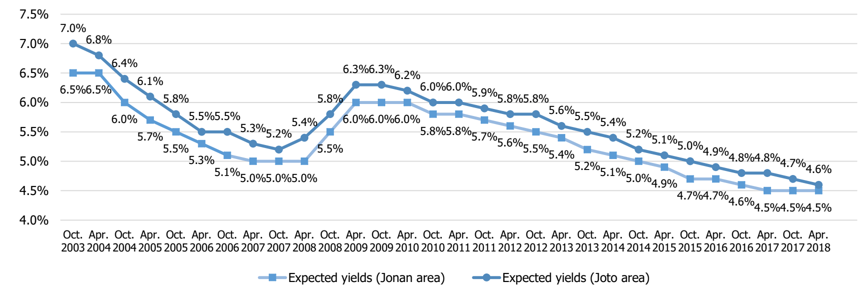


Source: Shared Research based on data from TOKYO KANTEI Co., Ltd.

Investment yields

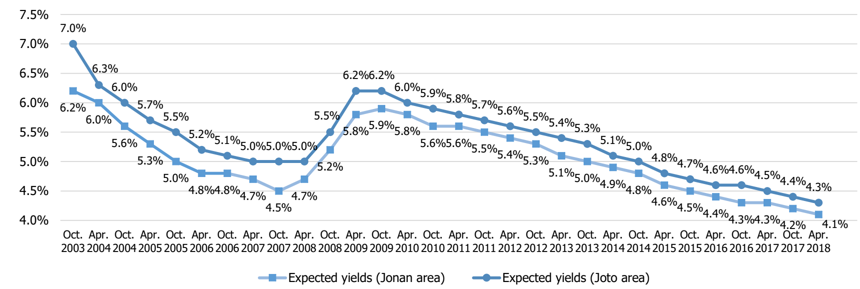
The Bank of Japan's policy of negative interest rates (since March 2016) depressed interest rates on financial products, making investment in tangible assets such as studio apartments relatively attractive. However, investment yields on investment real estate have been falling as prices rise. For instance, according to data from the Japan Real Estate Institute, the transaction yield (gross yield*) on studio apartments (within 10 minutes' walk of a train station, built within the past five years) for investment purposes in Tokyo's Jonan area (comprising Meguro and Setagaya wards) has fallen from 5.8% in April 2009 to 4.1% in April 2018, and the expected yield fell from 6.0% in April 2009 to 4.5% in April 2018.

Expected yields on one-room condominiums for investment in Tokyo



Source: Shared Research based on data from the Japan Real Estate Institute
Note: One-room condominiums built within the past five years, within 10 minutes' walk of a station, mean floor space of 25–30sqm, around 50 units per building

Transaction yields on one-room condominiums for investment in Tokyo



Source: Shared Research based on data from the Japan Real Estate Institute
Note: One-room condominiums built within the past five years, within 10 minutes' walk of a station, mean floor space of 25–30sqm, around 50 units per building

*Gross yield: Annual leasing income divided by acquisition price. Net yield is calculated as annual leasing income minus attendant expenses (management fees, property taxes) divided by acquisition price plus attendant expenses (registration license tax). Investors take into account other factors as well, such as loan interest payments, vacancy risk, and potential losses on eventual sale. According to one company that sells investment condos, main objectives when investing in studio apartments are obtaining yields, generating post-retirement cash flows, reaping tax benefits (if rental income minus various expenses during the initial purchase period is negative due to building depreciation, interest expenses, lower inheritance tax valuation, etc.), and signing up for life insurance (group credit insurance when borrowing).

Competitors

- According to the Ministry of Finance's "Financial Statements Statistics of Corporations by Industry" (fiscal 2016 edition), some 321,000 companies throughout Japan are involved in real estate (11.6% of the 2.78mn companies in all industries excluding finance and insurance).
- These statistics also indicate that the average OPM in all industries except finance and insurance is 4.0%, while the real estate sector far exceeds this percentage, at 11.5% (putting it at the top of all industries).
- Around 120 listed companies are involved in real estate.
- URBANET's main competitors are FJNext Co., Ltd. (TSE1: 8935) and The Global Ltd. (TSE1: 3271).
- Among listed companies, URBANET's profitability and efficiency are somewhat below the average for its competitors and comparable companies.

Profitability and efficiency

Ticker	Company	Fiscal year	Sales	OP	OPM	RP	RPM	ROA	ROE	Equity ratio
8935	FJNext Co., Ltd.	FY03/18	67,008	7,238	10.8%	7,226	10.8%	11.8%	12.5%	62.0%
3244	Samty Co., Ltd.	FY11/17	60,479	10,131	16.8%	8,461	14.0%	5.5%	15.8%	23.4%
8877	Nihon Eslead Corporation	FY03/18	48,340	6,752	14.0%	6,703	13.9%	10.9%	11.7%	61.3%
3271	The Global Ltd.	FY06/18	38,742	4,157	10.7%	3,261	8.4%	8.3%	24.0%	20.2%
3464	Property Agent Inc.	FY03/18	19,219	1,391	7.2%	1,128	5.9%	7.2%	20.2%	23.6%
3242	Urbanet Corporation	FY06/18	16,085	1,668	10.4%	1,441	9.0%	5.5%	13.8%	26.1%
3280	S Trust Co., Ltd.	FY02/18	13,923	1,160	8.3%	1,043	7.5%	6.7%	14.9%	32.6%
3245	Dear Life Co., Ltd.	FY09/17	16,476	2,071	12.6%	1,996	12.1%	12.6%	20.8%	42.3%
3246	Kose R.E. Co., Ltd.	FY01/18	12,889	1,784	13.8%	1,750	13.6%	12.7%	24.6%	43.1%
3469	Dualtap Co., Ltd.	FY06/18	9,778	566	5.8%	504	5.2%	8.5%	21.1%	27.4%
3264	Ascot Corporation	FY09/17	7,520	425	5.7%	408	5.4%	3.7%	5.5%	64.6%
	Average		28,224	3,395	10.5%	3,084	9.6%	8.5%	16.8%	38.8%

Source: Shared Research based on individual company data

Earnings

Revenues and profit declined in FY06/18, but company forecasts higher revenues and profit again in FY06/19

FY06/18 earnings

Revenues totaled JPY16.1bn (-9.6% YoY) and operating profit JPY1.7bn (-31.0% YoY). Revenues and profits fell for the first time since FY06/11, but revenues were 0.5% and operating profit 11.2% above URBANET's initial forecasts. Recurring profit was JPY1.4bn (-33.3% YoY) and net income attributable to owners of the parent JPY989mn (-32.5% YoY).

The main reason revenues fell 9.6% YoY was that the number of URBANET-developed studio apartments for investment fell to 489 (-98 units YoY, -16.7%). The number of properties for sale fell in FY06/18 for the second year in a row because the company had been using extreme caution in determining the prospects of individual properties when it was considering purchasing them. However, the market did not deteriorate to the degree expected.

The main reasons operating profit fell 31.0% YoY were the lower revenues and a deteriorating GPM. Of the 489 URBANET-developed studio apartments in 12 buildings, the company sold no buildings to individuals (where the margin is higher) and just two buildings (136 units) to funds, resulting in a 3.7pp drop in GPM to 17.8%. At the same time, the SG&A-to-revenues ratio fell 0.5pp to 7.4%. As a result, the OPM declined 3.2pp to 10.4%.

Subsegment trends:

- Real Estate Development and Sales: Revenues were JPY15.4bn (-10.2% YoY). The company sold 489 studio apartment units (12 buildings) for investment that it developed. (See the table entitled "URBANET development properties, land and real estate for resale" in the Business section.) Of this figure, 10 buildings totaling 353 units (72%) were sold to condominium sales companies and two entire buildings (136 units) were sold to funds (28%). However, there were no sales of buildings to individuals (the most profitable sales route). In addition, URBANET sold 51 subdivided condos, 10 terraced housing units, and six apartment units.
- Real Estate Purchase and Sales: Revenues in this subsegment were JPY217mn (-9.1% YoY). The company resold four units.
- Other: Revenues were JPY419mn (+19.5% YoY) from businesses including real estate brokerage and real estate leasing. Recurring revenue is increasing as the company builds its inventory of profitable properties.

Purchasing

Inventories (real estate for sale and real estate for sale in process) at end-FY06/18 were JPY18.6bn (+20.5% YoY, +JPY3.2bn). This means the company made steady progress in line with its plan. Overall, it remains difficult to purchase land for condos in central Tokyo, but in light of its track record, the company has been able to steadily purchase land for development. Using a new committed line of credit (JPY2.0bn) based on syndicated loan agreements, the company is becoming even more active in purchasing land for development (interest-bearing debt at end-FY06/18 was JPY18.5bn, up JPY3.6bn YoY).

Dividends

As net income for FY06/18 exceeded its initial forecast, the company increased the year-end dividend from the planned JPY6 to JPY9 per share. Together with the interim dividend of JPY7, this meant total dividends for the year of JPY16 (JPY15 ordinary dividend + JPY1 commemorative dividend) per share. For reference, JPY06/17 dividends totaled JPY21 (JPY9 interim dividend + JPY12 year-end dividend) per share.

Subsegment performance

Subsegment performance												
		FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.
Sales		**9,353**	**9,388**	**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**
	YoY	28.8%	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%
Real Estate Development and Sales		**9,285**	**7,357**	**7,776**	**4,192**	**6,380**	**6,536**	**10,219**	**11,671**	**15,755**	**17,198**	**15,448**
	YoY	29.1%	-20.8%	5.7%	-46.1%	52.2%	2.4%	56.4%	14.2%	35.0%	9.2%	-10.2%
	% of sales	99.3%	78.4%	73.4%	83.4%	93.6%	92.2%	97.5%	98.0%	89.0%	96.7%	96.0%
Condominiums sold	Buildings	8	10	8	4	7	8	12	12	15	12	12
	Units	385	401	453	112	254	293	522	554	608	587	540
One-room condos for investment	Buildings	8	10	8	1	5	6	12	11	15	12	12
	Units	385	401	453	36	222	240	522	507	608	587	524
Condominiums for subdivision	Buildings	-	-	-	3	2	2	-	1	-	-	1
	Units	-	-	-	76	32	53	-	47	-	-	16
Apartments and terrace houses	Buildings	-	-	-	-	-	-	-	-	-	1	3
	Units	-	-	-	-	-	-	-	-	-	12	16
Apartments	Buildings	-	-	-	-	-	-	-	-	-	1	1
	Units	-	-	-	-	-	-	-	-	-	12	6
Terrace houses	Buildings	-	-	-	-	-	-	-	-	-	-	2
	Units	-	-	-	-	-	-	-	-	-	-	10
Selling price (avg. per building)	JPYmn/bldg	1,161	736	972	1,048	911	817	852	973	1,050	1,323	1,030
Selling price (avg. per unit)	JPYmn/unit	24	18	17	37	25	22	20	21	26	29	28
Real Estate Purchase and Sales		**na**	**1,920**	**2,721**	**773**	**383**	**454**	**162**	**96**	**1,776**	**239**	**217**
	YoY	-	0.0%	41.7%	-71.6%	-50.4%	18.4%	-64.3%	-40.7%	1754.3%	-86.5%	-9.1%
	% of sales	-	20.4%	25.7%	15.4%	5.6%	6.4%	1.5%	0.8%	10.0%	1.3%	1.3%
Condominiums sold	Units	-	-	-	-	-	27	3	2	30	5	4
One-room condos for investment	Units	-	-	-	-	-	27	3	2	30	5	4
Condominiums for subdivision	Units	-	-	-	-	-	-	-	-	-	-	-
Selling price (avg. per unit)	JPYmn/unit	-	-	-	-	-	17	54	48	59	48	54
Others		**68**	**112**	**96**	**61**	**55**	**103**	**104**	**143**	**172**	**351**	**419**
	YoY	1.1%	64.5%	-14.2%	-36.1%	-10.7%	87.3%	1.4%	38.0%	19.9%	103.1%	19.5%
	% of sales	0.7%	1.2%	0.9%	1.2%	0.8%	1.4%	1.0%	1.2%	1.0%	2.0%	2.6%

Source: Shared Research based on company data
*Simple calculated values (For example, sale of land for resale not included in Real Estate Development and Sales)

Earnings by quarter (cumulative)

(Cumulative) (JPYmn)	FY06/17 Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	FY06/18 Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.
Sales	3,991	10,690	12,768	17,789	4,430	8,834	13,308	16,085
YoY	127.3%	36.0%	15.4%	0.5%	11.0%	-17.4%	4.2%	-9.6%
Real Estate Development and Sales	3,747	10,334	12,303	17,198	4,291	8,545	12,817	15,448
YoY	116.9%	63.5%	30.1%	9.2%	14.5%	-17.3%	4.2%	-10.2%
% of sales	93.9%	96.7%	96.4%	96.7%	96.9%	96.7%	96.3%	96.0%
Real Estate Purchase and Sales	108	150	186	239	54	108	171	217
YoY	nm	-89.9%	-87.7%	-86.5%	-50.0%	-28.0%	7.9%	-9.1%
% of sales	2.7%	1.4%	1.5%	1.3%	1.2%	1.2%	1.3%	1.3%
Others	134	205	278	351	84	180	319	419
YoY	396.3%	272.7%	219.5%	103.1%	-37.3%	-12.2%	14.5%	19.5%
% of sales	3.4%	1.9%	2.2%	2.0%	1.9%	2.0%	2.4%	2.6%
Cost of sales	3,082	8,126	9,787	13,962	3,483	7,012	10,720	13,223
YoY	118.2%	28.2%	7.8%	-3.0%	13.0%	-13.7%	9.5%	-5.3%
Cost ratio	77.2%	76.0%	76.7%	78.5%	78.6%	79.4%	80.5%	82.2%
Gross profit	909	2,565	2,981	3,827	947	1,822	2,589	2,863
YoY	164.9%	68.6%	50.6%	15.5%	4.2%	-29.0%	-13.2%	-25.2%
GPM	22.8%	24.0%	23.3%	21.5%	21.4%	20.6%	19.5%	17.8%
SG&A expenses	362	803	1,067	1,408	323	603	893	1,194
YoY	45.2%	32.4%	18.4%	7.6%	-10.8%	-24.9%	-16.3%	-15.2%
SG&A ratio	9.1%	7.5%	8.4%	7.9%	7.3%	6.8%	6.7%	7.4%
Operating profit	547	1,762	1,914	2,419	624	1,219	1,696	1,668
YoY	484.8%	92.6%	77.5%	20.6%	14.2%	-30.8%	-11.4%	31.0%
OPM	13.7%	16.5%	15.0%	13.6%	14.1%	13.8%	12.7%	10.4%
Recurring profit	503	1,632	1,727	2,159	566	1,105	1,535	1,441
YoY	3309.6%	120.8%	103.1%	25.5%	12.6%	-32.3%	-11.1%	-33.3%
RPM	12.6%	15.3%	13.5%	12.1%	12.8%	12.5%	11.5%	9.0%
Net income	349	1,118	1,179	1,466	390	758	1,048	989
YoY	4414.0%	129.9%	112.9%	28.6%	11.6%	-32.2%	-11.1%	-32.5%
Net margin	8.8%	10.5%	9.2%	8.2%	8.8%	8.6%	7.9%	6.1%

Source: Shared Research based on company data

Company forecast for FY06/19

The company forecasts revenues of JPY17.6bn (+9.1% YoY), operating profit of JPY1.8bn (+4.9% YoY), an OPM of 10.0% (down 0.4pp from FY06/18), recurring profit of JPY1.5bn (+4.8% YoY), and net income attributable to owners of the parent of JPY1.0bn (+4.1% YoY).

- Reasons for higher revenue forecast: The company forecasts an 87-unit YoY increase in sales of properties it develops to 647 units in 15 buildings (see the table entitled "URBANET development properties, land and real estate for resale" in the Business section). This breaks down into 10 blocks (599 units) of studio apartments for investment, five apartment blocks (45 units), and three terraced housing units.

- Reasons for lower OPM (-0.4pp YoY) forecast: URBANET expects GPM to be fairly flat YoY (+0.1pp), but expects the SG&A-to-revenues ratio to rise 0.6pp. Although the company expects a worsening OPM, it expects higher operating profit as revenues increase.
- Development environment
  - Even as purchasing of land for condos remains difficult in central Tokyo, URBANET's purchasing remains steady: Land prices continue to rise*[1], but the company is expanding from central Tokyo where the price rise is particularly steep to the periphery of the 23 wards, including the Joto (including Adachi, Katsushika, and Sumida wards) and Johoku (including Itabashi and Kita wards) areas where transportation is convenient.
  - Overall, it remains difficult to purchase land for condos in central Tokyo, but in light of its track record, the company has been able to steadily purchase land for development.*[2]

*[1] The average price of roadside land in Tokyo proper was up 4.0% YoY in 2018. Prices continue to rise in central Tokyo on robust demand from foreigners visiting Japan and demand for office space.
*[2] As mentioned, inventories (real estate for sale and real estate for sale in process) at end-FY06/18 were JPY18.6bn (+20.5% YoY, +JPY3.2bn).

- Sales environment

  [Studio apartments for investment purposes]
  - URBANET expects that demand for studio apartments for investment will remain robust as the population continues to flow into central Tokyo, even though supply looks set to fall short due to high land prices.

  [Condos for subdivision]
  - The average contract rate within Tokyo's 23 wards was 76.2% (July 2017–June 2018) up 2.9pp YoY (according to the Real Estate Economic Institute). The company expects ongoing demand accompanying continued population inflow.

Dividends

The company plans dividends totaling JPY15 per share in FY06/19 (JPY7 interim dividend + JPY8 year-end dividend).

Company forecast for FY06/20

As of August 9, 2018, URBANET had acquired development land to build 880 units for sale in FY06/20 (+233 units versus the FY06/19 company forecast). Provided unit sales prices and profit margins do not fall sharply amid a real estate market slump, we think revenues and profits will increase again in FY06/20, as they are expected to in FY06/19, after the FY06/18 downturn.

Medium-term strategy

Expand URBANET-developed, recurring-revenue, and B2C businesses

Core strategies

Four main medium-term strategies:

- Further expand the core business of developing and selling studio apartment buildings for investment (B2B).
- Grow business in subdivided condos (family condos, compact condos), generating higher margins by taking on selling risk, and collaborate with construction companies.
- Diversify operations, including recurring-revenue model businesses (increase holdings of income properties that generate revenues*[1] to grow the leasing business), a new B&B roadside hotel business*[2], and start of in-house development of hotels*[3].

*[1] FY06/15: (1) Alethea Court Hatchonawate (32 units) (developed by other companies); FY06/16: (2) Asyl Court Shinagawa Nakanobu (64 units) (developed by URBANET), (3) Alethea Court Tamagawa (19 units) (developed by other companies); FY06/17: (4) one URBANET-developed property (62 units) and (5) one other property (N/A); FY06/18: (6) B&B-type roadside hotels (details follow).

*[2] New hotel business: URBANET's preference is for bed and breakfast (B&B) type roadside hotels. The company expects that the business will take some time to contribute to earnings because of its low-risk, low-return model and is accordingly taking a long-term approach. The number of domestic travelers has been stable in the five years to 2016 at around 600mn–640mn, of whom 50% use overnight accommodation (source: Japan Tourism Agency data). The company expects demand for lower-priced hotels to grow in the coming years amid the increase in inbound tourists and Japanese travelers changing their spending patterns, paying less per night for accommodation and extending their stay, and spending more on meals and leisure activities. URBANET believes that B&B roadside hotels will allow the company to run a hotel business without encountering too much competition, because this type of hotel is still quite rare in Japan. The company is leasing six existing hotels (one each in Shizuoka, Shiga, and Nara prefectures and three in Mie Prefecture) acquired from a fund as the first stage of the new business and is seeking to acquire more hotels in or near the Kanto area.

*[3] URBANET plans to open its first self-developed hotel during FY06/19. For its first hotel business project, it will use land (268.18sqm) in Nishikamata, Ota Ward, Tokyo, originally purchased to be used in the development of studio apartments for investment. The project land is conveniently located three minutes by foot from JR Kamata Station, served by the Keihin-Tohoku, Tokyu Tamagawa, and Tokyu Ikegami lines. Kamata Station provides convenient access to Haneda Airport and Shinagawa Station, making Kamata a handy place to stay for those visiting Tokyo for tourism or business. URBANET is planning to build an accommodation-focused hotel, leveraging this favorable location. The company says it has yet to determine the structure and scale of the hotel or a construction schedule, but will release information once it has made these decisions.

The company says land to be used for this sort of hotel or for studio apartments for investment is virtually identical in terms of location and size. It says the size of a single studio apartment is about 21sqm, whereas hotel rooms can go as small as 11sqm, and there is demand from West European travelers for such hotels. The company believes it can improve earnings by operating hotels itself, and plans to operate hotels it develops itself based on experience gained with its B&B-type roadside hotels.

- Through a subsidiary (URBANET LIVING, established in March 2015), expand businesses targeting end users (B2C). Grow B2C businesses of selling subdivided condos, detached homes, and apartments it develops to end users, and build the leasing and management businesses.

Target management indicators

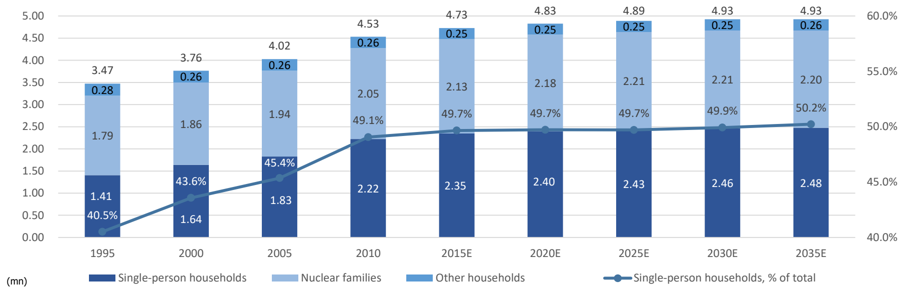
Maintain a gross profit margin of 10% and equity ratio of 25%.

Development environment

According to statistics (announced in March 2014) by the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs, the number of households in Tokyo's

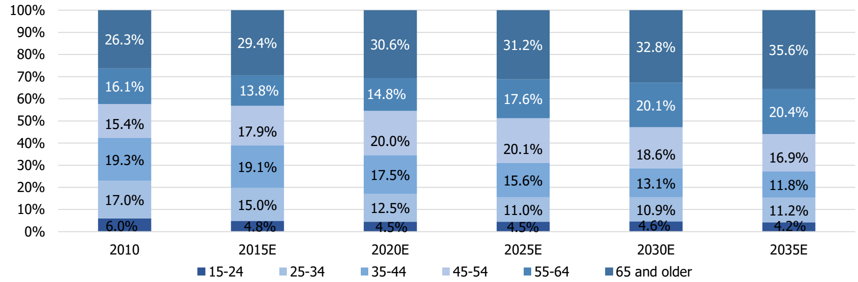
23 wards—where URBANET develops condos—is forecast to continue growing until 2035. The rate of increase is expected to be particularly high among single-person households, and the age of householders is slated to rise: the total number of households in Tokyo's 23 wards is forecast to rise from 4.7bn in 2015 to 4.9mn in 2035, with the percentage of single-person households increasing over that period from 49.7% to 50.2%. The bureau's data predicts that the percentage of households headed by people 35 or older will rise from 80.2% in 2015 to 84.7% in 2035.

Households in Tokyo's 23 wards



Source: Shared Research based on data from the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs (announced March 2014)

Composition by age of general households in Tokyo



Source: Shared Research based on data from the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs (announced March 2014)

Strengths and weaknesses

Strengths

- **Solid relationships with condominium sales companies:** URBANET mainly wholesales entire studio apartment buildings it develops to condominium sales companies, such as MEIWA CO., LTD. (In FY06/18, URBANET wholesaled 72% of its development properties.) URBANET has built a long-term relationship with MEIWA and other condominium sales companies with a sales track record. Due to a positive, long-term relationship with MEIWA that has lasted more than 10 years, URBANET wholesales between one third and one fourth of its development properties to MEIWA. As condominium sales companies handle individual sales to investors, URBANET's risk is limited mainly to development risk.
- **Development locations in Tokyo's 23 wards:** URBANET is concentrating management resources in Tokyo's 23 wards, which are characterized by a continued population influx and rise in the number of single households to take advantage of business opportunities. The company's development properties are generally located in Tokyo's 23 wards, within 10 minutes' walk of a train station, so are convenient for commuting to work or school. Tokyo's 23 wards have seen a net population inflow for 21 consecutive years, since 1997. In the past four years, the net inflow into Tokyo's 23 wards was 68,917 in 2015, 58,207 in 2016, and 61,158 in 2017 ("Report

on Internal Migration Derived from Basic Resident Registers (2017 Results)," Ministry of Internal Affairs and Communications Bureau of Statistics). According to the Tokyo Metropolitan Government Bureau of General Affairs, the number of households in Tokyo's 23 wards is also expected to continue increasing until 2030–2035, centered on single households.

- **Design capabilities differentiate it from competitors:** URBANET has strong plan design capabilities (general designs), stemming from its start as a design company. This background enables the company to make quick decisions on land acquisition and design condos that attract tenants. Whereas other development companies typically outsource general designs to design offices, URBANET handles this process internally, leading to swift decisions when acquiring land. The company has a number of design features that encourage tenants to select URBANET-developed properties over competitors': a distinctive monotone exterior design, three-dimensional art in the entranceways, and spacious bathtubs. URBANET says these features allow condos it has developed to command slightly higher monthly rents than competing properties (up to JPY5,000 more per month) and boost occupancy rates.

Weaknesses

- **Retail selling capabilities:** URBANET's main focus is on wholesaling entire studio apartment buildings for investment that it develops to sales companies, so it eliminates the risk of units remaining unsold. In exchange, however, Shared Research expects that the company misses some opportunity for returns. Because URBANET has a small team that concentrates on development, it focuses mainly on wholesaling not retailing. As a result, we believe the company may not be accumulating its own selling capabilities and experience.
- **Lacks B2C business experience:** URBANET established a subsidiary, URBANET LIVING, in March 2015 to focus on targeting end users (B2C). The company aims to increase B2C businesses such as sales of subdivided condos, detached homes, and apartments, as well as leasing and management. Shared Research sees the B2C business as being central to URBANET's growth over the medium term. However, URBANET LIVING is still young, launched in July 2015. It was already operating in the black during FY06/16, but it has only three and a half years of experience in the B2C businesses.
- **Low collateral:** URBANET weathered the situation that enveloped the real estate sector during the global financial crisis through decisive restructuring and the rapid disposal of properties for sale. Having been frozen out of new development financing from financial institutions, the company experienced shortages of cash and collateral properties. Consequently, URBANET intends to increase the amount of income properties (generating leasing revenues) it can use as loan collateral. However, the company has few income properties (four buildings and six B&B roadside hotels as of end-FY06/18), generating only JPY420mn (+19.5% YoY; 3% of total revenue) in FY06/18. Assuming an expected investment yield of 5% and a loan-to-value ratio of 60%, the collateral value would be around JPY5.0bn (JPY420mn x (1/0.05) ×0.6).

Income statement

Income statement	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19 Est.
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	9,353	9,388	10,593	5,026	6,818	7,092	10,485	11,911	17,705	17,789	16,085	17,550
YoY	28.8%	0.4%	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	9.1%
Cost of sales	8,173	10,005	9,590	3,934	5,564	5,605	8,512	9,331	14,391	13,962	13,223	14,400
YoY	53.3%	22.4%	-4.1%	-59.0%	41.4%	0.7%	51.9%	9.6%	54.2%	-3.0%	-5.3%	8.9%
Cost ratio	87.4%	106.6%	90.5%	78.3%	81.6%	79.0%	81.2%	78.3%	81.3%	78.5%	82.2%	82.1%
Gross profit	1,181	-616	1,003	1,092	1,255	1,487	1,973	2,580	3,314	3,827	2,863	3,150
YoY	-38.8%	-152.2%	-262.7%	8.9%	14.9%	18.5%	32.7%	30.8%	28.4%	15.5%	-25.2%	10.0%
GPM	12.6%	-6.6%	9.5%	21.7%	18.4%	21.0%	18.8%	21.7%	18.7%	21.5%	17.8%	17.9%
SG&A expenses	694	863	792	855	793	729	787	927	1,308	1,408	1,194	1,400
YoY	15.6%	24.3%	-8.2%	8.0%	-7.3%	-8.1%	7.9%	17.9%	41.1%	7.6%	-15.2%	17.2%
SG&A ratio	7.4%	9.2%	7.5%	17.0%	11.6%	10.3%	7.5%	7.8%	7.4%	7.9%	7.4%	8.0%
Operating profit	486	-1,479	211	237	461	758	1,186	1,653	2,005	2,419	1,668	1,750
YoY	-63.4%	n.m.	n.m.	12.5%	94.8%	64.2%	56.5%	39.4%	21.3%	20.6%	-31.0%	4.9%
OPM	5.2%	-15.8%	2.0%	4.7%	6.8%	10.7%	11.3%	13.9%	11.3%	13.6%	10.4%	10.0%
Recurring profit	312	-1,597	99	132	422	628	992	1,396	1,720	2,159	1,441	1,510
YoY	-73.8%	n.m.	n.m.	33.6%	219.7%	48.8%	57.8%	40.8%	23.3%	25.5%	-33.3%	4.8%
RPM	3.3%	-17.0%	0.9%	2.6%	6.2%	8.9%	9.5%	11.7%	9.7%	12.1%	9.0%	8.6%
Net income attributable to parent company shareholders	152	-1,802	98	127	421	724	764	873	1,139	1,466	989	1,030
YoY	-76.7%	n.m.	n.m.	30.4%	231.2%	71.9%	5.4%	14.4%	30.5%	28.6%	-32.5%	4.1%
Net margin	1.6%	-19.2%	0.9%	2.5%	6.2%	10.2%	7.3%	7.3%	6.4%	8.2%	6.1%	5.9%
Depreciation and amortization of goodwill	22	36	22	17	24	11	19	30	70	107	119	na
EBITDA	508	-1,444	233	254	485	768	1,205	1,683	2,075	2,526	1,787	na

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- Revenues and profit increased for six consecutive financial years from FY06/12 to FY06/17, but decreased in FY06/18.
- Profit margins improve in financial years in which there is a higher ratio of revenues from selling whole URBANET-developed studio apartment buildings to individuals. Conversely, this does not occur in financial years in which there is a higher ratio of wholesales to sales companies. In FY06/18, the ratio of wholesales to sales companies increased 12pp YoY to 72% (with no sales of whole buildings to individuals).

Balance sheet

Balance sheet	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposits	2,295	1,029	1,392	961	1,253	2,046	2,147	2,684	2,548	4,113	4,231
Lease investment assets	-	-	-	-	2	-	-	-	-	-	23
Inventories	10,807	7,182	1,975	3,287	4,079	6,062	7,476	10,586	13,257	15,460	18,624
Real estate for sale	2,218	3,991	126	332	328	0	1,167	1,896	2,005	96	2,618
Real estate for sale in process	8,549	3,191	1,840	2,933	3,739	6,062	6,308	8,690	11,252	15,364	16,006
Work in process	40	0	9	22	12	-	1	0	-	-	-
Advance payments - trade	32	12	7	40	0	82	56	82	10	-	25
Prepaid expenses	25	19	15	13	26	14	25	-	22	25	27
Deferred tax assets	178	-	-	-	-	152	17	47	36	50	7
Other	49	96	40	17	1	1	12	40	10	61	131
Total current assets	13,387	8,338	3,430	4,318	5,362	8,356	9,733	13,439	15,883	19,709	23,069
Tangible fixed assets	219	233	221	212	206	113	878	1,858	2,826	3,622	4,903
Buildings and structures	122	125	119	114	110	67	336	691	1,518	1,964	2,091
Vehicles	8	2	3	2	-	-	-	-	-	-	-
Tools, furniture, and fixtures	25	14	7	3	3	2	1	5	3	3	2
Lease assets	-	-	-	-	-	13	32	67	64	46	40
Land	64	92	92	92	92	30	509	624	1,240	1,609	2,770
Construction in progress	-	-	-	-	-	-	-	471	-	-	-
Intangible assets	47	32	24	16	4	1	3	2	3	2	3
Software	46	32	24	16	4	1	2	2	2	2	3
Other	0	0	0	0	0	0	0	0	0	0	0
Investment and other assets	157	155	142	161	51	70	140	277	240	227	553
Investment securities	21	-	-	-	-	-	-	75	-	-	-
Investment in capital	60	60	60	60	0	0	1	1	1	1	1
Lease and guarantee deposits	31	37	30	25	25	20	20	69	65	63	59
Long-term prepaid expenses	2	2	0	5	4	4	1	2	4	2	6
Long-term time deposits	-	-	40	40	2	14	26	38	50	-	-
Deferred tax assets	-	-	0	0	0	0	9	22	24	30	32
Lease investment assets											335
Other	42	56	11	32	19	32	83	69	97	131	120
Total fixed assets	422	421	387	389	261	184	1,021	2,137	3,069	3,851	5,459
Total assets	13,809	8,759	3,817	4,707	5,623	8,540	10,754	15,576	18,952	23,560	28,528
Accounts payable	1,033	2,000	139	270	515	210	903	1,371	876	417	1,638
Short-term debt	302	150	36	419	-	-	120	80	223	255	195
Current portion of bonds	-	-	-	-	-	20	20	68	100	82	36
Current portion of long-term debt	5,787	5,255	2,031	1,371	1,931	2,759	3,806	3,695	5,740	7,173	8,131
Lease obligations	-	-	-	-	-	3	8	18	20	19	16
Accounts payable–other	204	119	133	122	54	15	40	100	74	95	52
Accrued expenses	41	9	7	7	9	12	12	23	23	17	21
Income taxes payable	-	-	3	3	0	63	82	515	342	460	71
Consumption taxes payable	-	-	131	-	13	20	0	50	128	13	3
Advances received	80	84	29	49	202	155	193	225	793	631	634
Deposits received	6	11	10	13	18	20	21	22	36	25	34
Other	9	4	4	7	11	2	2	4	5	7	13
Total current liabilities	7,463	7,633	2,524	2,260	2,752	3,278	5,207	6,170	8,360	9,195	10,844
Bonds	-	-	-	-	-	80	60	118	118	36	-
Long-term debt	3,711	404	322	1,407	1,447	2,524	2,256	4,117	4,513	7,324	10,098
Lease obligations	-	-	-	-	-	12	26	56	50	31	33
Net defined benefit liability	-	-	-	-	-	-	21	28	33	38	44
Other	7	5	5	6	5	1	6	6	9	15	59
Total fixed liabilities	3,718	409	327	1,413	1,452	2,616	2,369	4,324	4,723	7,444	10,234
Total liabilities	11,180	8,042	2,851	3,673	4,204	5,894	7,576	10,495	13,083	16,639	21,077
Shareholder's equity	2,626	716	963	1,027	1,405	2,645	3,175	5,092	5,859	6,914	7,443
(Treasury stock)	-	-	-	-	-	-	-	-	-	0	0
Accumulated other comprehensive income	3	-	-	-	-	-	-	-14	-	-	-
Share subscription rights	-	1	3	7	14	2	3	4	10	7	8
Net assets	2,629	717	966	1,034	1,419	2,646	3,178	5,082	5,869	6,921	7,451
Net debt	7,504	4,780	997	2,237	2,125	3,257	4,055	5,276	8,028	10,720	14,229
Working capital	9,774	5,183	1,836	3,018	3,566	5,852	6,573	9,214	12,382	15,042	17,010

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- Inventories (real estate for sale, including work in process) account for 65% of assets.
- Due to an increase in holdings of income property, the percentage of tangible fixed assets rose from 8.2% in FY06/14 to 17.2% in FY06/18.
- Interest-bearing debt (total of long- and short-term debt and corporate bonds) is growing as business expands, reaching JPY18.5bn at end-FY06/18.

Per-share data (JPY)

Per share data (JPY, after stock split adjustment)	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.
Shares issued (year end)	14,006,400	14,006,400	17,714,400	17,714,400	17,714,400	20,641,200	20,704,800	24,958,400	24,974,400	25,091,900	25,144,100
EPS	10.90	-131.06	6.20	7.49	24.79	39.67	36.96	41.57	45.64	58.59	39.36
EPS (fully diluted)	10.16	na	6.11	7.42	24.54	38.40	36.73	41.46	45.60	58.49	39.34
Dividend per share	12.50	5.00	3.75	3.75	5.00	7.50	12.00	13.00	16.00	21.00	16.00
Book value per share	187.69	52.70	56.73	60.48	80.90	128.12	153.34	203.43	234.60	275.54	296.01

Source: Shared Research based on company data

Cash flow statement

Cash flow statement	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities	-2,754	2,827	3,636	-1,177	47	-1,691	231	-1,246	-1,367	-1,747	-1,601
Cash flows from investing activities	-149	88	29	-50	126	-13	-771	-1,055	-986	-400	-1,388
Cash flows from financing activities	4,031	-4,098	-3,279	746	137	2,497	638	2,839	2,216	3,737	3,107

Note: Figures rounded to nearest JPYmn
Source: Shared Research based on company data

- With revenues growing, expansion of inventories (real estate for sale) causing operating cash outflows.
- Purchases of income property led to negative investing cash flows.
- The company covered cash outflows with funding through indirect finance.

Financial ratios

Financial ratios	FY06/08	FY06/09	FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18
	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.
ROA (RP-based)	2.7%	-14.2%	1.6%	3.1%	8.2%	8.9%	10.3%	10.6%	10.0%	10.2%	5.5%
ROE	5.8%	-107.8%	11.6%	12.7%	34.6%	35.8%	26.2%	21.1%	20.8%	23.0%	13.8%
Inventory turnover	0.9	1.1	2.1	1.5	1.5	1.1	1.3	1.0	1.2	1.0	0.8
Fixed assets turnover	43.0	41.5	46.7	23.3	32.6	44.4	21.2	8.7	7.6	5.5	3.8
Current ratio	179.4%	109.2%	135.9%	191.1%	194.8%	254.9%	186.9%	217.8%	190.0%	214.3%	212.7%
Net assets ratio	19.0%	8.2%	25.2%	21.8%	25.0%	31.0%	29.5%	32.6%	30.9%	29.3%	26.1%

Source: Shared Research based on company data

Policy on shareholder returns

To build up a stable management base, URBANET's policy is to solidify its financial position by continuing to accumulate retained earnings, but it recognizes the distribution of profits to shareholders as an important management priority. The company's dividend policy is to distribute 35% of net income attributable to owners of the parent after the impact of corporate tax adjustments.

Shareholders

As of end-June 2018

Shareholders	Shares held	% of issued shares
Hattori Inc.	5,616,000	22.3%
Shinji Hattori	700,000	2.8%
Goda Koumuten Co., Ltd.	588,000	2.3%
Hironobu Hattori	484,000	1.9%
Shuji Okuda	311,000	1.2%
MEIWA CO., LTD.	280,000	1.1%
Yoshihisa Yamashita	191,000	0.8%
Hisato Kumamoto	170,000	0.7%
Yoshizumi Kimura	164,000	0.7%
Yuki Kawaguchi	153,600	0.6%
Hokushin Kogyo Co., Ltd.	153,600	0.6%
Total shares issued	25,144,100	100.0%

Source: Shared Research based on company data

Corporate governance

Organization form and capital structure	
Controlling shareholder	N
Parent company ticker	n.a.
Directors	
Number of directors under Articles of Incorporation	8
Directors' terms under Articles of Incorporation	1 year
Number of independent outside directors	3
Audit & Supervisory Board	
Number of members of Audit & Supervisory Board under Articles of Incorporation	4
Number of independent outside members of Audit & Supervisory Board	0
Other	
No. of independent outside officers (directors and members of Audit & Supervisory Board)	3
Participation in electronic voting platform	None
Other initiatives to enhance voting rights of investors	None
Providing convocation notice in English	None
Disclosure of directors' compensation	None
Disclosure of executive officers' compensation	n.a.
Policy on determining amount of compensation and calculation methodology	Y
Takeover defenses	None

Source: Shared Research based on company data

Disclaimer

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

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