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 FY06/20, the company wholesaled 43.0% 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. It also directly sells development properties (whole buildings; 57.0%) 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. (First-class architect Shinji Hattori established the company in July 1997.) While development companies typically delegate building design to design offices, URBANET creates general designs itself, so it can quickly make land procurement decisions. The company says 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 (60% of whom are under 35).

Earnings

FY06/21 forecast: Sale of 674 one-room condos it develops (-35 YoY; contracts concluded for 560). Conservative forecast including only condos to be completed by February 2021

FY06/20: Sales were JPY22.0bn (+9.6% YoY; 3.0% above forecast) and operating profit JPY2.5bn (+15.7%; 4.4% above forecast). Of 13 URBANET-developed properties (709 units), the company completed high-margin sales of six buildings (404 units) to companies, funds, and individuals. Further, it developed and sold three retail buildings. It bought and resold two properties and one plot of land. Despite higher land prices and construction costs, longer construction periods, and delays in some sales, GPM was flat YoY at 17.4%.

FY06/21 forecast: The company expects sales of JPY20.0bn (-9.2% YoY), operating profit of JPY2.1bn (-17.5%), recurring profit of JPY1.8bn (-19.5%), and net income attributable to owners of the parent of JPY1.1bn (-27.0%). It plans to develop and sell 674 one-room condos (-35 YoY; contracts concluded for 560). Due to the risk of construction delays, the conservative forecast includes only condos to be completed by February 2021. URBANET also expects to buy and resell five properties. It projects a 0.1pp YoY rise in GPM.

Medium-term strategy

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

URBANET's medium-term strategy has three parts. First, the company aims to expand the existing business developing and selling studio apartment buildings for investment purposes (B2B). To this end, it is narrowing its focus and working to develop new types of condos, e.g., studio apartments with superior acoustic insulation. Second, it aims to diversify businesses including recurring revenue (boost holdings of income properties, which generate recurring revenues) and hotel businesses. Third, it aims to grow businesses targeting end users, i.e., consumers (B2C).

Launched new businesses: The company realized that having only one business segment (Real Estate) limits its growth and launched a hotel business, acquiring a bed and breakfast (B&B) roadside hotel in FY06/18. In FY06/19, it also moved into hotel development, completing its initial project in June 2020. It plans to determine a schedule for opening the hotel while keeping an eye on the status of the COVID-19 pandemic.

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., in March 2015, just five and a half years ago.

Low collateral: URBANET plans to increase income properties it can use as collateral, but as of end-FY06/20, sales were only JPY460mn.

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 (2020/09/04)	JPY267
No. of shares issued (inc. treasury shares)	31,374,100
Foreign stockholding ratio	0.47 %
BPS (FY06/20)	JPY359.81
PBR (FY06/20)	0.74 x
PER (FY06/21 Est.)	7.6 x
Dividend (FY06/21 Est.)	JPY15.00
Dividend yield (FY06/21 Est.)	5.62 %
ROE (06/21 Est.)	9.7 %
Net debt / Equity ratio (FY06/20)	74.8 %

(JPYmn)	Sales	YoY	Operating profit	YoY	Recurring profit	YoY	Net income	YoY	EPS (JPY)	BPS (JPY)	ROA (RP-based)	ROE
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	20,084	24.9%	2,148	28.7%	1,914	32.8%	1,310	32.5%	52.09	332.15	6.5%	16.6%
FY06/20	22,019	9.6%	2,485	15.7%	2,199	14.9%	1,506	15.0%	52.66	359.81	6.8%	15.3%
FY06/21 Est.	20,000	-9.2%	2,050	-17.5%	1,770	-19.5%	1,100	-27.0%	35.06	-	-	-

Note: Figures rounded to nearest JPYmn (company rounds down figures under JPY1mn)

Business

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

Company overview

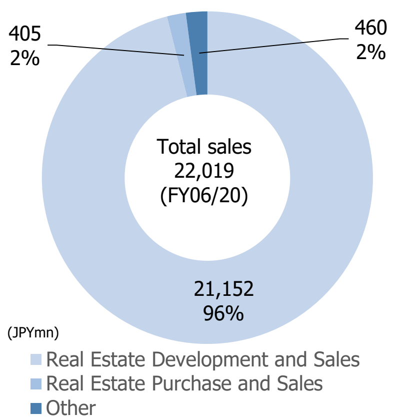
URBANET's main business is developing and wholesaling studio apartment buildings (for investment purposes) to condominium sales companies. Development sites are located in Tokyo's 23 wards, within a 10-minute walk of a train station. The company directly sells entire buildings to companies, funds, and individuals, and also develops and sells subdivided condos. In 2019, the supply of investment condos in Greater Tokyo totaled 5,977 units (-23.5% YoY; source: Real Estate Economic Institute Co., Ltd.). URBANET's condos for investment in FY06/20 totaled 709 (+9.1% YoY). The company was established in July 1997 by architect Shinji Hattori (URBANET's CEO). Executives and employees numbered 64 as of end-FY06/20.

A developer of studio apartment buildings for investment not residential purposes

- The company has one business segment, the Real Estate segment, and three subsegments:
- Real Estate Development and Sales (96% of FY06/20 sales): 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 (2% of sales): Buys and resells pre-owned family condos and other properties developed by other companies
- Other (2% of sales): Real estate leasing and brokerage

One business segment (Real Estate segment)
Three subsegments:
- Real Estate Development and Sales (96% of FY06/20 sales)
- Real Estate Purchase and Sales (2%)
- Other Business (2%)

Sales by subsegment (FY06/20)



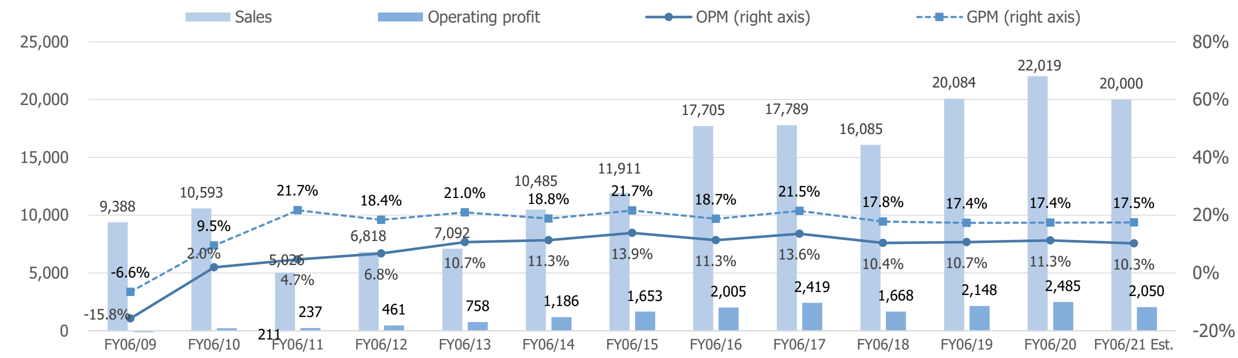
Source: Shared Research based on company data

The company booked an operating loss in FY06/09, affected by the global financial crisis (September 2008). In FY06/17, sales and profits rose for the sixth consecutive year since FY06/12. In FY06/18, however, due to land purchasing conditions for development

Continued sales and profit growth from FY06/12 through FY06/17. Although both declined in FY06/18, they once more increased in FY06/19, and were at record highs in FY06/20.

properties, the number of properties resulting in the booking of sales declined, resulting in lower sales and operating profit YoY. The number of properties sold and booked as sales increased again in FY06/19, and URBANET once more achieved higher YoY sales and operating profit. In FY06/20, sales rose 9.6% YoY and operating profit 15.7% YoY, putting both at record highs.

Earnings trends



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

Business model

Condos developed by URBANET

URBANET has 64 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 JPY30mn, and that the condominium sales companies sell the studios to investors for around JPY35mn 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. The sale to individuals of condos the company has developed is handled by subsidiary URBANET LIVING.

Developed by URBANET: The company mainly develops buildings of studio apartments for investment and sells them to condominium sales companies.

*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 2040, while the overall Japanese population is decreasing; detail follows.)

(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 FY06/20, URBANET developed 13 studio apartment buildings (709 units) for investment. Of this figure, it sold seven whole buildings totaling 305 units (43.0% of total units; -1.5pp YoY) to condominium sales companies and 404 units in six buildings (57.0%; +1.5pp YoY) directly to companies and funds. In terms of properties it developed itself, URBANET also sold three retail buildings, for a total of 712 units. Furthermore, it booked sales from the resale of two units, one whole building (12 units), and one plot of land.

- ▶ Developed 709 studio apartments for investment (FY06/20)
- ▶ Wholesales of buildings to condominium sales companies (43.0%)
- ▶ Direct sale of whole buildings to funds and affluent individuals (57.0%)

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 nearly two years on average. 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 more than half of the properties it develops.

Efficient and with limited risk (only development risk)

Business model characteristics

- ▶ A small team (11 executives, 44 regular employees, 8 employees at subsidiaries, and 1 contract employee)
  - ・Sales per employee: JPY432mn (FY06/20; 53 employees on a consolidated basis)
  - ・Net income per employee: JPY30mn (FY06/20)
- ▶ 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.
- ▶ After the experience of overcoming the global financial crisis of 2008, URBANET resolved to focus on expanding its business in calculated steps, rather than aiming for rapid expansion. Its management approach emphasizes strong financial standing and cash flows.

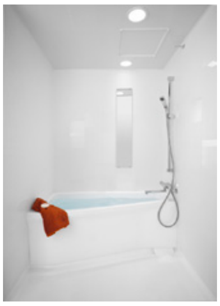
Features of URBANET's studio apartments

- ▶ 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 53 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)

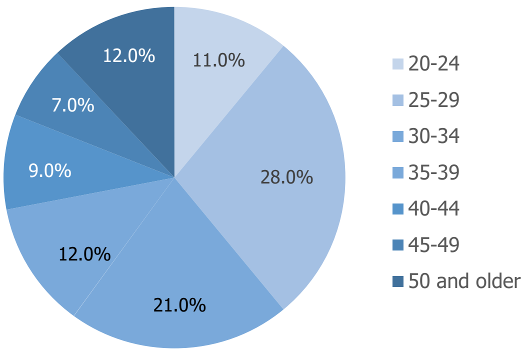
▶ Tenants are typically young (youngest group, aged 25–29, is 28% of the total) (See pie chart.)

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



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 tenant questionnaire conducted by the company in February 2020

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 pre-owned condos and renovates and resells them. It aims to increase its number of business partners and expand this business. This business is conducted by subsidiary URBANET LIVING.

Increase number of business partners and expand business domains, including resale and condominium rental businesses

Started up new business

The company realized that having only one business segment (Real Estate) limits its growth and decided to move into the 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–FY06/20, it developed and completed construction (June 2020) of its first project in the hotel business using land it purchased to develop one-room condos for investment (the company initially planned to open the hotel in August 2020, but postponed the opening due to the COVID-19 pandemic; see Medium-term strategy section).

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 FY06/19)		FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19	FY06/20
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales		**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**	**20,084**	**22,019**
	YoY	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%	9.6%
Company X		-	-	-	-	-	-	-	-	1,243	3,925	
	YoY	-	-	-	-	-	-	-	-	nm	215.8%	
	% of sales	-	-	-	-	-	-	-	-	7.7%	19.5%	
Assetlead Inc.		-	-	1,355	2,211	3,333	3,589	5,516	1,121	2,259	3,789	
	YoY	-	-	-	63.2%	50.8%	7.7%	53.7%	-79.7%	101.5%	67.7%	
	% of sales	-	-	19.9%	31.2%	31.8%	30.1%	31.2%	6.3%	14.0%	18.9%	
Meiwa Inc.		2,226	882	2,204	2,037	3,511	2,881	5,568	5,391	2,796	3,017	
	YoY	3.3%	-60.4%	149.9%	-7.6%	72.4%	-18.0%	93.2%	-3.2%	-48.1%	7.9%	
	% of sales	21.0%	17.5%	32.3%	28.7%	33.5%	24.2%	31.4%	30.3%	17.4%	15.0%	
Company Y		-	-	-	-	-	-	-	-	-	2,938	
	YoY	-	-	-	-	-	-	-	-	-	nm	
	% of sales	-	-	-	-	-	-	-	-	-	14.6%	
Leopalace21 Corporation		-	-	-	-	-	-	-	-	2,176	-	
	YoY	-	-	-	-	-	-	-	-	nm	-	
	% of sales	-	-	-	-	-	-	-	-	13.5%	-	
Company Z		-	-	-	-	-	-	-	-	1,827	-	
	YoY	-	-	-	-	-	-	-	-	nm	-	
	% of sales	-	-	-	-	-	-	-	-	11.4%	-	
Syla Co., Ltd.		-	-	-	-	1,016	-	-	-	1,751	-	
	YoY	-	-	-	-	nm	-	-	-	nm	-	
	% of sales	-	-	-	-	9.7%	-	-	-	10.9%	-	
Minami Azabu RSIC G.K.		-	-	-	-	-	-	-	2,408	-	-	
	YoY	-	-	-	-	-	-	-	nm	-	-	
	% of sales	-	-	-	-	-	-	-	13.5%	-	-	
Individual		-	-	-	-	-	-	-	2,210	-	-	
	YoY	-	-	-	-	-	-	-	nm	-	-	
	% of sales	-	-	-	-	-	-	-	12.4%	-	-	
Tokyu Land Corporation		-	-	-	-	-	-	-	2,122	-	-	
	YoY	-	-	-	-	-	-	-	nm	-	-	
	% 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%	-	-	-	-	
Prestige Co., Ltd.		-	-	-	776	-	-	-	-	-	-	
	YoY	-	-	-	nm	-	-	-	-	-	-	
	% of sales	-	-	-	10.9%	-	-	-	-	-	-	
Property Investment Managers Co., Ltd.		478	-	-	-	-	-	-	-	-	-	
(now: PIM Co., Ltd.)	YoY	40.1%	-	-	-	-	-	-	-	-	-	
	% of sales	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%	-	-	-	-	-	-	-	-	-	

Source: Shared Research based on company data

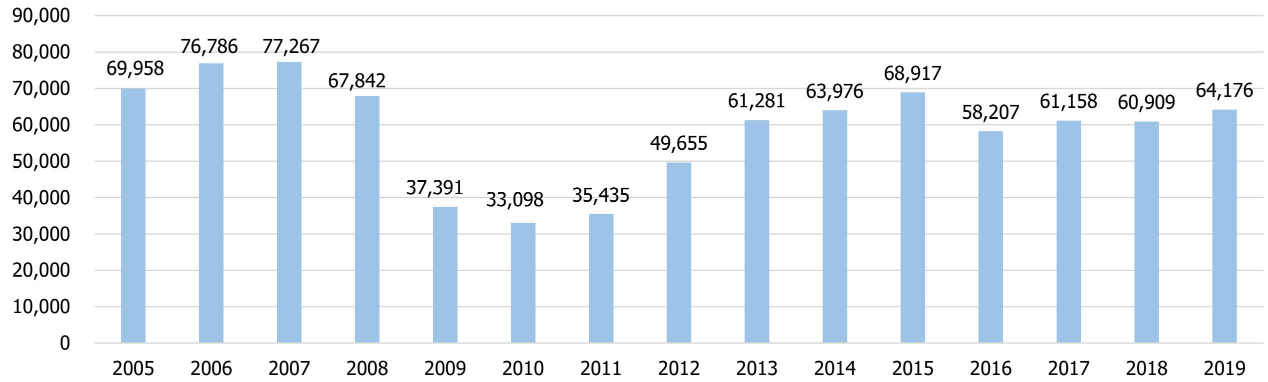
Market conditions

Demographic trend: Ongoing influx to Tokyo

Continued increase in the demographic that rents the studio apartments URBANET develops

URBANET generally develops studio apartments for investment within Tokyo's 23 wards, which have seen a net influx of population for 23 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 61,158 in 2017, 60,909 in 2018, and 64,176 in 2019 (source: "Report on Internal Migration Derived from Basic Resident Registers (2019 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: 125,530 in 2017, 139,868 in 2018, and 148,783 in 2019.

Influx into Tokyo's 23 wards



Source: Shared Research based on the "Report on Internal Migration Derived from Basic Resident Registers (2018 Results)," Ministry of Internal Affairs and Communications Bureau of Statistics

Supply and selling prices of new studio apartments

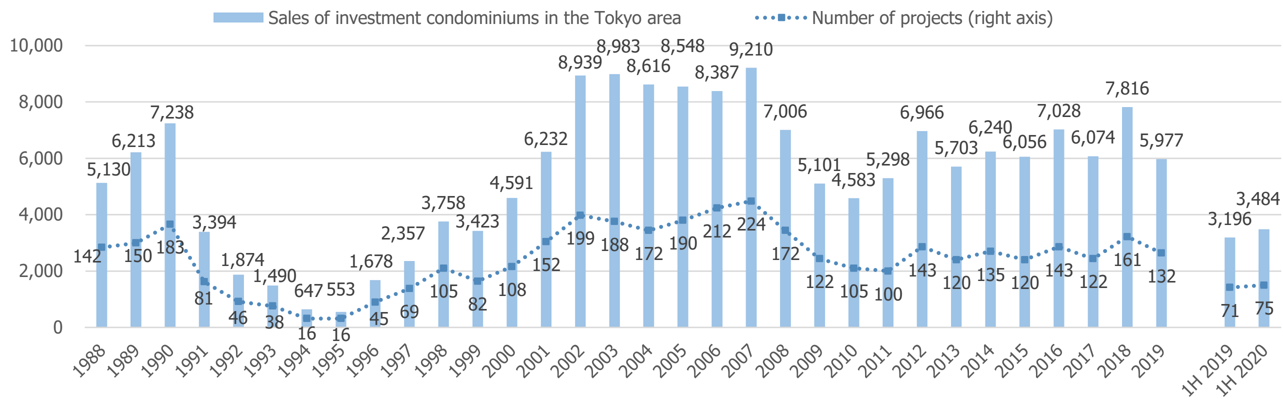
In 2019, the supply of studio apartments fell, but it increased again in the first half of 2020

The supply of studio apartments for investment in Greater Tokyo totaled 5,977 units (132 properties) in 2019 (source: Real Estate Economic Institute Co., Ltd.). This was a decrease of 1,839 units (29 properties) from 2018. Amid very low interest rates and purchases by investors seeking rental income, the supply of studio apartments for investment in Greater Tokyo was trending upward since 2010, increasing to 7,816 in 2018 (see graph). However, the number declined YoY in 2019.

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 1.4% YoY to JPY31.31mn per unit or JPY1.18mn per sqm (+2.9% YoY) in 2019 (source: Real Estate Economic Institute Co., Ltd.).

The supply of condos for investment has increased since the start of 2020. The supply in Greater Tokyo totaled 3,484 units (75 properties) in 1H 2020 (Jan–Jun), up 9.0% YoY in terms of units and 5.6% YoY in the number of properties (source: Real Estate Economic Institute Co., Ltd.). According to the same source, the Greater Tokyo investment condo market can expect to see fierce ongoing competition for land in Central Tokyo, with the result that for the time being there will be a high share of the supply in the Joto, Johoku, and Kanagawa areas. However, if the impact of the COVID-19 pandemic stems the rise in land prices in popular areas, the supply could shift back toward the Central Tokyo and Jonan areas.

Supply of condos for investment in Greater Tokyo



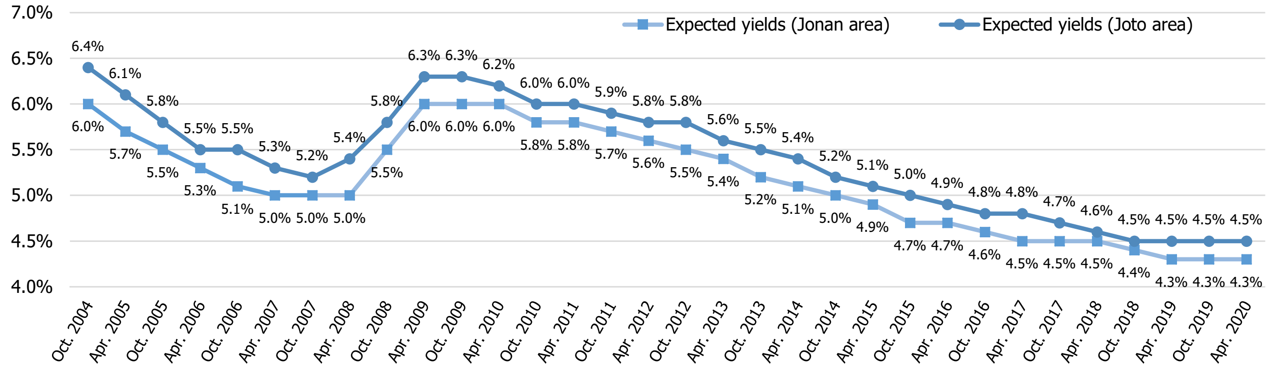
Source: Shared Research based on data from TOKYO KANTEI Co., Ltd.

Investment yields

Investment yields trending downward

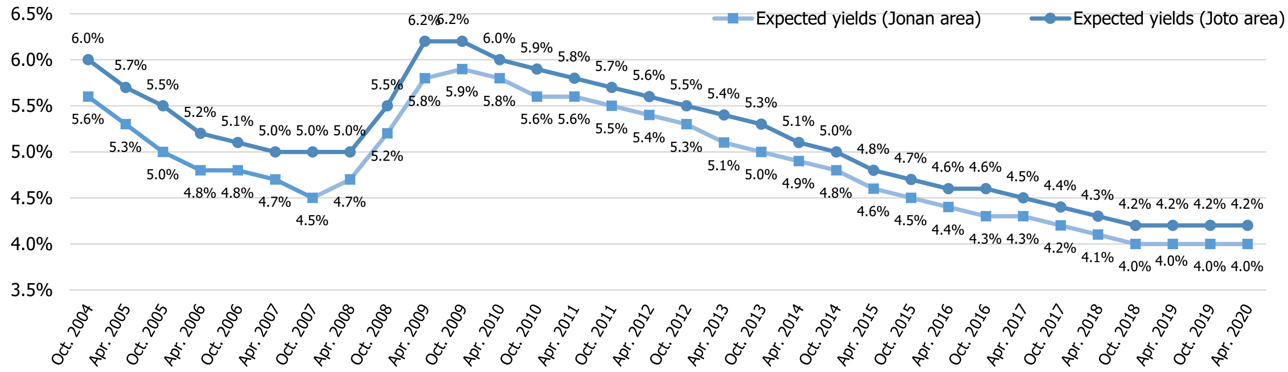
The Bank of Japan's policy of negative interest rates (since March 2016) depressed interest rates on financial products, making investment in tangible assets such as studio apartments relatively attractive. However, investment yields on investment real estate have been falling as prices rise. For instance, 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 4.0% in April 2020, and the expected yield fell from 6.0% in April 2009 to 4.3% in April 2020.

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," in FY2018 some 338,000 companies throughout Japan were involved in real estate (12.0% of the 2.82mn companies in all industries excluding finance and insurance).

- These statistics also indicate that in FY2018 the average OPM in all industries except finance and insurance was 4.4%, while the real estate sector far exceeds this percentage, at 11.1% (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 is slightly above the average for its competitors and comparable companies, while its efficiency (ROA) is somewhat below average.

Profitability and efficiency

Ticker	Company	Fiscal year	Sales	OP	OPM	RP	RPM	ROA	ROE	Equity ratio
3244	Samty Co., Ltd.	FY11/19	85,552	15,395	18.0%	13,193	15.4%	6.9%	14.7%	32.5%
8935	FJ Next Co., Ltd.	FY03/20	84,840	10,412	12.3%	10,323	12.2%	13.0%	14.1%	58.0%
8877	Eslead Corporation	FY03/20	61,638	7,948	12.9%	8,000	13.0%	10.8%	11.3%	58.6%
3271	The Global Ltd.	FY06/19	35,864	2,307	6.4%	1,459	4.1%	2.9%	6.7%	17.8%
3464	Property Agent Inc.	FY03/20	22,674	1,903	8.4%	1,545	6.8%	6.5%	17.0%	24.5%
3245	Urbanet Corporation	FY06/20	22,019	2,485	11.3%	2,199	10.0%	6.8%	15.3%	33.2%
3242	Ascot Corporation	FY09/19	21,020	1,000	4.8%	503	2.4%	1.8%	3.4%	41.6%
3280	Dear Life Co., Ltd.	FY09/19	19,866	3,333	16.8%	3,409	17.2%	14.1%	18.6%	51.7%
3246	S-Trust Inc.	FY02/20	15,233	720	4.7%	566	3.7%	2.4%	6.4%	24.5%
3264	Kose R.E. Co., Ltd.	FY01/20	9,055	624	6.9%	643	7.1%	3.9%	6.0%	42.2%
3469	Dualtap Co., Ltd.	FY06/20	7,254	426	5.9%	366	5.0%	7.6%	12.8%	48.9%
		Average	35,001	4,232	9.8%	3,837	8.8%	7.0%	11.5%	39.4%

Source: Shared Research based on individual company data

Earnings

FY06/20 sales and profit were at record highs, but URBANET forecasts lower FY06/21 sales and profit

FY06/20 earnings

FY06/20: Sales up 9.6% YoY, operating profit up 15.7% YoY

- Real Estate Development and Sales: Sales up 9.1% YoY
- Real Estate Purchase and Sales: Sales up 62.0% YoY
- Other business: Sales up 4.5% YoY

- Sales totaled JPY22.0bn (+9.6% YoY) and operating profit JPY2.5bn (+15.7% YoY). In FY06/18, sales and profits fell for the first time since FY06/11, but grew again in FY06/19 and hit record highs in FY06/20.
- Sales were 3.0% and operating profit 4.4% above URBANET's initial forecast announced August 8, 2019).
- Recurring profit was JPY2.2bn (+14.9% YoY) and net income attributable to owners of the parent JPY1.5bn (+15.0% YoY).
- The company's financial standing improved with a public stock offering in December 2019 (which raised JPY2.0bn) and an issuance of preferred stock by a subsidiary in March 2020 (which raised JPY1.5bn).

The main reason sales rose 9.6% YoY was that the number of URBANET-developed studio apartments for investment rose to 709 (+59 units YoY, +9.1% YoY). The main reason operating profit rose 15.7% YoY was a lower SG&A expenses ratio due to cost-cutting efforts. GPM was flat YoY at 17.4% (the company initially expected to get to the 18.0–18.9% range on an increase in the ratio of contracts for the sale of whole buildings to affluent customers and funds). In the core business of studio apartments for investment, the sale of 23 units was pushed back to FY06/21 (due the impact of the COVID-19 pandemic; detail follows). In response to the delay, the company resold a plot of land. Excluding this land resale, GPM would have reached the 18.0–18.9% range as planned.

Despite an increase of four employees versus end-FY06/19, the SG&A-to-sales ratio fell 0.6pp YoY to 6.1% due to cost-cutting measures. As a result, OPM rose 0.6pp YoY to 11.3%.

Subsegment trends

- Real Estate Development and Sales: Sales were JPY21.2bn (+9.1% YoY). The company sold 709 investment one-room condo units (+9.1% YoY) in 13 buildings that it developed. (See the following table.) Of this figure, seven buildings totaling 305 units (43.0%) were sold to condominium sales companies and six buildings totaling 404 units (57.0%) were sold to companies and funds. In addition, URBANET sold three retail buildings and resold one plot of land. With the impact of the pandemic, financial institutions had fewer employees working, causing delays in approval of real estate loans for end users, which pushed back the sale of some properties (23 units in two buildings) until FY06/21.
- Real Estate Purchase and Sales: Sales in this subsegment were JPY405mn (+62.0% YoY). The company resold two pre-owned condo units (seven units in FY06/19) and one whole building (12 units).
- Other: Sales were JPY460mn (+4.5% 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-FY06/20 were JPY18.4bn (-4.4% YoY, -JPY847mn YoY). Of this amount, real estate for sale in process was JPY16.1bn (+3.6% YoY). FY06/19 saw the first net cash inflows from operating activities in five years, and inflows reached JPY1.1bn in FY06/20. Despite ongoing difficulty in procuring land for condos in central Tokyo, URBANET does not procure any land that would negatively impact its margin. Still, it has already concluded agreements for 840 units it will develop itself from FY06/22, and any future procurement will be for development in FY06/23 and later. Interest-bearing debt at end-FY06/20 was JPY18.5bn, up JPY397mn YoY.

Dividends

As the number of issued shares increased due to a public stock offering conducted in December 2019, the company lowered the year-end dividend from the planned JPY14 to JPY10 per share. Together with the interim dividend of JPY10, this meant total dividends for the year of JPY20. For reference, FY06/19 dividends totaled JPY18. The company targets a payout ratio of 40% of net income attributable to owners of the parent after the impact of corporate tax adjustments.

Subsegment performance

Subsegment performance		FY06/10	FY06/11	FY06/12	FY06/13	FY06/14	FY06/15	FY06/16	FY06/17	FY06/18	FY06/19	FY06/20
(JPYmn)		Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales		**10,593**	**5,026**	**6,818**	**7,092**	**10,485**	**11,911**	**17,705**	**17,789**	**16,085**	**20,084**	**22,019**
	YoY	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%	9.6%
Real Estate Development and Sales		**7,776**	**4,192**	**6,380**	**6,536**	**10,219**	**11,671**	**15,755**	**17,198**	**15,448**	**19,392**	**21,152**
	YoY	5.7%	-46.1%	52.2%	2.4%	56.4%	14.2%	35.0%	9.2%	-10.2%	25.5%	9.1%
	% of sales	73.4%	83.4%	93.6%	92.2%	97.5%	98.0%	89.0%	96.7%	96.0%	96.6%	96.1%
Condominiums sold	Buildings	8	4	7	8	12	12	15	12	12	14	14
	Units	453	112	254	293	522	554	608	587	540	650	712
One-room condos for investment	Buildings	8	1	5	6	12	11	15	12	12	14	13
	Units	453	36	222	240	522	507	608	587	524	650	709
Condominiums for subdivision	Buildings	-	3	2	2	-	1	-	-	1	-	-
	Units	-	76	32	53	-	47	-	-	16	-	-
Apartments and terrace houses	Buildings	-	-	-	-	-	-	-	1	3	3	-
	Units	-	-	-	-	-	-	-	12	16	21	-
Apartments	Buildings	-	-	-	-	-	-	-	1	1	2	-
	Units	-	-	-	-	-	-	-	12	6	18	-
Terrace houses	Buildings	-	-	-	-	-	-	-	-	2	1	-
	Units	-	-	-	-	-	-	-	-	10	3	-
Selling price (avg. per building)	JPYmn/bldg	972	1,048	911	817	852	973	1,050	1,323	1,030	1,141	1,511
Selling price (avg. per unit)	JPYmn/unit	17	37	25	22	20	21	26	29	28	29	30
Real Estate Purchase and Sales		**2,721**	**773**	**383**	**454**	**162**	**96**	**1,776**	**239**	**217**	**250**	**405**
	YoY	41.7%	-71.6%	-50.4%	18.4%	-64.3%	-40.7%	1745.0%	-86.5%	-9.2%	15.2%	62.0%
	% of sales	25.7%	15.4%	5.6%	6.4%	1.5%	0.8%	10.0%	1.3%	1.3%	1.2%	1.8%
Condominiums sold	Units	-	-	-	27	3	2	30	5	4	7	14
One-room condos for investment	Units	-	-	-	27	3	2	30	5	4	7	14
Condominiums for subdivision	Units	-	-	-	-	-	-	-	-	-	-	-
Selling price (avg. per unit)	JPYmn/unit	-	-	-	17	54	48	59	48	54	36	29
Other		**96**	**61**	**55**	**103**	**104**	**143**	**172**	**351**	**419**	**440**	**460**
	YoY	-14.2%	-36.1%	-10.7%	87.3%	1.4%	38.0%	19.9%	104.1%	19.4%	5.0%	4.5%
	% of sales	0.9%	1.2%	0.8%	1.4%	1.0%	1.2%	1.0%	2.0%	2.6%	2.2%	2.1%

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)

FY06/20 units sold

		Project	Type	Units	Construction status (as of end-Jun. 2020)	Sales status (FY06/20)	Booking
Land purchased for in-house development: 712 units							
	Investment single-room condominium: 709 units	Musicians Villa Hatagaya	Single-room, for investment	41	Completed	Booked sales	1H
		Grand Concierge Omorihoncho I Asyl Court	Single-room, for investment	34	Completed	Booked sales	1H
		Grand Concierge Omorihoncho II Asyl Court	Single-room, for investment	50	Completed	Booked sales	1H
		Makes Design Kojiya Asyl Court	Single-room, for investment	48	Completed	Booked sales	1H
		Asyl Court Taito Negishi	Single-room, for investment	90	Completed	Booked sales	1H
		AXAS Komagome Asyl Court	Single-room, for investment	38	Completed	Booked sales	2H
		COMFORIA Fudomae	Single-room, for investment	46	Completed	Booked sales	2H
		Stage Grande Shinnakano Asyl Court	Single-room, for investment	74	Completed	Booked sales	2H
		COMFORIA Sakurajosui	Single-room, for investment	130	Completed	Booked sales	2H
		Grand Concierge Magome Asyl Court	Single-room, for investment	60	Completed	Agreement on 48	2H–F06/21
		Stage Grande Chitosekarasuyama Asyl Court	Single-room, for investment	52	Completed	Agreement on 13	2H–F06/21
		Urban Park Nishisugamo West	Single-room, for investment	44	Completed	Booked sales	2H
		Asyl Court Kamata	Single-room, for investment	53	Completed	Booked sales	2H
	Commercial-use buildings (3 units)	Waymark Sangenjaya	Stores	3	Completed	Booked sales	1H
	Purchase and resale	Two properties	-	-	-	Booked sales	1H, 2H
	Land resale	One property	-	-	-	Booked sales	2H

Source: Shared Research based on company data

Earnings by quarter (cumulative)

Cumulative (JPYmn)	FY06/19 Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	FY06/20 Q1 Cons.	Q2 Cons.	Q3 Cons.	Q4 Cons.	FY06/20 % of Est.	FY Est. Cons.
Sales	6,560	11,474	18,125	20,084	4,357	8,257	11,148	22,019	103.0%	21,380
YoY	48.1%	29.9%	36.2%	24.9%	-33.6%	-28.0%	-38.5%	9.6%		6.5%
Real Estate Development and Sales	6,432	11,180	17,614	19,392	4,180	7,973	10,739	21,152		
YoY	49.9%	30.8%	37.4%	25.5%	-35.0%	-28.7%	-39.0%	9.1%		
% of sales	98.1%	97.4%	97.2%	96.6%	95.9%	96.6%	96.3%	96.1%		
Real Estate Purchase and Sales	31	76	181	250	70	70	70	405		
YoY	-42.6%	-29.6%	5.8%	15.2%	125.8%	-7.9%	-61.3%	62.0%		
% of sales	0.5%	0.7%	1.0%	1.2%	1.6%	0.8%	0.6%	1.8%		
Other	95	216	328	440	106	212	337	460		
YoY	13.1%	20.0%	2.8%	5.0%	11.6%	-1.9%	2.7%	4.5%		
% of sales	1.4%	1.9%	1.8%	2.2%	2.4%	2.6%	3.0%	2.1%		
Cost of sales	5,247	9,427	14,847	16,595	3,546	6,842	9,117	18,185		
YoY	50.6%	34.4%	38.5%	25.5%	-32.4%	-27.4%	-38.6%	9.6%		
Cost ratio	80.0%	82.2%	81.9%	82.6%	81.4%	82.9%	81.8%	82.6%		
Gross profit	1,313	2,047	3,277	3,489	811	1,415	2,031	3,834		
YoY	38.6%	12.4%	26.6%	21.9%	-38.2%	-30.9%	-38.0%	9.9%		
GPM	20.0%	17.8%	18.1%	17.4%	18.6%	17.1%	18.2%	17.4%		
SG&A expenses	302	635	981	1,341	317	667	960	1,349		
YoY	-6.7%	5.3%	9.9%	12.3%	5.0%	5.1%	-2.1%	0.6%		
SG&A ratio	4.6%	5.5%	5.4%	6.7%	7.3%	8.1%	8.6%	6.1%		
Operating profit	1,011	1,412	2,296	2,148	495	748	1,070	2,485	104.4%	2,380
YoY	62.0%	15.9%	35.4%	28.8%	-51.1%	-47.0%	-53.4%	15.7%		10.8%
OPM	15.4%	12.3%	12.7%	10.7%	11.3%	9.1%	9.6%	11.3%		11.1%
Recurring profit	961	1,306	2,115	1,914	432	591	840	2,199	105.2%	2,090
YoY	69.8%	18.2%	37.8%	32.8%	-55.1%	-54.8%	-60.3%	14.9%		9.2%
RPM	14.7%	11.4%	11.7%	9.5%	9.9%	7.2%	7.5%	10.0%		9.8%
Net income	671	907	1,465	1,310	300	407	575	1,506	103.9%	1,450
YoY	72.0%	19.6%	39.8%	32.5%	-55.2%	-55.2%	-60.7%	15.0%		10.7%
Net margin	10.2%	7.9%	8.1%	6.5%	6.9%	4.9%	5.2%	6.8%		6.8%

Source: Shared Research based on company data

Company forecast for FY06/21

The company forecasts sales of JPY20.0bn (-9.2% YoY), operating profit of JPY2.1bn (-17.5% YoY), an OPM of 10.3% (-1.0pp YoY), recurring profit of JPY1.8bn (-19.5% YoY), and net income attributable to owners of the parent of JPY1.1bn (-27.0% YoY). With uncertainty regarding the COVID-19 pandemic and the economic environment, the FY06/21 forecast is conservative, since it takes into account the possibility of construction delays and other risks (URBANET has only included in the forecast those properties for which construction is scheduled for completion by February 2021, so if projects to be completed between March and June are indeed completed and sold on schedule, actual results could be higher).

- Reasons for lower sales forecast: The company forecasts a 35-unit YoY decrease in sales of properties it develops to 674 units in 14 buildings (see the following table). The lower number of properties to be sold takes into account the possibility of longer construction periods caused by the spread of COVID-19. This breaks down into 14 buildings (674 units) of investment one-room condo units, with sales agreements already concluded for 560 units and negotiations underway for 114 units.
- Reasons for lower OPM (-1.0pp YoY) forecast: URBANET expects GPM to improve 0.1pp YoY since the resale of land lots, which weighed on GPM in FY06/20, will disappear. However, it expects the SG&A-to-sales ratio to rise 1.2pp YoY, on higher personnel expenses accompanying an increase in employees and higher brokerage fees on the sale of properties.
- Development environment: Even as purchasing of land for condos remains difficult in central Tokyo and land prices continue to rise,*[1] URBANET is carefully considering profitability and has completed purchase agreements for 840 units that it plans to sell in FY06/22. Inventories had declined YoY as of end-FY06/20.*[2]

*[1] The average price of roadside land in Tokyo was up 5.0% YoY in 2020 (source: National Tax Agency). Prices have continued to rise in central Tokyo since 2014 on robust demand from foreigners visiting Japan and demand for office space. However, according to the Ministry of Land, Infrastructure, Transport and Tourism, as of April 1, 2020, land prices have begun to fall in four areas including Yokohama and Fukuoka (the first drop in six years since land prices fell in at least one of the four areas).

FY06/21 company forecast: Sales down 9.2% YoY, operating profit down 17.5% YoY

- The company expects the number of URBANET-developed properties for which sales will be booked to fall by 35 units YoY due to the possibility of longer construction periods caused by the pandemic.
- Forecast assumes GPM will increase 0.1pp YoY (with no resale of land lots as in FY06/20) and the SG&A-to-sales ratio will rise 1.2pp YoY.

The drop in inbound tourists caused by the pandemic may impact roadside land prices in Tokyo as well.

*[2] As mentioned, inventories (real estate for sale and real estate for sale in process) at end-FY06/20 were JPY18.4bn (-4.4% YoY, -JPY847mn YoY). FY06/19 saw the first net cash inflows from operating activities in five years, and inflows reached JPY1.1bn in FY06/20.

- URBANET plans to keep an eye on the status of the COVID-19 pandemic in determining when to open its hotel developed in-house and completed in June 2020 (the company booked a total of JPY1.4bn in land acquisition costs and construction costs as fixed assets; it used JPY990mn of the funds gained through a stock offering to offset this). In terms of the impact on hotel business earnings, the company has set the expense forecast rather high because it considers the decision to own a hotel to be part of research and development for the time being.
- Impact of COVID-19 pandemic
  - There are three possible impacts the pandemic could have on the group's performance: 1) infection of group employees, 2) infection of employees at general contractors used by the company, and 3) difficulty finding real estate financing due to an economic slowdown.
  - In regard to 1, the company has adopted staggered work hours, distributed masks to all employees, and established an IT environment that enables telework and online conferencing for all employees. In regard to 2, it asks design and construction companies to ensure they have prevention measures in place and distributes masks to project sites.
  - In regard to 3, URBANET anticipates that financial institutions will be cautious about approving financing for the purchase of land for real estate development and investment real estate loans for end users, but, based on its creditworthiness, thinks there is little chance of it being entirely unable to obtain financing for the purchase of land for development. However, the company does think there may be fluctuations in lending rates and that it may not be able to obtain 100% financing as it does now. As a countermeasure, it is increasing its funds on hand (as of end-FY06/20, it held a cash and deposit balance of JPY8.9bn, which was a YoY increase of JPY3.6bn). In terms of real estate loans for end users, URBANET wholesales to creditworthy sales companies but recognizes that there may be slight delays in the booking of sales, as happened in FY06/20, if financial institutions have fewer employees working.

FY06/21 forecast of units to be sold

		Project	Type	Units	Construction status (as of end-Dec. 2019)	Sales status (as of Aug. 7, 2020)	Booking (as of Aug. 7, 2020)
Land purchased for in-house development: 674 units							
	Investment single-room condominium: 674 units	Grand Concierge Magome Asyl Court	Single-room, for investment	12	Completed	Signed agreement	1H
		Stage Grande Chitosekarasuyama Asyl Court	Single-room, for investment	39	Completed	Signed agreement	1H
		Asyl Court Sakurajosui	Single-room, for investment	34	Completed	Booked sales	1H
		Kikukawa V Project	Single-room, for investment	50	TBC in Aug. 2020	Under negotiation	1H, 2H
		Kyodo Project	Single-room, for investment	49	TBC in Sep. 2020	Signed agreement	1H, 2H
		Kugahara Project	Single-room, for investment	62	TBC in Oct. 2020	Signed agreement	1H, 2H
		Shinkoenji Project	Single-room, for investment	64	TBC in Oct. 2020	Under negotiation	1H, 2H
		Shinnakano III Project	Single-room, for investment	74	TBC in Nov. 2020	Signed agreement	1H, 2H
		Kamata V Project	Single-room, for investment	35	TBC in Nov. 2020	Signed agreement	1H, 2H
		Ryogoku IV Project	Single-room, for investment	64	TBC in Dec. 2020	Signed agreement	1H
		Tachiaigawa Project	Single-room, for investment	88	TBC in Dec. 2020	Signed agreement	2H
		Kyodo III Project	Single-room, for investment	39	TBC in Jan. 2021	Signed agreement	2H
		Tabata Project	Single-room, for investment	34	TBC in Feb. 2021	Signed agreement	2H
		Otorii II Project	Single-room, for investment	30	TBC in Feb. 2021	Signed agreement	2H
Purchase and resale		Five properties	-	-	-	Signed agreement	1H

Source: Shared Research based on company data

Dividends

URBANET plans dividends totaling JPY15 per share in FY06/21 (JPY7 interim dividend + JPY8 year-end dividend). This is a JPY5 decrease YoY. The company targets a payout ratio of 40% of net income attributable to owners of the parent after the impact of corporate tax adjustments.

Company outlook for FY06/22

As of August 6, 2020, URBANET had acquired development land to build 840 units for sale from FY06/22 onward. It says procurement decisions are not simple since land prices remain high despite an economic slowdown caused by the pandemic. The hotel industry has stopped acquiring land, and some land lots earmarked for hotels have appeared, but they are valued at more than JPY1.0bn. It would be difficult for URBANET to acquire such risky high-priced lots without having a specific agreement in place with a sales company that would handle the condos developed. Office demand is expected to decline, but the pandemic has not had as much impact on residential properties, so the company is hoping that investors who normally deal with office properties will turn their attention toward residential properties.

Medium-term strategy

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

Core strategies

Medium-term management strategy:

- Further expand studio apartments for investment
- Grow business in subdivided condos
- Diversify, including into recurring-revenue businesses
- Expand B2C operations targeting consumers

Four main medium-term strategies:

- Further expand the core business of developing and selling studio apartment buildings for investment (B2B).
- Concentrate on securing additional sales channels—including domestic and overseas investors, affluent individuals in Japan, and companies in need of company housing or dormitories—rather than just the condominium sales companies to whom URBANET has traditionally wholesaled.
- Diversify operations, including recurring-revenue model businesses (increase holdings of income properties*[1] that generate sales to grow the leasing business), and start of in-house development of hotels*[2].

*[1]As of end-FY06/20, URBANET held six buildings and six B&B roadside hotels.
*[2]URBANET completed construction of its first self-developed hotel, Hotel Asyl Tokyo Kamata, in June 2020. It had planned to open the hotel in August, but postponed the opening due to the COVID-19 pandemic. The company plans to announce a schedule for further development once a decision has been made in light of current circumstances.

For its first hotel business project, it used 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. The hotel is in a favorable location and will be accommodation-focused (targeting families of three to five people), with 48 guest rooms in 15 above-ground floors and bathing facilities available.

The company said 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 said 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 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.

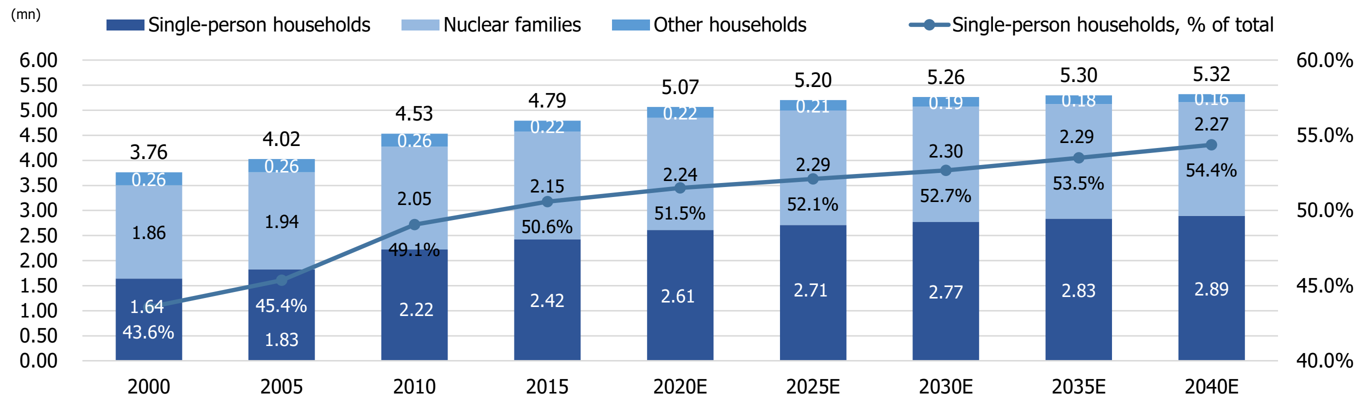
Target management indicators

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

Development environment

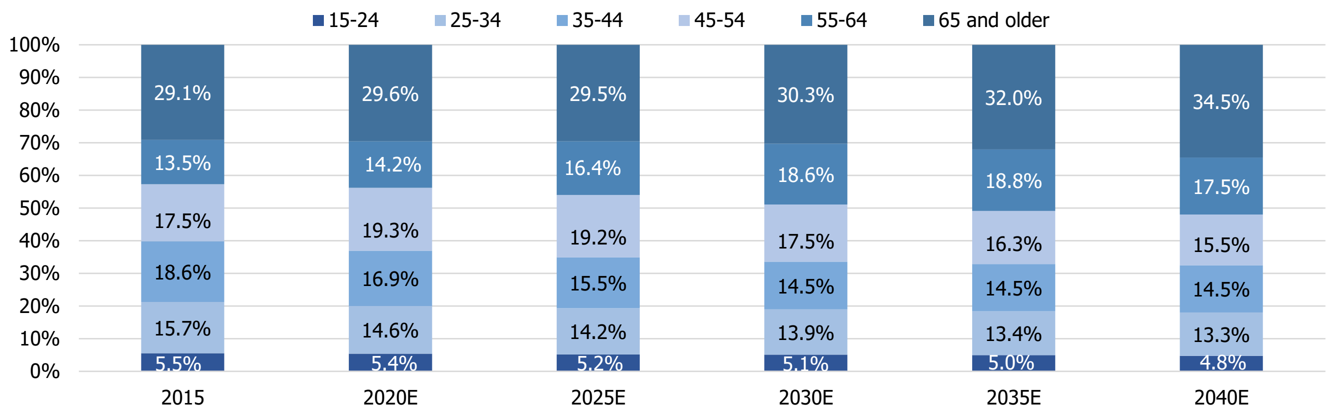
According to statistics (announced in March 2019) by the Statistics Division of the Tokyo Metropolitan Government Bureau of General Affairs, the number of households in Tokyo's 23 wards—where URBANET develops condos—is forecast to continue growing until 2040. The rate of increase is expected to be particularly 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 4.8mn in 2015 to 5.3mn in 2040, with the percentage of single-person households increasing over that period from 50.6% to 54.4% in 2040. The bureau's data predicts that the percentage of households headed by people 35 or older will rise from 78.8% in 2015 to 82.0% in 2040.

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 2019)

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 2019)

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 FY06/20, URBANET wholesaled 43.0% 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 fifth 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 23 consecutive years, since 1997. In the past three years, the net inflow into Tokyo's 23 wards was 61,158 in 2017, 60,909 in 2018, and 64,176 in 2019 ("Report on Internal Migration Derived from Basic Resident Registers [2019 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 2035–2040, 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,

[Strengths]

- Solid relationships with condominium sales companies
- Development locations in Tokyo's 23 wards
- Design strength a differentiator

[Weaknesses]

- Lacks retail selling capabilities
- Little B2C business experience
- Low collateral

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 five and a half years of experience in the B2C businesses.

- **Low collateral:** URBANET weathered the situation that enveloped the real estate industry 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 sales) it can use as loan collateral. However, the company has few income properties (six buildings and six B&B roadside hotels as of end-FY06/20), generating about JPY460mn only (+4.6% YoY; 2% of total sales) in FY06/20. Assuming an expected investment yield of 5% and a loan-to-value ratio of 60%, the collateral value would be around JPY5.5bn (JPY460mn x (1/0.05) × 0.6).

Income statement

Income statement (JPYmn)	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.	FY06/21 Est. Cons.
Sales	10,593	5,026	6,818	7,092	10,485	11,911	17,705	17,789	16,085	20,084	22,019	20,000
YoY	12.8%	-52.5%	35.6%	4.0%	47.8%	13.6%	48.6%	0.5%	-9.6%	24.9%	9.6%	-9.2%
Cost of sales	9,590	3,934	5,564	5,605	8,512	9,331	14,391	13,962	13,223	16,595	18,185	16,500
YoY	-4.1%	-59.0%	41.4%	0.7%	51.9%	9.6%	54.2%	-3.0%	-5.3%	25.5%	9.6%	-9.3%
Cost ratio	90.5%	78.3%	81.6%	79.0%	81.2%	78.3%	81.3%	78.5%	82.2%	82.6%	82.6%	82.5%
Gross profit	1,003	1,092	1,255	1,487	1,973	2,580	3,314	3,827	2,863	3,489	3,834	3,500
YoY	-262.7%	8.9%	14.9%	18.5%	32.7%	30.8%	28.4%	15.5%	-25.2%	21.9%	9.9%	-8.7%
GPM	9.5%	21.7%	18.4%	21.0%	18.8%	21.7%	18.7%	21.5%	17.8%	17.4%	17.4%	17.5%
SG&A expenses	792	855	793	729	787	927	1,308	1,408	1,194	1,341	1,349	1,450
YoY	-8.2%	8.0%	-7.3%	-8.1%	7.9%	17.9%	41.1%	7.6%	-15.2%	12.3%	0.6%	7.5%
SG&A ratio	7.5%	17.0%	11.6%	10.3%	7.5%	7.8%	7.4%	7.9%	7.4%	6.7%	6.1%	7.3%
Operating profit	211	237	461	758	1,186	1,653	2,005	2,419	1,668	2,148	2,485	2,050
YoY	n.m.	12.5%	94.8%	64.2%	56.5%	39.4%	21.3%	20.6%	-31.0%	28.7%	15.7%	-17.5%
OPM	2.0%	4.7%	6.8%	10.7%	11.3%	13.9%	11.3%	13.6%	10.4%	10.7%	11.3%	10.3%
Recurring profit	99	132	422	628	992	1,396	1,720	2,159	1,441	1,914	2,199	1,770
YoY	n.m.	33.6%	219.7%	48.8%	57.8%	40.8%	23.3%	25.5%	-33.3%	32.8%	14.9%	-19.5%
RPM	0.9%	2.6%	6.2%	8.9%	9.5%	11.7%	9.7%	12.1%	9.0%	9.5%	10.0%	8.9%
Net income attributable to owners of the parent	98	127	421	724	764	873	1,139	1,466	989	1,310	1,506	1,100
YoY	n.m.	30.4%	231.2%	71.9%	5.4%	14.4%	30.5%	28.6%	-32.5%	32.5%	15.0%	-27.0%
Net margin	0.9%	2.5%	6.2%	10.2%	7.3%	7.3%	6.4%	8.2%	6.1%	6.5%	6.8%	5.5%
Depreciation and amortization of goodwill	22	17	24	11	19	30	70	107	119	116	113	-
EBITDA	233	254	485	768	1,205	1,683	2,075	2,526	1,787	2,264	2,597	-

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

- Sales and profit increased for six consecutive financial years from FY06/12 to FY06/17, but decreased in FY06/18 before increasing again in FY06/19. In FY06/20, sales and all profit categories reached record highs.
- Profit margins improve in financial years in which there is a higher ratio of sales from selling whole URBANET-developed studio apartment buildings to affluent customers and funds. 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 affluent customers). The ratio of wholesales to affluent customers and funds increased in FY06/19 and then increased again in FY06/20 to 57.0% (+1.5pp YoY).

Balance sheet

Balance sheet (JPYmn)	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Cash and deposits	1,392	961	1,253	2,046	2,147	2,684	2,548	4,113	4,231	5,305	8,908
Lease investment assets	-	-	2	-	-	-	-	-	23	25	27
Inventories	1,975	3,287	4,079	6,062	7,476	10,586	13,257	15,460	18,624	19,262	18,415
Real estate for sale	126	332	328	0	1,167	1,896	2,005	96	2,618	3,762	2,352
Real estate for sale in process	1,840	2,933	3,739	6,062	6,308	8,690	11,252	15,364	16,006	15,500	16,063
Work in process, other	9	22	12	-	1	0	-	-	-	-	-
Advance payments–trade	7	40	0	82	56	82	10	-	25	161	30
Prepaid expenses	15	13	26	14	25	-	22	25	27	35	22
Other	40	17	1	1	12	40	10	61	131	84	240
Total current assets	3,430	4,318	5,362	8,204	9,716	13,392	15,847	19,660	23,062	24,873	27,680
Tangible fixed assets	221	212	206	113	878	1,858	2,826	3,622	4,903	4,996	5,725
Buildings and structures	119	114	110	67	336	691	1,518	1,964	2,091	1,996	2,742
Vehicles	3	2	-	-	-	-	-	-	-	-	-
Tools, furniture, and fixtures	7	3	3	2	1	5	3	3	2	1	4
Lease assets	-	-	-	13	32	67	64	46	40	48	64
Land	92	92	92	30	509	624	1,240	1,609	2,770	2,770	2,949
Construction in progress	-	-	-	-	-	471	-	-	-	181	-
Intangible fixed assets	24	16	4	1	3	2	3	2	3	3	1
Investment and other assets	142	161	51	222	157	324	277	277	560	595	594
Investment securities	-	-	-	-	-	75	-	-	-	-	-
Investment in capital	60	60	0	0	1	1	1	1	1	1	1
Lease and guarantee deposits	30	25	25	20	20	69	65	63	59	61	60
Long-term prepaid expenses	0	5	4	4	1	2	4	2	6	4	2
Long-term time deposits	40	40	2	14	26	38	50	-	-	-	-
Deferred tax assets	0	0	0	152	26	69	60	80	39	79	76
Lease investment assets	0	0	0	0	0	0	0	0	335	310	281
Other	11	32	19	32	83	69	97	131	120	141	174
Total fixed assets	387	389	261	336	1,038	2,184	3,105	3,900	5,466	5,595	6,320
Total assets	3,817	4,707	5,623	8,540	10,754	15,576	18,952	23,560	28,528	30,467	34,000
Accounts payable	139	270	515	210	903	1,371	876	417	1,638	2,046	1,191
Short-term borrowings	36	419	-	-	120	80	223	255	195	724	655
Current portion of bonds	-	-	-	20	20	68	100	82	36	0	0
Current portion of long-term borrowings	2,031	1,371	1,931	2,759	3,806	3,695	5,740	7,173	8,131	8,879	9,231
Lease obligations	-	-	-	3	8	18	20	19	16	21	14
Accounts payable–other	133	122	54	15	40	100	74	95	52	104	120
Accrued expenses	7	7	9	12	12	23	23	17	21	25	19
Income taxes payable	3	3	0	63	82	515	342	460	71	470	521
Consumption taxes payable	131	-	13	20	0	50	128	13	3	0	5
Advances received	29	49	202	155	193	225	793	631	634	1,159	669
Deposits received	10	13	18	20	21	22	36	25	34	31	35
Other	4	7	11	2	2	4	5	7	13	51	19
Total current liabilities	2,524	2,260	2,752	3,278	5,207	6,170	8,360	9,195	10,844	13,509	12,480
Bonds	-	-	-	80	60	118	118	36	-	-	-
Long-term borrowings	322	1,407	1,447	2,524	2,256	4,117	4,513	7,324	10,098	8,474	8,607
Lease obligations	-	-	-	12	26	56	50	31	33	36	23
Net defined benefit liability	-	-	-	-	21	28	33	38	44	49	51
Other	5	6	5	1	6	6	9	15	59	36	32
Total fixed liabilities	327	1,413	1,452	2,616	2,369	4,324	4,723	7,444	10,234	8,594	8,713
Total liabilities	2,851	3,673	4,204	5,894	7,576	10,495	13,083	16,639	21,077	22,103	21,192
Shareholder's equity	963	1,027	1,405	2,645	3,175	5,092	5,859	6,914	7,443	8,356	11,289
(Treasury stock)	-	-	-	-	-	-	-	0	0	0	-0
Accumulated other comprehensive income	-	-	-	-	-	-14	-	-	-	-	-
Share subscription rights	3	7	14	2	3	4	10	7	8	8	8
Non-controlling interests											
Net assets	966	1,034	1,419	2,646	3,178	5,082	5,869	6,921	7,451	8,364	12,807
Net debt	997	2,237	2,125	3,257	4,055	5,276	8,028	10,720	14,229	12,771	9,585
Working capital	1,836	3,018	3,566	5,852	6,573	9,214	12,382	15,042	17,010	17,241	17,252

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

- Inventories (real estate for sale, including work in process) account for more than 50% 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. The percentage remained high

at 16.4% in FY06/19, then rose to 16.8% in FY06/20 with the completion of a hotel the company developed itself.

- Interest-bearing debt (total of long- and short-term debt, lease obligations, and corporate bonds) was growing as business expanded, reaching JPY18.5bn at end-FY06/20, up slightly from JPY18.1bn at end-FY06/19.

Per-share data (JPY)

Per-share data (split-adjusted; JPY)	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Shares issued (year-end)	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	25,158,100	31,374,100
EPS	6.20	7.49	24.79	39.67	36.96	41.57	45.64	58.59	39.36	52.09	52.66
EPS (fully diluted)	6.11	7.42	24.54	38.40	36.73	41.46	45.60	58.49	39.34	52.09	52.64
Dividend per share	3.75	3.75	5.00	7.50	12.00	13.00	16.00	21.00	16.00	18.00	20.00
Book value per share	56.73	60.48	80.90	128.12	153.34	203.43	234.60	275.54	296.01	332.15	359.81

Source: Shared Research based on company data

Cash flow statement

Cash flow statement (JPYmn)	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
Cash flows from operating activities	3,636	-1,177	47	-1,691	231	-1,246	-1,367	-1,747	-1,601	2,043	1,143
Cash flows from investing activities	29	-50	126	-13	-771	-1,055	-986	-400	-1,388	-167	-836
Cash flows from financing activities	-3,279	746	137	2,497	638	2,839	2,216	3,737	3,107	-802	3,296

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

- With sales growing, expansion of inventories (real estate for sale) usually causes operating cash outflows. However, FY06/19 and FY06/20 saw operating cash inflows accompanying robust performance and increasing difficulty procuring land for development.
- Purchases of income property and other transactions led to negative investing cash flows.
- The company usually covers financing cash outflows with funding through indirect finance. However, FY06/19 saw net cash outflows as dividend payments and repayment of long-term loans exceeded inflows. There were net cash inflows in FY06/20 as URBANET raised about JPY3.5bn from a public stock offering and an issuance of preferred stock by a subsidiary.

Financial ratios

Financial ratios	FY06/10 Parent	FY06/11 Parent	FY06/12 Parent	FY06/13 Parent	FY06/14 Parent	FY06/15 Cons.	FY06/16 Cons.	FY06/17 Cons.	FY06/18 Cons.	FY06/19 Cons.	FY06/20 Cons.
ROA (RP-based)	1.6%	3.1%	8.2%	8.9%	10.3%	10.6%	10.0%	10.2%	5.5%	6.5%	6.8%
ROE	11.6%	12.7%	34.6%	35.8%	26.2%	21.1%	20.8%	23.0%	13.8%	16.6%	15.3%
Inventory turnover	2.1	1.5	1.5	1.1	1.3	1.0	1.2	1.0	0.8	0.9	1.0
Fixed assets turnover	46.7	23.3	32.6	44.4	21.2	8.7	7.6	5.5	3.8	4.1	4.1
Current ratio	135.9%	191.1%	194.8%	250.3%	186.6%	217.0%	189.6%	213.8%	212.7%	184.1%	221.8%
Net assets ratio	25.2%	21.8%	25.0%	31.0%	29.5%	32.6%	30.9%	29.3%	26.1%	27.4%	33.2%

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 was to distribute 35% of net income attributable to owners of the parent after the impact of corporate tax adjustments. However, URBANET in FY06/19 discontinued* the shareholder benefit program it had launched in FY06/18, so from FY06/20 it says it will distribute 40% of net income attributable to owners of the parent after the impact of corporate tax adjustments.

*There is essentially no merit of the shareholder benefit program to corporate shareholders. In addition, the program did not apply to shareholders with only small holdings, and even shareholders with a certain number of shares expressed complaints. For these reasons, URBANET returned to its earlier policy of providing shareholder returns in the form of dividends and raised the payout ratio accordingly.

Shareholders

Shareholders	Shares held	Shareholding ratio
Hattori Inc.	5,616,000	17.90%
Morgan Stanley MUFG Securities Co., Ltd.	625,800	1.99%
Goda Koumuten Co., Ltd.	588,000	1.87%
Hironobu Hattori	384,000	1.22%
Shinji Hattori	350,000	1.12%
Shuji Okuda	313,600	1.00%
MEIWA CO., LTD.	280,000	0.89%
Koji Shioda	231,700	0.74%
JPMorgan Securities Japan Co., Ltd.	215,700	0.69%
Akira Watanabe	180,000	0.57%
Total shares issued	31,374,100	100.00%

Source: Shared Research based on company data
Note: As of end-June 2020, shareholding ratio based on shares outstanding (excl. treasury shares)

Corporate governance

Organization form and capital structure	
Controlling shareholder	None
Parent company ticker	-
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	Y
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	-
Policy on determining amount of compensation and calculation methodology	In place
Takeover defenses	None

Source: Shared Research based on company data

Disclaimer

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer

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