

Theme: A Company with Enhanced ESG Policies

Company Research

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Takara Leben

(8897 JP)

Tokyo Stock Exchange 1st Section

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Summary

A condo developer that focuses on the sale of affordable homes for young families

Takara Leben (8897 JP) is a specialist condominium developer that builds residential properties mainly in suburban areas such as Greater Tokyo, Kanagawa, Saitama, Chiba, Tochigi and Ibaraki. It also expanded its development portfolio to the western part of Japan, including its first condominium development in the Chugoku region. Over 55% of the company's consolidated revenue come from new condominium business.

The company started as a local building contractor in Itabashi, Tokyo in the early 1970s. In the 1980s, its business developed to become more of a real estate agent, selling and managing properties. It was in the post-bubble era – 1994 – when it started developing and selling its own brand of condominiums – the *Leben Heim* series.

In 2010, it expanded into the detached housing business. Condominium sales business also created stock of condos which the firm manages. In 2013, it set up the Power Generation – solar-power generating facilities – business, which was then spun out of the new condominiums with solar power generation facilities.

In the Central Tokyo, so-called “tower mansions”, high-rise condominiums – mostly developed by larger developers such as Mitsubishi Estate (8802 JP), Mitsui Fudosan (8801 JP) and Sumitomo Realty (8830 JP) – usually command a high-price tag and are representative of homes that cater to the rich and the famous / celebrities. Takara Leben differentiates itself from the fancy world of tower mansions and focuses on supplying affordable residences to working families who wish to live in suburban residential areas. For those families, purchasing properties mostly happens just once in their life time, usually at a time when they are making big decisions linked with major events in life, such as when their children start school.

The suburban market has become a concentrated market with a few players, due to several developers having disappeared from this segment of the industry post the Lehman crisis. Takara Leben's competitors include Nomura Real Estate Holdings (3231 JP) and Tokyo Tatemono (8804 JP) but those players do not have the same suburban only focus. Although Takara Leben's primary target customers are young families, there are increasing cases where well-to-do elderly people who had houses in remote areas purchase new condominiums in nearby provincial cities. Local authorities promote compact cities in which commercial and medical facilities gather in close proximity, supporting demand for condos in regional cities.

According to Real Estate Economic Institute Co., Ltd, a real estate think tank, the annual supply of new condominiums in 2018 rose for a second consecutive year (+3.4% YoY to 37,132 units), although average price only dropped by 0.6%YoY to ¥58.71mil/unit. It also points out that supply in 2019 is said to remain at the same 37,000 units level. In the past, external factors such as a hike in the consumption tax rise often leads to front-loaded demand. The next tax increase is planned for Oct 2019, however, as of now Takara Leben has not yet seen any sign of forward-orders for their developing condos. Consumers seem less sensitive to a 2ppts rise in the consumption tax than to interest rate increases. Given there are no current expectations for rates to rise in the near-term in Japan, consumers may not have a sense of urgency to buy homes at the current price level.

New Condominium Supply by Areas

(Units)	CY2014	CY2015	CY2016	CY2017	CY2018	YoY (%)	CY2019 (Est)	YoY (%)
Central Tokyo	20,774	18,472	14,764	16,017	15,957	-0.4	16,000	0.3
Greater Tokyo	4,425	5,427	4,069	4,016	3,666	-8.7	4,000	9.1
Kanagawa	10,121	7,964	8,774	8,540	8,212	-3.8	8,500	3.5
Saitama	4,473	4,415	3,897	3,956	4,294	8.5	4,500	4.8
Chiba	5,120	4,171	4,268	3,369	5,003	48.5	4,000	-20.0
Total	44,913	40,449	35,772	35,898	37,132	3.4	37,000	-0.4

Source: Real Estate Economic Institute Co., Ltd

Condominium Price Trend in the Tokyo Metropolitan Region

(JPY thousand)		CY2014	CY2015	CY2016	CY2017	CY2018
Central Tokyo	Avg. price	59,940	67,320	66,290	70,890	71,420
	Price per sqm	873	987	1,005	1,083	1,138
Greater Tokyo	Avg. price	47,260	45,640	49,850	50,540	52,350
	Price per sqm	648	621	693	712	745
Kanagawa	Avg. price	43,840	49,530	50,390	55,240	54,570
	Price per sqm	610	690	712	771	769
Saitama	Avg. price	39,300	41,460	42,550	43,650	43,050
	Price per sqm	544	578	599	611	619
Chiba	Avg. price	38,790	39,100	40,850	40,990	43,060
	Price per sqm	500	514	560	570	585
Regional average	Avg. price	50,600	55,180	54,900	59,080	58,710
	Price per sqm	711	779	793	859	869

Source: Real Estate Economic Institute Co., Ltd

Sales Inventory (as of Dec 2018)

(Units)	Supply 2018	No. of contracts	Contract (%)	Inventory @ 2018 end	Inventory 14 - 17	Total end inventory 2018	Total Beginning Inventory
Central Tokyo	15,957	12,680	79.5	3,277	331	3,608	2,610
Greater Tokyo	3,666	2,706	73.8	960	395	1,355	1,323
Kanagawa	8,212	6,491	79.0	1,721	184	1,905	1,305
Saitama	4,294	3,035	70.7	1,259	158	1,417	1,018
Chiba	5,003	3,871	77.4	1,132	135	1,267	850
Regional Total	37,132	28,783	77.5	8,349	1,203	9,552	7,106

Source: Real Estate Economic Institute Co., Ltd

Business Model

While condominium development and sales remain the company's core business, the firm has diversified its business portfolio into associated services. Takara Leben's operations are now split to five business segments:

1. Real Estate Sales,
2. Real Estate Leasing,
3. Real Estate Management,
4. Power Generation, and
5. Others.

Real Estate Sales

Real Estate Sales business is the core of Takara Leben. The business can further split into subsegments, New Condos, New Detached Houses, Renewal Resale, Liquidation Business and Others.

Real estate sales business by segment

(JPY million)		Medium-term Plan			
		FY3/18	FY3/19	FY3/20	FY3/21
New condos	Sales	60,368	60,000	76,000	84,500
	Gross profit	13,313	13,000	16,500	18,600
	GPM (%)	22.1	21.7	21.7	22.0
	Sales units (units)	1,619	1,700	1,950	2,200
	Ratio of units in metropolitan and Kinki (%)	48.7	55.5	50.0	50.0
New detached	Sales	6,335	12,000	13,200	14,850
	Gross profit	830	1,600	1,700	1,950
	GPM (%)	13.1	13.3	12.9	13.1
	Sales units (units)	116	190	230	270
Renewal resale	Sales	588	1,700	2,720	3,400
	Gross profit	78	220	320	400
	GPM (%)	13.4	12.9	11.8	11.8
Liquidation business	Sales	9,707	30,000	26,000	24,000
	Gross profit	2,322	5,500	4,700	4,400
	GPM (%)	23.9	18.3	18.1	18.3
Others	Sales	2,340	2,000	3,000	3,200
	Gross profit	541	340	400	400
	GPM (%)	23.1	17.0	13.3	12.5

Source: Nippon Investment Bespoke Research UK Ltd based on Takara Leben's Medium-Term Management Plan presentation material

❖ Condominium Development:

Price hikes reflect the surge in construction cost and prolonged low interest rate keep purchases on hold

Condominium market in the metropolitan area of Japan remained strong in 2018. According to Real Estate Economic Institute Co., Ltd, the supply of condominiums rose +3.4% YoY to 37,132 units – that compared to the past peak of 95,635 units in CY2000. However, despite the rise in supply the average price per condo dipped 0.6% YoY to ¥58.71mil – the first drop in average price in 2 years, although still above affordable level of ¥35~40mil for the typical working family. The higher average

price led to a drop in the first month¹ contract ratio to 62.1% (-6ppts YoY). Year-end inventory was 9,552 units, 2,446 units higher than the end of 2017, here too, the first rise in inventory in 2 years. According to the company, the supply-demand balance in the condo market is not bad, and certainly not in excess supply. Slower contract ratio is mostly due to buyers not rushing to make a purchase as they do not anticipate interest rates to go up any time soon.

However, although the first month contract ratio recovered to 67.5% in Jan 2019 from 49.4% in Dec 2018 in the Tokyo Metropolitan area, the average price of new condos fell from ¥58.96mil in Dec 2018 to ¥56.53 in Jan. This has not been viewed as a sign of the market crashing; it is considered to be due to the increase in numbers of new condos being built in the suburban areas of Tokyo, where prices are much cheaper than in Central Tokyo, which has pulled down the overall price for the region.

Over the past 10 years, the price of condos has become less affordable for many, reflecting higher construction costs. In case of Takara Leben, the average condo price rose from ¥32~34mil in 2007 to ¥39~40mil in 2018. The company reckons that although condominiums have become more expensive, demand from families should remain solid, unlike demand for investment properties. It continues to target its volume zone, namely families with an annual income of ¥4~7mil and in the age bracket of 25~40 years old. Since land procurement costs have halved compared to pre-Lehman crisis levels, condominium development remains a profitable business.

Housing Price vs. Average Annual Household Income in The Tokyo Metropolitan Area

		Calendar Year									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average annual household income (¥million)		7.91	8.04	7.62	7.42	7.59	7.82	7.75	7.86	8.06	8.18
Condo	Price (¥million)	47.75	45.35	47.16	45.78	45.40	49.29	50.60	55.18	54.90	59.08
	<i>Condo price / Annual income (x)</i>	6.0	5.6	6.2	6.2	6.0	6.3	6.5	7.0	6.8	7.2
	Average floor space (sqm)	73.5	70.6	71.0	70.5	70.4	70.8	71.2	70.8	69.2	68.8
Detached	Price (¥million)	46.82	46.88	46.46	45.77	45.68	45.78	47.13	47.89	49.70	48.33
	<i>House price / Annual income (x)</i>	5.9	5.8	6.1	6.2	6.0	5.9	6.1	6.1	6.2	5.9
	Average plot size (sqm)	144.5	137.3	136.9	131.8	131.3	124.6	127.1	126.1	124.3	126.0
	Average floor space (sqm)	106.3	103.5	102.4	100.9	101.5	99.8	99.7	99.8	99.3	99.6

Source: Ministry of Land, Infrastructure and Transport (MLIT)

Notes: *Housing data were sourced from Real Estate Economic Institute Co., Ltd.*

The Tokyo Metropolitan Area for condominiums cover Tokyo, Kanagawa, Chiba and Saitama. That for detached houses include Tokyo, Kanagawa, Chiba, Saitama and Southern Ibaraki.

Average annual household income is subtracted from "Household Survey (Savings & Debts)" by Ministry of Internal Affairs and Communications.

¹ Number of contracts signed in the first month post sale

Currently, the top 20 companies occupy 72.7% of new condominium supply in the Tokyo Metropolitan Market. On the nationwide-basis, 58.8% of the supply is concentrated to those top 20 players. Takara Leben is positioned No.8 based on nationwide unit supply in 2018.

Top 10 Condominium Developers (Nationwide) in CY2018

Rank	Company	Supply (units)
1	Sumitomo Realty (8830 JP)	7,377
2	Pressance Corporation (3254 JP)	5,267
3	Nomura Real Estate (3231 JP)	5,224
4	Mitsubishi Estate (8802 JP) Residence	3,614
5	Mitsui Fudosan (8801 JP) Residential	3,198
6	Anabuki (8928 JP)	2,450
7	Nihon Eslead (8877 JP)	2,401
8	Takara Leben (8897 JP)	1,873
9	Daiwa House (1925 JP)	1,627
10	Nippon Steel Kowa Real Estate (Unlisted)	1,539

Source: Real Estate Economic Institute Co., Ltd

Uniqueness of Takara Leben’s condominium business lies in the fact that its development portfolio is not geared to super high-rise tower condos (over 20 storeys) unlike major urban developers. Most of its condos are over 6 storeys but below 20, categorised as high-rise. A major benefit of building high-rise condos is a shorter construction period compared to super high-rise development. Furthermore, unlike many condo developers, the sites do not necessarily have to be situated close to a station. Since its main target customers are young families, they tend to go for a greener / less congested / better environments but without sacrificing too much convenience. With an urban location defined as being inside a diameter of a circle drawn by the JR Yamanote Line, its condo locations are within 30~40 minutes by train to major terminal stations such as Tokyo, Shinjuku, Ikebukuro and Shibuya.

Access to terminal stations from extended Tokyo suburbs has become convenient. For example, Takara Leben develops condos in Moriya City, Ibaraki prefecture, which offers easy access (circa 35 minutes) to the Central Tokyo via the Tsukuba Express. The company has already supplied or developed condos in 28 of the 47 prefectures in Japan. Its supply of condos extends to Hokkaido in the north of Japan and down to Kagoshima in the south.

Takara Leben has two condominium brands:

- **LEBEN** – the main brand – is a brand for families with children, developed both in the Tokyo Metropolitan suburbs and provincial cities / towns. The typical average size of the units is 70sqm. Under this brand the company also offers a more high-end option – **THE LEBEN** – as a sub-brand in this category. Direct competitors of *the LEBEN* brand include Nomura Real Estate Holdings (3231 JP)’s *Proud* and *Ohana* brand, and Tokyo Tatemono (8804 JP)’s *Brillia*, both of which focus on urban and suburban areas.

- *NEBEL* is an urban compact condominium (typical average size is 30~50sq m+), designed for single and DINKS households. So far only urban properties have been developed under this brand, although the company plans to develop ones in provincial cities.

Takara Leben Condominium Brands

Brands	LEBEN (LEBEN, and THE LEBEN)	NEBEL
Target	Family	Single, DINKS
Typical feature	Within 10 minutes walking distance to stations With 45 minutes to Central Tokyo Less than 100 condo units per property	Within 5-8min. Walking distance to stations With 30 minutes to Central Tokyo Less than 50 condo units per property
Price range (¥mil)	43-45	35-40

Source: Takara Leben - Medium-Term Management Plan Presentation

Of the 2,200 units of condos expected to be sold in FY2020, 1,100 units (900 *LEBEN* brands and 200 *NEBEL*) will be in the Tokyo and Kinki areas and 1,100 (1,000 *LEBEN* brands and 100 *NEBEL*) will be in provincial cities. In fiscal year to March 2019, it plans to deliver 1,700 condominiums. As of the Q3, 1,435 units were already under contract.

❖ **Detached Houses:**

Targeting the market not served by the power builders

Takara Leben started its detached house business to regulate the cyclicity of its earnings. The condominium business cycle is usually 2 years but given the detached house business cycle is shorter (on average 6 months), it helps smooth out earnings volatility.

It has one brand for the business, *Leben Platz*. Average price of detached house by the company is between ¥50~¥60 mil. While young families tend to choose condominiums as their home in recent years, some power builders such as Open House (3288 JP) appeal small detached housing in urban locations with affordable price for the same target group. *Lebel Platz* differentiates itself by not just selling a house but offers a sense of community – expertise the company gained through condominium development.

❖ **Renewal Resale:**

Cultivating the pre-owned condos market

Renewal Resale Business

	FY3/2017	FY3/2018	Medium-Term Plan Period		
			FY3/2019	FY3/2020	FY3/2021
Procurement (Units)	18	75	150	240	300
Stocks (Units)		59	160	320	500
Sales (JPY million)	468	588	1,700	2,720	3,400
Gross Profit on sale of properties (%)	28.0	13.4	12.9	11.8	11.8

Source: Takara Leben - Medium-Term Management Plan Presentation

The Renewal Resale business is a new business: The pre-owned property market in Japan is illiquid, unlike that in Europe and in the US. A major reason for this is Japan's valuation system and a lack of readily available data. As pointed out by a white paper by the Ministry of Land, Infrastructure and Transport (MLIT), the value of houses and condos in Japan depreciate to zero in 20 years from the time of purchase. MLIT attempted to launch a valuation system in 2015, however, it has not yet been successful in establishing a market specific to pre-owned homes. As a result, in recent years, pre-owned property prices have a high correlation to new property prices, especially in condominium market.

According to REINS (Real Estate Information Network System), a database operated by an MLIT-approved public interest corporation, East Japan Real Estate Distribution Network, the number of pre-owned condo exchanges completed in the Tokyo Metropolitan area was 37,217 units (-0.3% YoY) in 2018 – the fourth consecutive year above the 37,000 unit level and almost the same level of the annual new condominium supply. Price per square-meter is up for the sixth consecutive year to ¥516,100 (+3.2% YoY). Over the past 6 years, price/sqm has improved 35.1%. Average price per condo also went up in 2018 to ¥33.3mil (+4.3% YoY), with the average price rising not just in Central Tokyo but nationwide. Pre-owned properties over ¥30mil have seen high demand.

The Cabinet Office's research report issued on August 2018 speculates that reasons for nationwide demand increase for pre-owned condos is due to a change in the tax system surrounding pre-owned homes and better mortgage offerings for those properties. At the same time, especially in the urban areas, double-income couples prefer these better locations for their homes than opting for a brand-new property in less attractive locations. In the research, it suggested that less than 60% of consumers surveyed answered that they would choose to buy newly built properties.

In the pre-owned condo market, Takara Leben specifically targets at family-type properties that are currently rented. This is because let properties can be procured 20~30% cheaper than vacant properties. It does not search for investment properties but looks for those that would be in demand from families. While tenants are still living in the purchased properties, the company holds them in its leasing portfolio and earns rental income, which covers the fixed cost of the business. After the tenants move out, refurbishment starts and then the company finally sells these renewed properties on. Target properties are typically within 8~10 minutes walking distance from a station.

The company intends to find properties nationwide as long as they are located within 10 minutes walking distance from stations. Typically, the selling price is between ¥30~35mil.

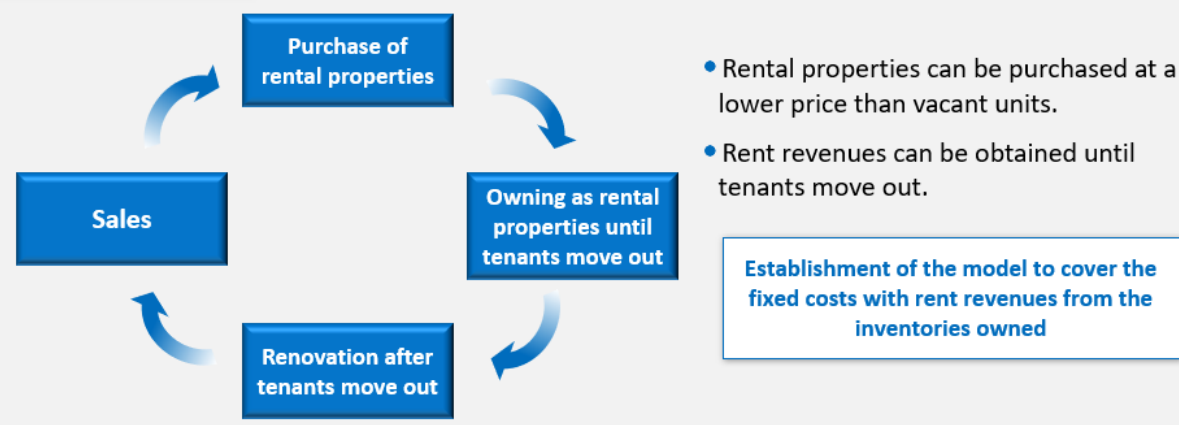
As of the end of March 2018, there were 60 properties on the portfolio. By the end of the medium-term plan (March 2021), it aims to hold 500 pre-owned properties. After purchase, tenants continue living in the properties for around 5 years on average. In this business, its competitors include Star Mica (3230 JP).

Renewal Resale Business – Leben Zestock

New entry into renewal resale business

- Lively used market due to sharp rise in new homes
- Change in lifestyle
- Less negative feeling regarding used condominiums
- Growth of the market for used condominiums

Business model



Owning about 60 units as of the end of March 2018

Aim to own 500 units by the end of March 2021

Source: Takara Leben – FY3/18 Earnings Results Presentation

❖ Liquidation Business:

Finding exits for assets on balance sheet

While Takara Leben has long-term fixed assets on its balance sheet, it also prepares various exits for properties whose value was upgraded after rebuilding and renovation. The Liquidation business generates sales when those assets are sold to REITs, private funds and external buyers. By finding appropriate exits, its balance sheet can be optimised.

In July 2018, the company's REIT arm, Takara Leben Real Estate Investment Corporation (3492 JP), was listed on the Tokyo Stock Exchange REIT market. The REIT is managed by Takara PAG Real Estate Advisory Limited, whose shareholders are Takara Leben, PAG Real Estate Holding Limited, Kyoritsu Maintenance (9616 JP) and Yamada Denki (9831 JP).

Takara Leben may set up other private equity funds, as it seems fit for purpose. After the company sells assets to REITs, it will receive dividend and also earns asset management fees.

Real Estate Rental

The Real Estate Rental business is Takara Leben's stock business. While it aims to secure stable earnings through its inventory of property on its balance sheet, it also seeks a balanced portfolio with exits in mind. For exit purposes, the company considers an optimal asset portfolio to be 70% in office buildings / residential properties and 30% in hotels, retail and other assets.

Real Estate Rental Business

(JPY million)	FY3/2017	FY3/2018	Medium-Term Plan Period		
			FY3/2019	FY3/2020	FY3/2021
Sales	5,056	5,472	5,500	6,000	6,300
GPM (%)	25.6	24.6	25.5	25.0	25.0

Source: Takara Leben – Medium-Term Management Plan Presentation

Real Estate Management

The Real Estate Management business is run by a 100%-owned subsidiary, Leben Community, which was initially set up to provide property management services to condominiums developed by the parent. Condominium management has become price competitive in recent years due to customers' (residents' association of condominiums) actively seeking to choose better value for money.

In the past, condominium property management was automatically conducted by developer's subsidiaries. Nowadays, residents are more serious about property management to retain the value of their assets and are actively seeking better management companies. This trend gives opportunity for the company, as it has successfully gained property management mandates from non-Takara Leben condominiums. As of FY17, 44.9% of the Real Estate Management segment came from those non-Leben brand condos. Furthermore, the customer retention ratio is as high as 99.9%. Leben Community had 52,800 units of condominiums under management as of Q3. Units under management went up by 5,000 units in FY17, of which 1,500 units were from Takara Leben condos and 3,500 units from other companies.

The business currently generates a GPM of 13% vs. the company's total GPM of 23%. The lower gross profit margin is due to the labour-intensive nature of property management business. Still, this business is worth expanding for there are derivative businesses, such as large-scale renovation order, building insurance agency and consultancy, that are part of others business segment.

Real Estate Management Business

	FY3/2017	FY3/2018	Medium-Term Plan Period		
			FY3/2019	FY3/2020	FY3/2021
Condos under management (units)	44,656	49,650	53,300	57,600	61,900
Non-Leben condos ratio (%)	42.3	44.9	46.7	48.1	49.3
Sales (JPY million)	3,665	4,000	4,300	5,000	5,400
GPM (%)	14.2	12.6	13.7	13.0	13.0

Source: Takara Leben – Medium-Term Management Plan Presentation

Renewable Energy

The origin of the Renewable Energy business was an eco-featured condominium development. Takara Leben developed condominiums that are equipped with solar panels on the rooftops to supply self-generated electricity to the condos in 2011. At that time, those condos were the only ones with self-generation facilities. After the FIT policy was introduced, the company investigated the viability of its energy generation business and confirmed that it could bring in cash flow.

The business model of the Energy Generation Business is such that Takara Leben sells its solar power plants to Takara Leben Infrastructure Fund (9281 JP) and leases them back. In return, it pays the Fund a minimum guaranteed rent. Takara Leben also receives revenue from selling electricity to electric power companies, an asset management fee (assets managed by its 100% subsidiary Takara Asset Management), an operation fee, a facility management fee and finally, a dividend. This business suffers high earnings volatility, depending on timing on facility sales. As of the end of FY17, the total energy generated reached 103MW and generated sales of ¥14.7bil. However, for FY18, the company is guiding for sales of just ¥7bil due to smaller numbers of facilities to be sold.

News flow of renewable energy tends to be negative because it leads to a rapid fall in FIT price. However, management reckons that the business can generate a constant yield and that it is worth expanding the scale of business. Under the ongoing medium-term plan, it aims to achieve 250MW generation, not only by solar but also with other renewable sources.

Renewable Energy Business

	FY3/2017	FY3/2018	Medium-Term Plan Period		
			FY3/2019	FY3/2020	FY3/2021
Cumulative power-generating capacity (MW)	80	103	147	200	250
Revenue from sale of facilities (JPY million)	8,405	14,687	7,000	17,000	17,000
GPM for sale of facilities (%)	39.0	34.5	20.4	15.9	15.9
Revenue from selling energy (JPY million)	2,703	3,552	3,800	4,100	4,200
GPM for selling energy (%)	5.9	5.7	5.3	5.0	5.0

Source: Takara Leben – Medium-Term Management Plan Presentation

Others

Others business include miscellaneous businesses that are not yet big enough to have a single segment such as sales commission, agency fees, renovation fees, asset management fees etc.

Others

Sales (JPY million)	FY3/2017	FY3/2018	Medium-Term Plan Period		
			FY3/2019	FY3/2020	FY3/2021
Agency Commission	660	436	800	1,100	1,200
Asset Management Fee	23	262	600	800	1,000
Repair and Renovation	417	718	1,000	1,600	2,000
Construction Revenue	1,902	1,394	1,500	2,100	2,600

Source: Takara Leben – Medium-Term Management Plan Presentation

Financials and Medium-term Management Plan

Fiscal year ending March 2019 is the first year of the 3-year medium-term management plan.

Q3 earnings were announced on 28 January 2019. Condominium contracts were 1,435 units, having achieved 84.4% of the full-year target. Earnings were in line with expectation and no revision on guidance was announced.

Results up to FY17 fell short of the previous 3-year plan. Net profit in FY17 was ¥7.3bil – some ¥1.6bil below the original target. External factors such as severe labour shortage and associated increase in construction cost squeezed profit. As a result, the 20% ROE target was missed.

In the new 3-year plan, management has reassessed its strategy and has identified three potential areas of growth: 1) build a solid base for stable and continuous growth, 2) diversify business portfolio, 3) taking part in ESG

The company aims to achieve a shareholders' equity ratio of 30% by FY21 – the end of the 3yr plan – and a 60% or lower loan-to-value (LTV) annually. By optimising its balance sheet, the firm is looking to achieve a ROE of 15% or more every year. One foreseeable risk, however, is higher personnel costs. As the business portfolio diversifies, the company has had to rapidly hire staff member. As for land procurement, it has a land bank for condominium development up to FY19.

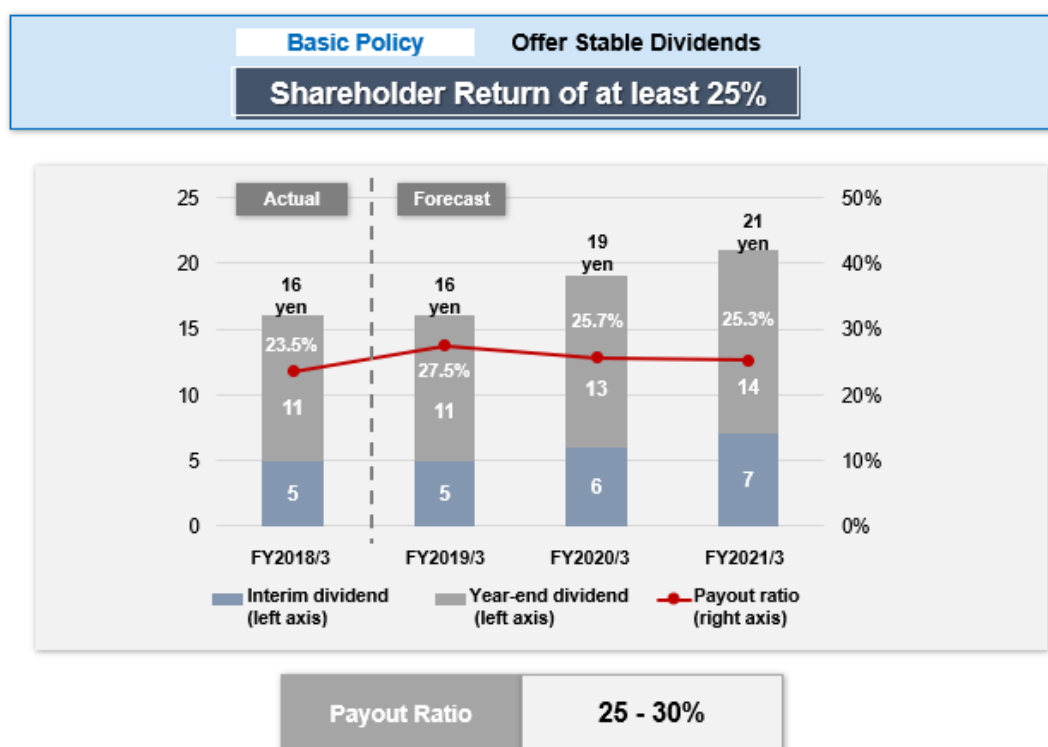
Medium-term Management Plan (FY3/19 - FY3/21) by Business

(JPY million)	Prev Plan		Medium-term Plan Period					
	FY3/18		FY3/19		FY3/20		FY3/21	
	Sales	GP	Sales	GP	Sales	GP	Sales	GP
Real estate sales	79,341	17,086	105,700	20,660	120,920	23,620	129,950	25,750
New condominiums	60,368	13,313	60,000	13,000	76,000	16,500	84,500	18,600
New detached houses	6,335	830	12,000	1,600	13,200	1,700	14,850	1,950
Renewal resale	588	78	1,700	220	2,720	320	3,400	400
Liquidation	9,707	2,322	30,000	5,500	26,000	4,700	24,000	4,400
Others	2,340	541	2,000	340	3,000	400	3,200	400
Real estate rental	5,472	1,346	5,500	1,400	6,000	1,500	6,300	1,575
Real estate management	4,000	504	4,300	590	5,000	650	5,400	702
Power generation	18,239	5,273	10,800	1,630	21,100	2,908	21,200	2,913
Sale of facilities	14,687	5,068	7,000	1,430	17,000	2,703	17,000	2,703
Revenue from selling energy	3,552	204	3,800	200	4,100	205	4,200	210
Others	3,797	1,568	3,700	2,120	6,980	n/a	7,150	n/a
Total	110,851	25,779	130,000	26,400	160,000	n/a	170,000	n/a
Operating profit	12,597		10,700		13,000		14,500	
Recurring profit	11,792		9,600		11,800		13,000	
Net profit	7,367		6,300		8,000		9,000	
Dividend (JPY)	16		16		19		21	

Source: Nippon Investment Bespoke Research UK Ltd based on Takara Leben's Medium-term Management Plan presentation

Shareholders' Return Policy

Dividend pay-out ratio target is set at 25~30%. A cash dividend is likely to be the primary method of shareholders' return for the company. In the past, it has repurchased shares, however, management reckons it is not the optimal method of shareholders' return given it is largely dependent on debt financing. It currently has 12.6mil in treasury shares, after the recent cancellation of 3mil treasury shares. For the remaining treasury shares on the balance sheet, the company may cancel or use them for investment, but has not yet decided.



Source: Takara Leben – Medium-Term Management Plan Presentation

Corporate Governance Issues

Takara Leben's Board of Directors is formed with 11 directors of which three are external independent directors. Of those 3, two have a background in finance and the other has a legal background. Should another outside director be added, s/he would be someone with expertise and depth of knowledge in real estate and one with global business background.

On the 25th of March, Takara Leben announced the Board's decision to set up nomination and remuneration committees to enhance the company's corporate governance structure. Each committee shall be formed with more than 3 directors, of which more than half of the members are independent external directors. Aim of having the majority from external directors is to increase their involvement and improve transparency of decision-making process at each committee. Chairman of each committee shall be voted by the Board of Directors.

In the current medium-term plan, the company announced an ESG policy. It aims to gradually disclose environment data as well as promoting female management.

ESG Initiatives

Environment	<p><u>Renewable Energy Initiatives</u> (Ongoing) Mega-solar, measures to preserve the global environment through solar power generation</p>
	<p><u>Natural Environmental Conservation initiatives</u> (New) Development of new growth resorts in which people and nature coexist Reducing CO2 emissions through the creation of forests and water, measures to combat global warming</p>
Social	<p><u>Female Empowerment and Development of Workstyle Reforms</u> (Ongoing) Introducing of maternity leave, childcare leave, shortened working hours and flex-time (New) Introduction of 37.5-hour work-week and telecommuting programmes (New) Secondary usage of model rooms for temporary child-minding (New) Retention of talented human resources through 5% company-wide wage increase</p>
	<p><u>Cooperation with Regional Creation and Revitalisation Efforts</u> (New) Ongoing reconstruction support for areas affected by earthquakes</p>
	<p><u>Enhanced Corporate Governance</u> (New) Review and development of crisis management systems - Compliance and Risk Management Committee</p>
Governance	<p><u>Stronger Communication with Investors</u> (New) Provision of a CSR report for investors</p>

Source: Takara Leben – Medium-Term Management Plan Presentation

Financial Summary - Takara Leben (8897 JP)

(JPY million)	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19 (G)
Sales	76,956	76,268	103,599	110,851	130,000
Operating Profit	9,257	7,563	10,349	12,597	10,700
Recurring Profit	8,540	6,708	9,496	11,792	9,600
Net Profit	5,718	4,308	6,107	7,367	6,300
EPS (JPY)	50.61	38.99	56.14	68.12	50.81
Adjusted EPS (JPY)	50.44	38.82	55.85	67.80	-
Cash flow from operation (CFO)	-8,155	2,428	22,644	9,869	-
Cash flow from investment (CFI)	-7,998	-19,816	-27,540	-34,463	-
Cash flow from finance (CFF)	6,314	19,663	6,129	24,012	-
Cash and cash equivalent	26,114	28,390	29,623	29,042	-
Free cash flow (FCF)	-16,153	-17,388	-4,896	-24,594	-
CFO per share (JPY)	-72.17	21.97	208.14	91.25	-
FCF per share (JPY)	-142.96	-157.37	-45.00	-227.40	-
Total asset	101,738	129,744	139,874	177,975	-
Liabilities	70,549	96,066	103,081	135,067	-
Net asset	31,189	33,677	36,792	42,907	-
Capital	4,819	4,819	4,819	4,819	-
Shareholders' equity	31,112	33,537	36,635	42,748	-
BPS (JPY)	279.11	304.71	339.29	394.90	-
OPM (%)	12.03	9.92	9.99	11.36	-
ROE (%)	19.65	13.33	17.41	18.56	-
ROA (%)	8.47	5.68	6.94	7.32	-
Shareholders' equity ratio (%)	30.58	25.85	26.19	24.02	-
D/E ratio (%)	226.76	286.45	281.37	315.96	-
Total asset turnover (x)	0.78	0.66	0.77	0.70	-
Interest coverage (x)	10.38	7.60	10.00	11.81	-
Current ratio (%)	193.45	176.75	171.52	181.97	-
Interest-bearing debt	48,555	70,169	79,727	106,442	-
EBIT	9,432	7,704	10,532	12,859	-
EBIT Margin (%)	12.26	10.10	10.17	11.60	-
EBITDA	10,149	8,896	12,929	14,802	-
EBITDA margin (%)	13.19	11.66	12.48	13.35	-
Annual dividend (JPY / share)	6.00	13.00	15.00	16.00	16.00
Normal dividend	6.00	13.00	15.00	16.00	-
Commemorative dividend	-	-	-	-	-
Dividend pay-out ratio (%)	11.90	33.30	26.70	23.50	-
DoE (%)	2.30	4.40	4.60	4.30	-
Shares outstanding (shares)	128,000,000	126,000,000	124,000,000	124,000,000	121,000,000
Treasury shares (shares)	16,531,307	15,938,307	16,022,507	15,750,907	12,605,707

Source: Nikkei Value Search

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