

Akatsuki Corp. (8737)

Consolidated Fiscal Year (Million Yen)		Operating Revenue	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY03/2016		5,391	305	490	(1,464)	(99.7)	15.0	515
FY03/2017		4,312	(458)	421	239	15.9	8.0	517
FY03/2018CoE		21,800	1,200	1,400	1,100	-	-	-
FY03/2017	YoY	(20.0%)	-	(14.0%)	-	-	-	-
FY03/2018CoE	YoY	405.6%	-	232.5%	360.3%	-	-	-
Consolidated Half Year (Million Yen)		Operating Revenue	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY03/2016		2,958	305	491	454	-	-	-
Q3 to Q4 FY03/2016		2,432	0	0	(1,918)	-	-	-
Q1 to Q2 FY03/2017		2,365	(320)	495	(120)	-	-	-
Q3 to Q4 FY03/2017		1,946	(138)	(74)	359	-	-	-
Q1 to Q2 FY03/2017	YoY	(20.0%)	-	0.9%	-	-	-	-
Q3 to Q4 FY03/2017	YoY	(20.0%)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (24 July 2017)

Involvement with Real Estate

Akatsuki Corp., or ex-Akatsuki Financial Group to have changed corporate identity on 1 July 2016, is to see a major turnaround for its period gains and losses. In the first place, the Company used to run a group with Akatsuki Securities, Inc. being involved with sales to retail investors with 12 branches across Japan as the key subsidiary for earnings as a whole for the Company. Meanwhile, operating revenue in FY03/2018 is to be dramatically driven by a merger on the Real Estate Business side and thus earnings. That is to say, in Q2, the Company is to incorporate TOTAL ESTATE, Ltd. to have seen sales of ¥23,494m and operating profit of ¥1,041m in FY09/2016 with its operations to refurbish secondhand condos (purchase and resale) as consolidated subsidiary. According to the Company, goodwill of ¥2,000m (roughly estimated) to be generated here is to be written off equally for 10 years, i.e., ¥200m pa. The Company, whose period gains and losses as a whole having hinged on those of brokerage of securities for retail investors on the Securities Business side to be driven by state of the stock market to a meaningful extent, is trying to get at stable earnings growth over the long-term by means of consolidating TOTAL ESTATE, Ltd., i.e., the 4th largest operator, although not being listed, in terms of the number of purchase and resale for secondhand condos. On top of this, the Company came up with the release on 25 April 2017 to disclose that it will see consulting revenue of ¥1,100m on the Real Estate Business side in H1, which will drive full-year earnings as a whole for the Company a lot. However, this is just one-off and thus positive impacts from here will disappear in FY03/2019 over FY03/2018.


In FY03/2017, operating revenue came in at ¥4,312m (down 20.0% YoY), operating loss ¥458m (versus operating profit of ¥305m in the previous year) and operating profit margin negative 10.6% (down 16.3% points). On the Securities Business side, operating revenue came in at ¥2,889m (down 21.9%), segment loss ¥7m (segment profit of ¥447m) and segment profit margin negative 0.3% (down 12.4% points), while ¥1,422m (down 8.8%), ¥222m (down 40.9%) and 15.7% (down 8.5% points), respectively, on the Real Estate Business side. Operating loss of ¥458m as a whole for the Company comprised collective segment profit and loss of the two business segments and elimination of ¥673m to be removed. On the Securities Business side, being heavily involved with face-to-face sales to elderly retail investors, improving state of the stock market in H2 over H1 led to increasing commissions accordingly, having resulted in segment profit of ¥139m in H2 versus segment loss of ¥147m in H1. Thus, on a full-year basis, adjusting commissions due to sluggish state of the stock market generated segment loss in H1, which had impacts larger. Meanwhile, on 15 October 2016, the Company disclosed that it sells the shares of consolidated subsidiary, i.e., Wealth Management, Inc. to invest in hotels as well as to run them through real estate investment funds (Sales of ¥1,767m and operating profit of ¥252m in Q1 to Q2 FY03/2017) and said consolidated subsidiary is removed out of consolidation. The Company saw segment profit of ¥203m in H1 on the Real Estate Business side, bulk of which appears to have come from Wealth Management, Inc.

FY03/2018 Company forecasts are going for prospective operating revenue of ¥21,800m (up 405.6% YoY), operating profit of ¥1,200m (versus operating loss of ¥458m in the previous year) and operating profit margin of 5.5% (up 16.1% points). Company forecasts assume operating revenue of ¥3,300m (up 14.2%), segment profit of ¥200m (segment loss ¥7m) and segment profit margin of 6.1% (up 6.4% points) on the Securities Business side, while ¥18,500m (up 13.0 times), ¥1,650m (up 8.6 times) and 8.9% (down 6.7% points), respectively, on the Real Estate Business side and elimination of ¥650m. As far as we could gather, state of the stock market is assumed to remain favorable, given assumptions for operating revenue on the Securities Business side steadily increasing. Meanwhile, on the Real Estate Business side, TOTAL ESTATE, Ltd. is to contribute to earnings after goodwill write-off from the first year of consolidation as far as we could gather.

IR Representative: Masahiro Kawanaka, Director (+81 3 6821 0606 kawanaka@akatsuki-fg.com)

2.0 Company Profile

Retail Brokerage of Securities, Purchase and Resale of Condos

Company Name	<p>Akatsuki Corp.</p> <p>Website (Japanese)</p> <p>IR Information (Japanese)</p> <p>Share Price</p>	 <p>あかつき本社</p>
Established	14 September 1950	
Listing	26 February 2003: Tokyo Stock Exchange 2nd Section (Ticker: 8737)	
Capital	¥3,574m (As of the end of March 2017)	
No. of Shares	16,424,075 shares, including 1,209,054 treasury shares (As of the end of March 2017)	
Main Features	<ul style="list-style-type: none"> ● Involved with retail brokerage on the Securities Business side ● Reorganization making progress on the Real Estate Business side ● Also involved with management of health care funds 	
Business Segments	<ul style="list-style-type: none"> . Securities Business . Real Estate Business 	
Top Management	President, Representative Director: Hideaki Shimane	
Shareholders	SMBC Trust and Banking Co., Ltd. 5.6%, Matsuei Management Co., Ltd. Ltd. 4.5% (As of the end of March 2017)	
Headquarters	Chuo-ku, Tokyo, JAPAN	
No. of Employees	Consolidated:176, Subsidiaries: 161 (As of the end of March 2017)	

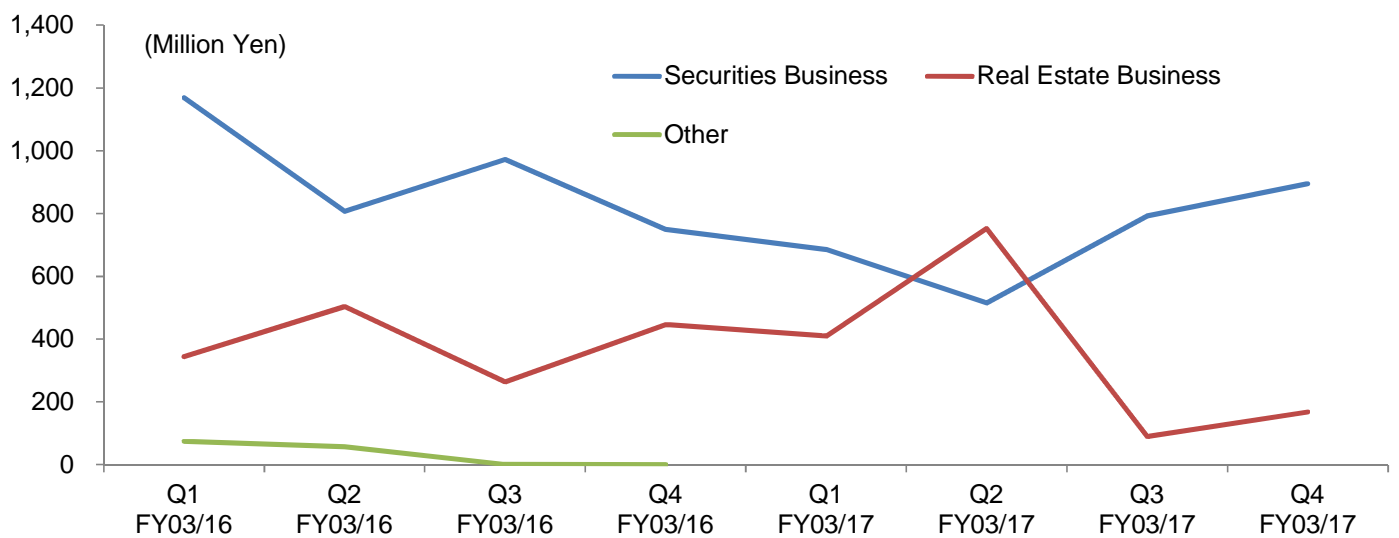
Source: Company Data

3.0 Recent Trading and Prospects

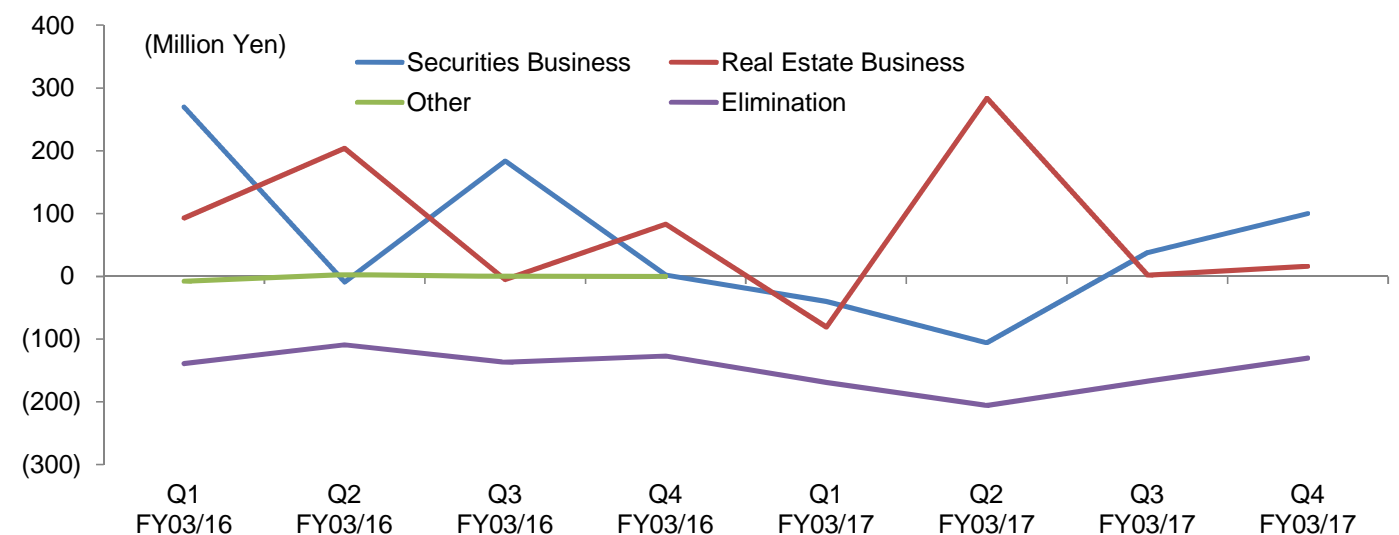
FY03/2017 Results

In FY03/2017, operating revenue came in at ¥4,312m (down 20.0% YoY), operating loss ¥458m (versus operating profit of ¥305m in the previous year), recurring profit ¥421m (down 14.0%) and profit attributable to owners of parent ¥239m (versus loss of ¥1,464m). The Company runs two business segments, i.e., Securities Business and Real Estate Business and collective segment profit came in at ¥215m, while elimination to be removed came in at ¥673m (company-level expenses not to be allocated to both of the business segments, etc.), having resulted in operating loss of ¥458m as a whole for the Company.

Operating Revenue (Quarterly)



Segment Profit and Loss (Quarterly)

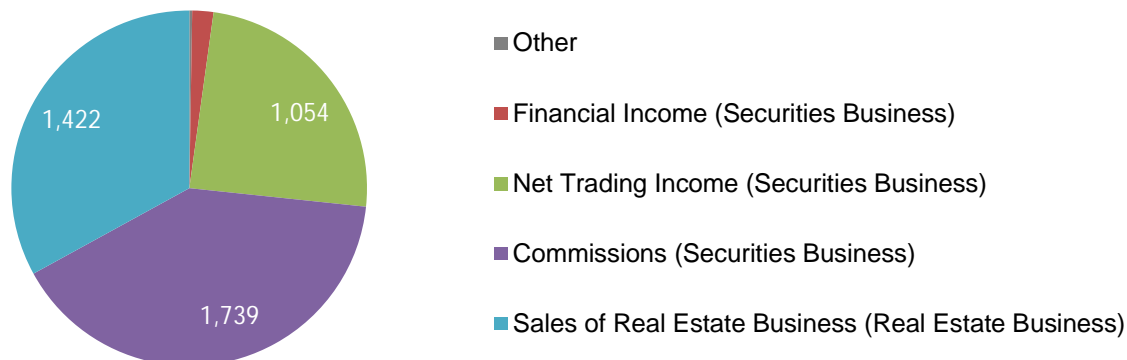


Source: Company Data, WRJ Calculation

In FY03/2017, the Company saw high volatility of business performance on a quarterly basis both for Securities Business and Real Estate Business. On the Securities Business side, operating revenue on a quarterly basis tends to be driven directly by state of the stock market during the same period in the first place and thus segment profit and loss inevitably. Meanwhile, on the Real Estate Business side, it had a lot to do with mainstay consolidated subsidiary, i.e., Wealth Management, Inc. to invest in hotels as well as to run them through real estate investment funds, having been removed out of consolidation since Q3 FY03/2017.

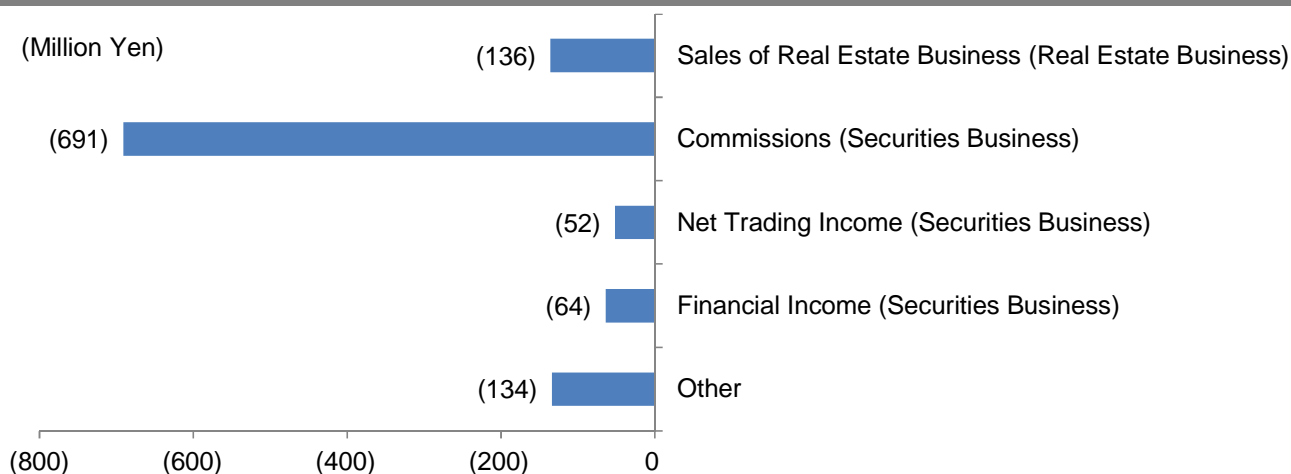
Operating Revenue Breakdown : FY03/2017

(Million Yen)



Net Changes over The Previous Year

(Million Yen)



Source: Company Data, WRJ Calculation

On the Securities Business side, commissions and net trading income are the two main constituents of operating revenue. In regards to the former, commission fees came down in line with decreasing consigned stock trading value, while sales fees on investment trusts also came down. Although representation fees on investment trusts increased, commissions as a whole comprising all those three fees came down sharply, having negatively affected to operating revenue as a whole for the Company to a large extent at the same time. On top of this, another main constituent of net trading income also came down. In spite of “net trading income” as expression, the contents here are, effectively, commission fees stemming from trading of US stocks, etc. and bonds between the Company and customers. Trading value of US stocks, etc. increased and thus commission fees on them, but those of bonds decreased more.

Meanwhile, the Company mentions as follows: “In regards to Wealth Management, Inc. (to be referred to as “WM Inc.” later in this text) to have been our consolidated subsidiary, as we believed that our hands-on investment strategy might not work further when our holding ratio on the shares of WM Inc. consequently comes down due to strategy of WM Inc. to carry out capital tie-up with strategic partners other than us, we have sold the bulk of common shares of WM Inc. to have been held to another strategic partner of WM Inc. in December 2016 and thus having been removed out of our consolidated accounts since then.” For information, “hands-on” in this context means that investors of investment funds, etc. participates in management of objects of investments.

Given the above-mentioned issue, Real Estate Business in Q3 and Q4 saw sales and earnings of existing consolidated subsidiaries only, i.e. EW Asset Management Co., Ltd. and My Trunk Co., Ltd., as far as we could gather. The former runs healthcare funds, having started up constructing a nursing home in September 2016 on the site to have been procured in Higashinada-ku, Kobe, preceded by one in August in Kawagoe-city. Meanwhile, the latter leases storage places.

At the end of the day, the Company saw operating loss of ¥458m (versus operating profit of ¥305m in the previous year), but recurring profit of ¥421m (down 14.0%) due to improving non-operating balance by ¥695m (from gains of ¥184m to gains of ¥880m). This is due mainly to booking of equity in earnings of affiliates as much as ¥933m versus ¥198m in the previous year, of which the bulk was of appraisal gains on hotels to be invested in by above-mentioned Wealth Management, Inc., according to the Company.

Selling of the shares on Wealth Management, Inc. during the fiscal year made impacts even larger at the extraordinary balance, i.e., negative ¥1,466m to positive ¥401m. The Company suffered from loss on sales of shares of subsidiaries and affiliates as much as ¥1,620m in FY03/2016, stemming from selling of the shares held on YUTAKA SHOJI CO., LTD. (Ticker: 8747 on TSE JQ) or one of the largest players of commodity futures to have been invested in by the Company. Meanwhile, in FY03/2017, the Company saw gain on sales of subsidiaries and affiliates as much as ¥943m, stemming from selling of the (bulk of) shares held on Wealth Management, Inc. (Ticker: 3772 on TSE2) to have been invested in by the Company through its 100% consolidated subsidiary, i.e., Capital Engine Co., Ltd. Still, the Company also saw stock acquisition rights redemption loss of ¥405m and loss on liquidation of subsidiaries and affiliates of ¥118m, having resulted in net extraordinary balance of ¥401m.

Meanwhile, the Company, having seen loss attributable to owners of parent of ¥1,464m in FY03/2016, saw fairly lowered burden of corporate taxes, etc. in FY03/2017, due to losses from the past including those here. Nevertheless, net profit belonging to non-controlling shareholders of ¥514m is deducted from profit before income taxes of ¥822m, profit attributable to owners of parent came in at ¥239m. The bulk of deduction here related to consolidation of Wealth Management, Inc. as subsidiary and thus this deduction will come down sharply in FY03/2018, when said subsidiary is removed out of consolidation.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY	
(Million Yen)	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	Net Chg.	
Operating Revenue	1,589	2,958	4,195	5,391	1,096	2,365	3,248	4,312		(1,079)
Financial Charges	8	19	27	32	0	8	14	34		+1
CoGS	194	378	513	791	332	629	678	778		(12)
Net Operating Revenue	1,385	2,560	3,655	4,567	764	1,727	2,554	3,498		(1,068)
SG&A Expenses	1,169	2,255	3,307	4,262	1,055	2,048	3,000	3,957		(304)
Operating Profit	216	305	347	305	(290)	(320)	(445)	(458)		(764)
Non Operating Balance	176	185	167	184	(21)	816	878	880		+695
Recurring Profit	393	491	514	490	(311)	495	432	421		(68)
Extraordinary Balance	(19)	173	(1,442)	(1,466)	0	(110)	383	401		+1,867
Profit before Income Taxes	373	664	(927)	(976)	(311)	385	816	822		+1,799
Total Income Taxes	52	102	96	304	(12)	(33)	68	69		(235)
NP Belonging to Non-Controlling SHs	(2)	108	178	183	(40)	539	520	514		+330
Profit Attributable to Owners of Parent	322	454	(1,202)	(1,464)	(258)	(120)	226	239		+1,703
Operating Revenue YoY	-	-	-	-	(31.0%)	(20.0%)	(22.6%)	(20.0%)		-
Operating Profit YoY	-	-	-	-	-	-	-	-		-
Recurring Profit YoY	-	-	-	-	-	+0.9%	(15.9%)	(14.0%)		-
Profit Attributable to Owners of Parent YoY	-	-	-	-	-	-	-	-		-
Gross Profit Margin	87.2%	86.5%	87.1%	84.7%	69.7%	73.0%	78.6%	81.1%		(3.6%)
(SG&A / Sales)	73.6%	76.2%	78.8%	79.0%	96.2%	86.6%	92.4%	91.8%		+12.7%
Operating Profit Margin	13.6%	10.3%	8.3%	5.7%	(26.5%)	(13.6%)	(13.7%)	(10.6%)		(16.3%)
Recurring Profit Margin	24.7%	16.6%	12.3%	9.1%	(28.4%)	21.0%	13.3%	9.8%		+0.7%
Profit Attributable to Owners of Parent Margin	20.3%	15.4%	(28.7%)	(27.2%)	(23.6%)	(5.1%)	7.0%	5.5%		+32.7%
Total Income Taxes / Profit before Income Taxes	14.2%	15.4%	(10.4%)	(31.2%)	4.0%	(8.7%)	8.4%	8.4%		+39.6%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	
(Million Yen)	03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	Net Chg.	
Operating Revenue	1,589	1,369	1,237	1,195	1,096	1,268	882	1,063		(131)
Financial Charges	8	10	8	4	0	8	6	19		+14
CoGS	194	184	134	278	332	296	49	100		(177)
Net Operating Revenue	1,385	1,174	1,094	912	764	963	827	943		+31
SG&A Expenses	1,169	1,085	1,052	954	1,055	993	952	956		+2
Operating Profit	216	89	41	(41)	(290)	(29)	(125)	(12)		+28
Non Operating Balance	176	9	(18)	17	(21)	837	61	2		(15)
Recurring Profit	393	98	22	(23)	(311)	807	(63)	(10)		+13
Extraordinary Balance	(19)	193	(1,615)	(24)	0	(110)	494	17		+41
Profit before Income Taxes	373	291	(1,592)	(48)	(311)	697	430	6		+54
Total Income Taxes	52	49	(5)	208	(12)	(21)	102	0		(207)
NP Belonging to Non-Controlling SHs	(2)	110	70	5	(40)	580	(18)	(6)		(11)
Profit Attributable to Owners of Parent	322	131	(1,657)	(261)	(258)	138	346	12		+274
Operating Revenue YoY	-	-	-	-	(31.0%)	(7.4%)	(28.6%)	(11.0%)		-
Operating Profit YoY	-	-	-	-	-	-	-	-		-
Recurring Profit YoY	-	-	-	-	-	+722.2%	-	-		-
Profit Attributable to Owners of Parent YoY	-	-	-	-	-	+5.2%	-	-		-
Gross Profit Margin	87.2%	85.8%	88.5%	76.3%	69.7%	76.0%	93.7%	88.7%		+12.4%
(SG&A / Sales)	73.6%	79.3%	85.1%	79.8%	96.2%	78.3%	107.9%	89.9%		+10.1%
Operating Profit Margin	13.6%	6.5%	3.4%	(3.5%)	(26.5%)	(2.3%)	(14.2%)	(1.2%)		+2.3%
Recurring Profit Margin	24.7%	7.2%	1.9%	(2.0%)	(28.4%)	63.7%	(7.2%)	(1.0%)		+1.0%
Profit Attributable to Owners of Parent Margin	20.3%	9.6%	(133.9%)	(21.9%)	(23.6%)	10.9%	39.3%	1.2%		+23.1%
Total Income Taxes / Profit before Income Taxes	14.2%	16.9%	-	-	4.0%	(3.0%)	23.8%	8.1%		-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q1 to Q2 03/2016	Q1 to Q3 03/2016	Q1 to Q4 03/2016	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017		
Securities Business	1,169	1,977	2,950	3,699	686	1,201	1,993	2,889	(810)	
Real Estate Business	344	848	1,113	1,559	410	1,164	1,254	1,422	(136)	
Other	75	132	132	132	-	-	-	-	(132)	
Sales	1,589	2,958	4,195	5,391	1,096	2,365	3,248	4,312	(1,079)	
Securities Business	270	260	445	447	(40)	(147)	(108)	(7)	(455)	
Real Estate Business	93	298	293	377	(81)	203	205	222	(154)	
Other	(8)	(5)	(5)	(5)	-	-	-	-	+5	
Segment profit	355	553	733	819	(121)	55	97	215	(604)	
Elimination	(139)	(248)	(386)	(513)	(169)	(376)	(543)	(673)	(160)	
Operating Profit	216	305	347	305	(290)	(320)	(445)	(458)	(764)	
Securities Business	23.1%	13.2%	15.1%	12.1%	(5.9%)	(12.3%)	(5.4%)	(0.3%)	(12.4%)	
Real Estate Business	27.3%	35.2%	26.4%	24.2%	(19.8%)	17.4%	16.4%	15.7%	(8.5%)	
Other	(11.9%)	(4.4%)	(4.4%)	(4.3%)	-	-	-	-	-	
Elimination	(8.8%)	(8.4%)	(9.2%)	(9.5%)	(15.4%)	(15.9%)	(16.7%)	(15.6%)	(6.1%)	
Operating Profit Margin	13.6%	10.3%	8.3%	5.7%	(26.5%)	(13.6%)	(13.7%)	(10.6%)	(16.3%)	

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q2 03/2016	Q3 03/2016	Q4 03/2016	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017		
Securities Business	1,169	807	972	749	686	515	792	895	+146	
Real Estate Business	344	504	264	446	410	753	90	168	(278)	
Other	75	57	-	-	-	-	-	-	-	
Sales	1,589	1,369	1,237	1,195	1,096	1,268	882	1,063	(131)	
Securities Business	270	(9)	184	2	(40)	(106)	38	100	+98	
Real Estate Business	93	204	(5)	83	(81)	284	2	16	(66)	
Other	(8)	3	-	-	-	-	-	-	-	
Segment profit	355	198	179	85	(121)	177	41	117	+31	
Elimination	(139)	(109)	(137)	(127)	(169)	(206)	(167)	(130)	(3)	
Operating Profit	216	89	41	(41)	(290)	(29)	(125)	(12)	+28	
Securities Business	23.1%	(1.2%)	19.0%	0.3%	(5.9%)	(20.8%)	4.9%	11.3%	+11.0%	
Real Estate Business	27.3%	40.6%	(1.9%)	18.8%	(19.8%)	37.7%	3.2%	10.0%	(8.7%)	
Other	(11.9%)	5.4%	-	100.0%	-	-	-	-	-	
Elimination	(8.8%)	(8.0%)	(11.1%)	(10.7%)	(15.4%)	(16.3%)	(18.9%)	(12.3%)	(1.6%)	
Operating Profit Margin	13.6%	6.5%	3.4%	(3.5%)	(26.5%)	(2.3%)	(14.2%)	(1.2%)	+2.3%	

Source: Company Data, WRJ Calculation

Operating Revenue Breakdown (Cumulative, Quarterly)

Operating Revenue Breakdown		Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
		Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)		03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	Net Chg.
Commissions		830	1,439	2,039	2,430	307	637	1,143	1,739	(691)
Net Trading Income		296	445	778	1,107	349	505	774	1,054	(52)
Financial Income		42	84	120	148	22	42	57	84	(64)
Sales of Real Estate Business		344	848	1,113	1,559	410	1,164	1,254	1,422	(136)
Other		75	140	144	145	6	15	17	11	(134)
Sales		1,589	2,958	4,195	5,391	1,096	2,365	3,248	4,312	(1,079)
Commissions		-	-	-	(9.1%)	(62.9%)	(55.7%)	(43.9%)	(28.4%)	-
Net Trading Income		-	-	-	(46.9%)	+18.0%	+13.6%	(0.4%)	(4.7%)	-
Financial Income		-	-	-	+5.8%	(47.7%)	(49.5%)	(51.9%)	(43.6%)	-
Sales of Real Estate Business		-	-	-	+65.0%	+19.2%	+37.1%	+12.7%	(8.8%)	-
Other		-	-	-	(59.1%)	(91.2%)	(88.8%)	(87.8%)	(91.9%)	-
Sales (YoY)		-	-	-	(13.0%)	(31.0%)	(20.0%)	(22.6%)	(20.0%)	-
Commissions		52.2%	48.7%	48.6%	45.1%	28.0%	26.9%	35.2%	40.3%	-
Net Trading Income		18.7%	15.0%	18.5%	20.5%	31.9%	21.4%	23.9%	24.5%	-
Financial Income		2.7%	2.9%	2.9%	2.8%	2.0%	1.8%	1.8%	1.9%	-
Sales of Real Estate Business		21.7%	28.7%	26.5%	28.9%	37.4%	49.2%	38.6%	33.0%	-
Other		4.7%	4.7%	3.5%	2.7%	0.6%	0.7%	0.5%	0.3%	-
Sales (Composition)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-
Operating Revenue Breakdown		Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)		03/2016	03/2016	03/2016	03/2016	03/2017	03/2017	03/2017	03/2017	Net Chg.
Commissions		830	609	599	391	307	329	505	595	+204
Net Trading Income		296	148	332	328	349	155	269	279	(49)
Financial Income		42	42	35	28	22	20	15	26	(2)
Sales of Real Estate Business		344	504	264	446	410	753	90	168	(278)
Other		75	64	4	-	6	9	2	(5)	(6)
Sales		1,589	1,369	1,237	1,195	1,096	1,268	882	1,063	(131)
Commissions		-	-	-	-	(62.9%)	(45.9%)	(15.6%)	+52.3%	-
Net Trading Income		-	-	-	-	+18.0%	+4.9%	(19.2%)	(15.0%)	-
Financial Income		-	-	-	-	(47.7%)	(51.4%)	(57.6%)	(8.2%)	-
Sales of Real Estate Business		-	-	-	-	+19.2%	+49.4%	(65.6%)	(62.3%)	-
Other		-	-	-	-	(91.2%)	(86.1%)	(56.5%)	-	-
Sales (YoY)		-	-	-	-	(31.0%)	(7.4%)	(28.6%)	(11.0%)	-
Commissions		52.2%	44.5%	48.5%	32.7%	28.0%	26.0%	57.3%	56.0%	-
Net Trading Income		18.7%	10.8%	26.9%	27.5%	31.9%	12.3%	30.5%	26.3%	-
Financial Income		2.7%	3.1%	2.9%	2.4%	2.0%	1.6%	1.7%	2.5%	-
Sales of Real Estate Business		21.7%	36.8%	21.4%	37.3%	37.4%	59.4%	10.3%	15.8%	-
Other		4.7%	4.7%	0.4%	0.1%	0.6%	0.7%	0.2%	(0.6%)	-
Sales (Composition)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q2 03/2016	Q3 03/2016	Q4 03/2016	Q1 03/2017	Q2 03/2017	Q3 03/2017	Q4 03/2017		
Cash and Deposit	5,099	7,537	5,906	5,956	7,461	7,689	10,188	6,628	+671	
Deposit	6,745	4,327	4,187	3,625	3,755	4,403	5,996	5,500	+1,875	
Credit Trading Assets	9,110	8,825	7,621	5,649	3,938	4,033	4,353	5,752	+103	
Other	3,509	4,271	3,690	3,447	1,660	2,772	2,466	3,169	(278)	
Current Assets	24,465	24,961	21,405	18,678	16,814	18,897	23,003	21,050	+2,371	
Tangible Assets	510	501	486	426	3,503	12,028	4,319	4,712	+4,286	
Intangible Assets	592	584	566	541	531	549	207	195	(346)	
LT Investment Securities, etc.	4,497	3,571	2,485	2,285	2,255	2,133	1,740	1,909	(375)	
Fixed Assets	5,600	4,657	3,538	3,253	6,290	14,711	6,267	6,817	+3,564	
Assets Carried Forward	6	4	2	1	-	-	-	-	(1)	
Total Assets	30,072	29,623	24,946	21,933	23,104	33,608	29,271	27,868	+5,934	
Credit Debt Deal	5,982	5,699	2,972	1,839	1,497	2,149	2,891	4,218	+2,378	
Deposits Received	6,344	4,660	5,171	3,522	4,136	4,643	8,715	4,967	+1,444	
Short-Term Bonds	4,250	4,000	4,000	4,000	4,000	4,000	4,000	4,000	-	
Short Term Debt	-	-	377	377	377	626	184	350	(27)	
Nonrecourse Debt (less than 1 year)	-	-	-	-	46	46	206	56	+56	
Convertible Bonds (less than 1 year)	-	200	200	200	200	-	-	-	(200)	
Other	1,595	2,574	1,336	1,902	1,255	1,764	1,578	1,752	(149)	
Current Liabilities	18,172	17,134	14,057	11,841	11,512	13,230	17,576	15,345	+3,503	
Nonrecourse Bonds	-	-	-	-	100	100	100	100	+100	
Long Term Debt	-	-	-	-	-	7,425	-	-	-	
Nonrecourse Debt	-	-	-	-	1,905	1,894	1,882	2,580	+2,580	
Convertible Bonds	200	-	-	-	-	-	-	-	-	
Other	572	596	628	619	788	814	859	795	+176	
Fixed Liabilities	772	596	628	619	2,693	10,133	2,742	3,475	+2,856	
Reserve of Special Laws	37	37	37	37	37	39	39	19	(18)	
Total Liabilities	18,982	17,767	14,723	12,497	14,243	23,403	20,357	18,840	+6,342	
Shareholders' Equity	9,375	9,617	7,875	7,613	7,158	7,439	7,465	7,475	(137)	
Other	1,714	2,239	2,347	1,822	1,702	2,765	1,447	1,552	(269)	
Net Assets	11,090	11,856	10,223	9,435	8,860	10,204	8,913	9,027	(407)	
Total Liabilities and Net Assets	30,072	29,623	24,946	21,933	23,104	33,608	29,271	27,868	+5,934	
Equity Capital	9,381	9,598	7,881	7,637	7,159	7,440	7,737	7,870	+233	
Interest Bearing Debt	4,450	4,200	4,577	4,577	6,629	14,091	6,373	7,087	+2,510	
Net Debt	(649)	(3,337)	(1,329)	(1,379)	(832)	6,402	(3,815)	459	+1,838	
Equity Ratio	31.2%	32.4%	31.6%	34.8%	31.0%	22.1%	26.4%	28.2%	(6.6%)	
Net Debt Equity Ratio	(6.9%)	(34.8%)	(16.9%)	(18.1%)	(11.6%)	86.1%	(49.3%)	5.8%	+23.9%	
ROE (12 months)	-	-	-	(17.2%)	(24.7%)	(23.9%)	(0.4%)	3.1%	+20.3%	
ROA (12 months)	-	-	-	2.0%	(0.8%)	1.6%	1.5%	1.7%	(0.3%)	
Quick Ratio	28%	44%	42%	81%	65%	58%	58%	79%	-	
Current Ratio	135%	146%	152%	158%	146%	143%	131%	137%	-	

Source: Company Data, WRJ Calculation

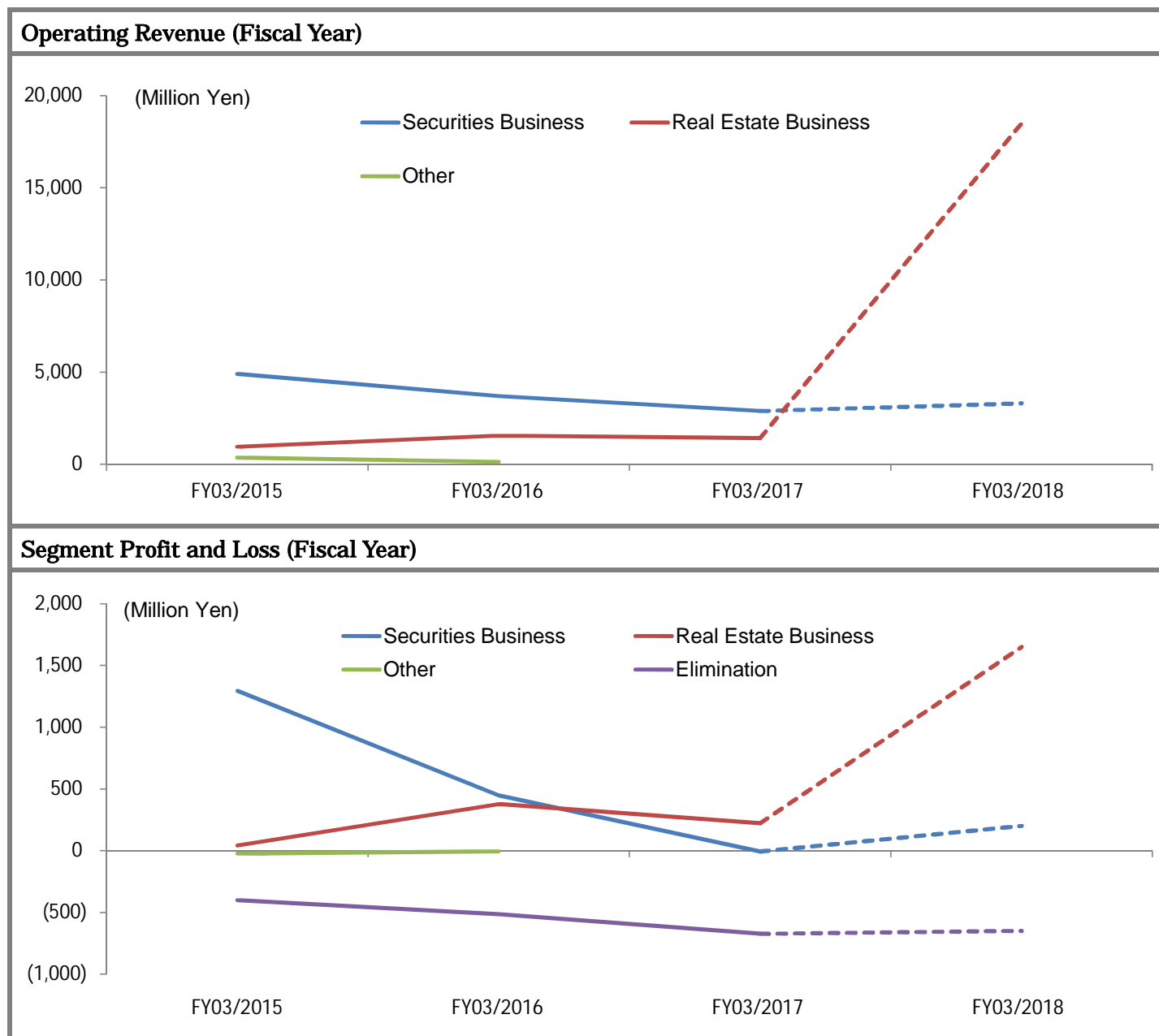
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 03/2016	Q1 to Q2 03/2016	Q1 to Q3 03/2016	Q1 to Q4 03/2016	Q1 03/2017	Q1 to Q2 03/2017	Q1 to Q3 03/2017	Q1 to Q4 03/2017		
Operating Cash Flow	-	911	-	110	-	2,193	-	1,820	+1,709	
Investing Cash Flow	-	1,405	-	890	-	(9,080)	-	(9,855)	(10,745)	
Operating CF and Investing CF	-	2,316	-	1,001	-	(6,886)	-	(8,034)	(9,035)	
Financing Cash Flow	-	(811)	-	(1,091)	-	8,297	-	8,512	+9,603	

Source: Company Data, WRJ Calculation

FY03/2018 Company Forecasts

FY03/2018 Company forecasts are going for prospective operating revenue of ¥21,800m (up 405.6% YoY), operating profit of ¥1,200m (versus operating loss of ¥458m in the previous year), recurring profit of ¥1,400m (up 232.5%) and profit attributable to owners of parent of ¥1,100m (up 360.3%), while operating profit margin of 5.5% (up 16.1% points). In regards to earnings per share, Company forecasts hesitate to disclose prospective figures and annual dividend being not decided yet. Meanwhile, the Company implements annual dividend of ¥8.0 per share, implying payout ratio of 50.3% in FY03/2017.



Source: Company Data, WRJ Calculation

While main assumptions on operating revenue and operating profit are as have been already mentioned, gains at non-operating balance will come down sharply (¥880m to ¥200m) in FY03/2018 over FY03/2017 as equity in earnings of affiliates as much as ¥933m in FY03/2017 was one-off and not to reappear. Meanwhile, Company forecasts do not assume any extraordinary profit but reduced burden of taxes, etc. persisting due to cumulative losses.

Meanwhile, the Company came up with the release: "Notice of Consolidating TOTAL ESTATE, Ltd. with Its Group Companies as Own Subsidiary and Fund Raising", on 5 April 2017, having disclosed that the Company was trying to procure all the shares for this consolidation project with total investments of ¥6,100m, while also that it planned to raise funds of ¥6,300m for this transaction, comprising non-collateral bond issue of ¥1,000m, bank borrowing of ¥3,000m and shareholder-assigned subscription warrant issue of ¥2,300m (when all exercised).

As of the end of FY03/2017, net-debt-equity ratio stood at 5.8% (¥459m / ¥7,870m), implying a large room for above-mentioned debt financing, while it is taken for granted that it all depends on the levels of exercise prices and those of share prices during exercise period (19 June 2017 to 20 March 2018) whether fund raising through said shareholder-assigned subscription warrant issue is feasible or not.

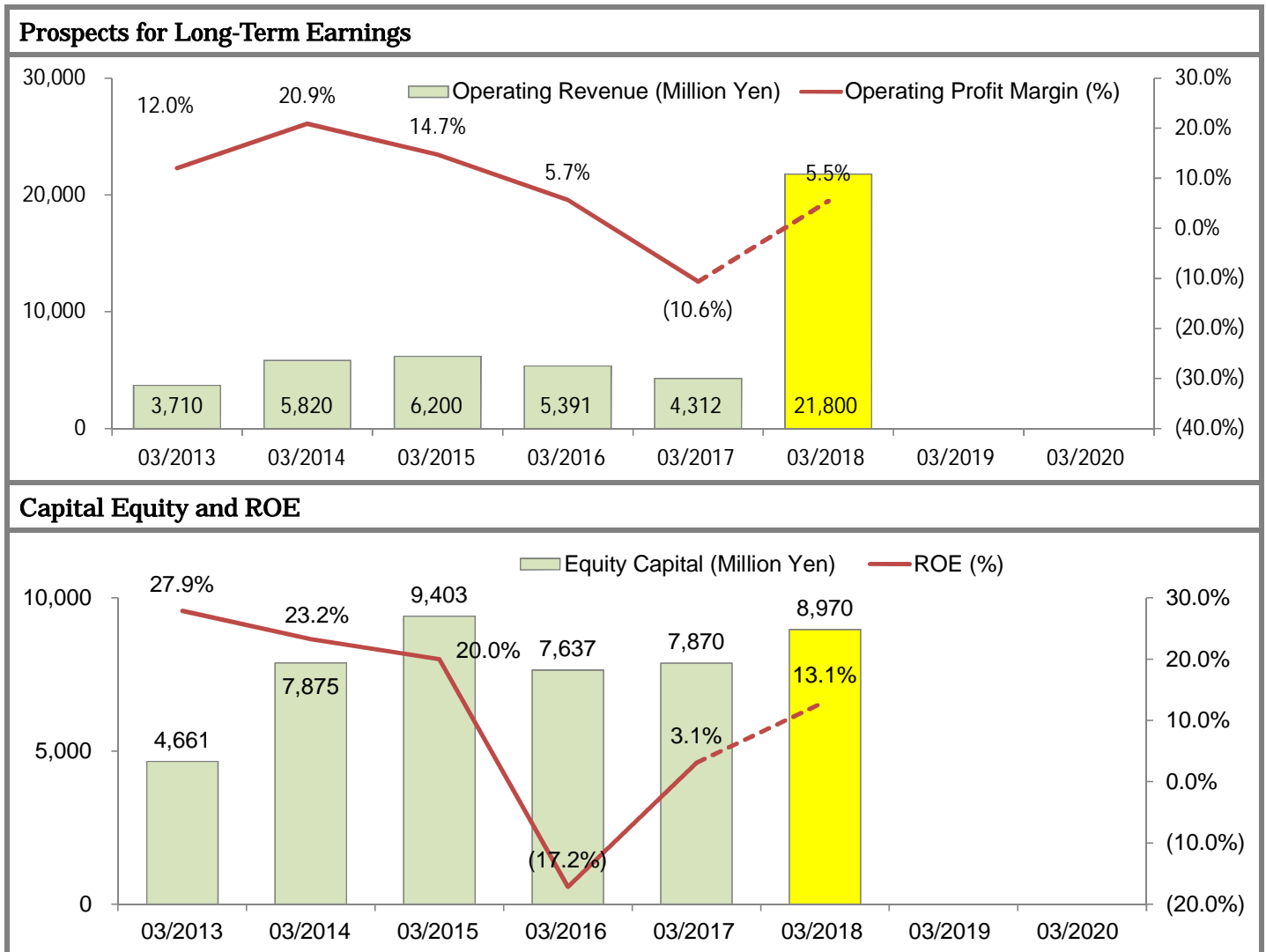
When based on data available in the above-mentioned release, details are as follows: On the base date of 22 May 2017, the number of shares outstanding but for treasury shares stood at 15,775,143 for which one unit of subscription warrant per share is given to shareholders for nothing (Companies Act, Article 277), while the Company issues 0.5 new shares per subscription warrant at ¥150.5 or ¥310 per share.

On a simple calculation basis, the Company should raise funds of ¥2,374m (15.7m units, multiplied by ¥150.5 or 7.8m shares, multiplied by ¥301) when said subscription warrant being all exercised, while the number of shares outstanding but for treasury shares should reach 23,662,715. When assuming this as denominator and assuming that profit attributable to owners of parent of ¥1,100m in FY03/2018 Company forecasts are to be met, earnings per share would be ¥46.5, while ¥69.7 (¥1,100m, divided by 15.7m shares) when no exercise at all.

Meanwhile, it was too early to come up with prospective earnings per share, when Company forecasts were released prior to the startup of exercise period and thus the Company hesitated to disclose prospective earnings per share then, while the story is true of prospective dividend per share at the same time.

Long-Term Prospects

The Company, while maintaining its involvement with Securities Business to inevitably see high volatility of period gains and losses going forward, is trying to get increasingly involved with Real Estate Business, etc. in order to persistently increase equity capital over the long-term as well as persistently beefing up own corporate value.



Source: Company Data, WRJ Calculation

In FY03/2016, the Company suffered from loss on sales of shares of subsidiaries and affiliates, stemming from selling of the shares held on YUTAKA SHOJI CO., LTD. to have been invested in by the Company, which was followed by booking of operating loss in FY03/2017 due to adjustments on the Securities Business side. However, going forward, TOTAL ESTATE, Ltd. is to be kicking in as a new consolidated subsidiary in Q2 FY03/2018, which is expected to become a stable source of earnings for the Company as a whole, starting to do so on a full-year basis in FY03/2019.

Meanwhile, as far as assuming prospective profit attributable to owners of parent of ¥1,100m in FY03/2018 Company forecasts being met and equity capital to see net increases as much as this through the end of FY03/2017 to the end of FY03/2018, while no impacts from shareholder-allocated subscription warrant, the Company is to see a favorable recovery of ROE up to 13.1% in FY03/2018.

4.0 Business Model

Retail Brokerage of Securities, Purchase and Resale of Condos

The Company is a holding company to run Securities Business and Real Estate Business with its consolidated subsidiaries in charge of all those operations, i.e., Akatsuki Securities, Inc. on the Securities Business side and mainly TOTAL ESTATE, Ltd. on the Real Estate Business side, going forward.

Akatsuki Securities Inc.: The Branch Location and Related Pictures



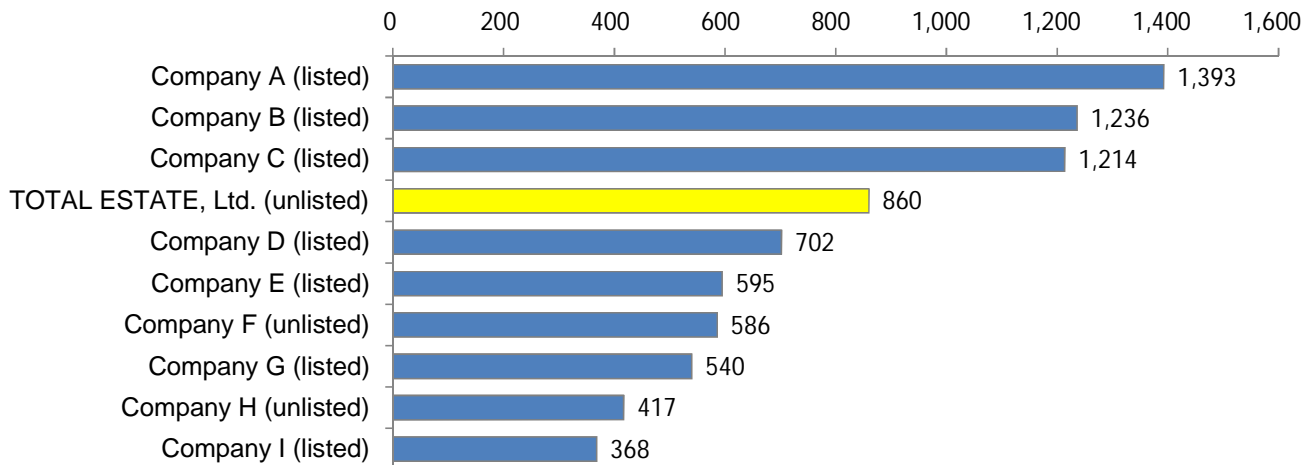
14



Source: Company Data,

The Company is currently in the middle of reorganizing management on a group basis, having sold the shares of Wealth Management, Inc. to invest in hotels to manage them through real estate funds, while getting ready for newly consolidating TOTAL ESTATE, Ltd. to refurbish secondhand condos (purchase and resale), etc. where sales stemming from operations to purchase second hand condos to be refurbished to improve added value for reselling with premium account for more than 90% of sales as a whole, as far as we could gather.

Condos Purchase and Resale Ranking by the Number of Units



Source: The Japan Journal of Remodeling: “Secondhand Housing Data Book 2016”

At the same time, TOTAL ESTATE, Ltd., although not being listed, is the 4th largest player in Condos Purchase and Resale Ranking by the Number of Units, seeing sales more than a few times larger than operating revenue as a whole for the Company on an existing basis. Thus, the Company is to be so fairly involved with purchase and resale of condos going forward, starting in Q2 FY03/2018, when the current reorganization of management on a group basis is to be completed.

“RENO-TEC” : Refurbished Condos to Have Seen Some 5,000 Units Cumulatively



家具付きリノベーションマンションは
リノテック
RENO-TEC[®]

Source: Company Data,

In a sense, TOTAL ESTATE, Ltd., based in Yokohama-city, specializes in purchase and resale of condos with brand of “RENO-TEC”, while holding strengths on its own unique commercializing, e.g., equipping condos for resale with original furniture on a regular basis.

Thus, the bulk of business performance on the Real Estate Business side will be of TOTAL ESATE, Ltd., while the Company also runs EW Asset Management Co., Ltd. and My Trunk Co., Ltd. In regards to the former, the Company is keen on further developments of nursing home construction through the management of healthcare funds. In regards to the latter, the Company is involved with leasing of storage places.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

Company name: Walden Research Japan Incorporated

Head office: #1110 4-12-4 Hatchobori, Chuo-ku, Tokyo 104-0032, JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769
