

September  
2018

## AMBITION Corporation (3300 JP / TSE Mothers)

### SUMMARY

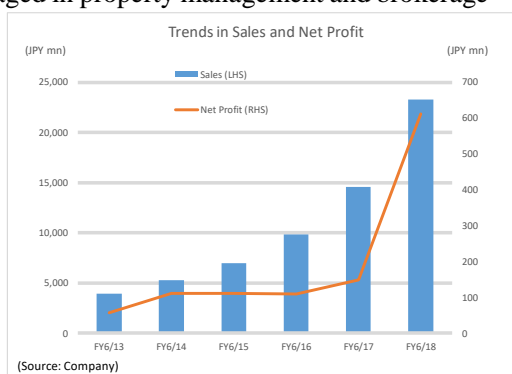
Ambition Corporation (“Ambition”) is a real estate company that engages in property management (including sub-leasing), brokerage, and investment/development of apartments mainly for young, single or DINKS residents. The company, which focuses on properties located in prime areas in central Tokyo, has strong brand recognition in the high-end rental apartment segment.

Ambition has achieved remarkable growth by generating synergies within its business portfolio. Moreover, the growth momentum is accelerating on the back of the company’s enhanced market position and new business acquisitions. Most recently, Ambition acquired a property developer, Veritas Investment. The acquisition successfully expanded the scope of Ambition’s business, and contributed immediately to earnings.

We believe Ambition is a well-managed company with a distinct growth strategy. The company aims to become a market leader in the real estate business by adopting IT technology. Four years since the IPO, we believe the company has entered a new stage of growth to become a scalable, leading player in the Japanese real estate market.

### COMPANY PROFILE

Ambition was founded in 2007 by entrepreneur Mr. Takeshi Shimizu (current CEO and President). The company initially engaged in property management and brokerage services. In 2012, the company entered the investment business, which mainly involved the re-sale of the renovated apartment units. The company established its market position in property management and sub-leasing, by leveraging its strong brokerage unit. Ambition undertakes contracts from both individual investors and corporate customers (mainly developers).



In October 2017, the company acquired Veritas Investment Co., Ltd., a developer of high-end single/double room apartments. The acquisition allowed Ambition to widen its scope of business as a full-scale property developer. Moreover, Veritas has made significant contribution to Ambition’s financial results.

In 2015, Ambition opened an office in Ho Chi Minh City, Vietnam to develop IT-related and data processing technologies.

Ambition was listed on the TSE’s Mothers section in September 2014. As of September 19, 2018, the company’s market capitalization was JPY9.0 bn at share price @JPY1,321. We understand that Ambition has already fulfilled the TSE requirement to move up to the 1<sup>st</sup> Section.

Koyo Ozeki

Financial  
Research

**MANAGEMENT**

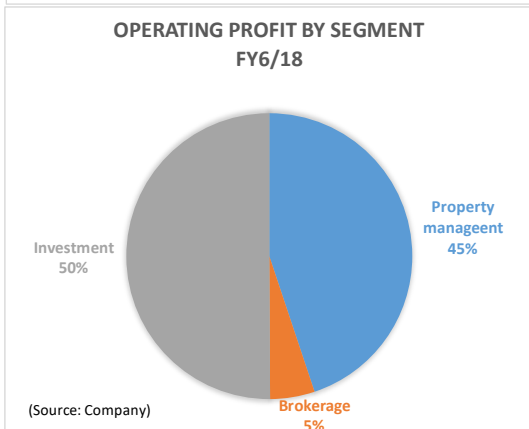
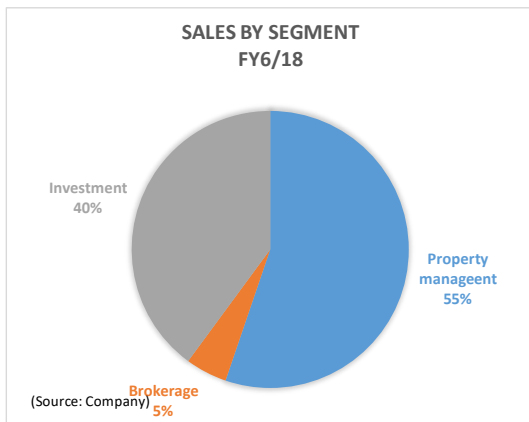
Mr. Takeshi Shimizu (47) is the President/CEO, leading the company’s 239 staff. Mr. Shimizu has extensive experience with a 20-year career in the real estate business. The board consists of three directors (including Mr. Shimizu) and four independent auditors.

**SHAREHOLDERS**

Mr. Shimizu (including his private asset management company) is the largest shareholder with a total of 50.08% stake in the company. Evolvable Asia Corp. (6191 JP) owns 9.91% stake, which we understand is a pure investment. The remaining are minority shareholders that own less than 5% each.

**BUSINESS**

Ambition’s business consists of three main pillars; 1) property management, 2) brokerage, and 3) investment/development of rental apartments. Ambition focuses on apartments for young, single or DINKS residents in their 20s or 30s. Customers investing in these apartments are typically business persons in their 30s or 40s.



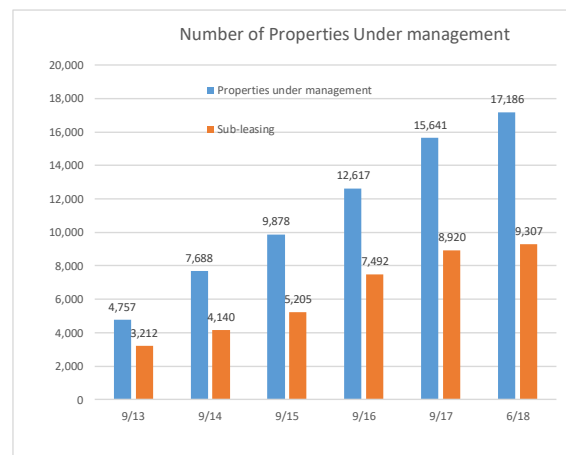
Traditionally, the property management business was by far the largest contributor to

both net sales and operating profit. However, in FY6/18, sales and profit of the investment business increased significantly thanks to the strong contribution of Veritas.

**Property management**

The property management business, which is stable and low-risk in nature, is Ambition’s core business. The number of properties under management is growing rapidly. Furthermore, Ambition has a strong position in the sub-leasing market, as the company has a brokerage function that allows it to maintain high occupancy rates (97.0% at the end of June 2018, a 4.9 ppt increase from the end of the previous year). As such, the company is strong in the B to B business, and has many corporate clients (property developers) that need sub-leasing services. The number of properties under management, as well as sub-leased units, nearly doubled over the past three years, reflecting the improved brand recognition following the IPO in 2014. Around 92% of properties under management and 85% of the sub-leased properties are located in Tokyo.

The property management business is resilient to economic cycles, because the vacancy rate of compact apartments is less affected in a recessionary environment. This business should continue to function as a cash cow, supporting the company’s future growth.



**Brokerage**

The brokerage business’ contribution to net sales and profits is relatively small (roughly 5% of the company’s operating profit). However, this business generates synergies with Ambition’s property management business; i.e. the brokerage business allows the company to

maintain high occupancy rates particularly for sub-leased apartments.



**Property investment/development**

Traditionally, Ambition’s investment business has focused on purchases of old apartments and the re-sale of such properties after adding value through renovation.

The acquisition of Veritas expanded the scope of Ambition’s business as a full-scale real estate developer. Veritas is a profitable company and made significant contribution to Ambition’s financial results from the first year following the acquisition (sales JPY5,053 mn and operating profit JPY227 mn in FY6/18). The type of apartments developed by Veritas matches the market segment in which Ambition excels, and hence, further synergies can be generated, in our view.



**MARKET STRUCTURE AND COMPETITION**

The Japanese real estate market is very fragmented. Ambition is a mid-sized company among the listed players, but has strong brand recognition in a specific market segment. Moreover, the company has a relatively diversified business profile; i.e. property management, brokerage, and development of high-end single/double room apartments. Ambition’s closest competitors include Property Agent Inc. (3464 JP) and Good Com Asset Co., Ltd. (3475 JP). Both competitors are also growing rapidly, but they target a different customer (investor) base. Ambition’s main customer (investor) base comprises relatively young business persons in their 30-40s.

**GROWTH STRATEGY**

In addition to maintaining the strong growth momentum of the existing businesses, Ambition aims to expand the scope of its business (such as expanding into family-type apartments), while maintaining a cautious approach to taking investment risks. The company aims to become a “real estate SPA” that provides services to cover a wide range of residents’ needs. The company has already launched various peripheral services, such as short-term non-life insurance service.

In order to expand its customer base, Ambition is seeking opportunities to capture the increasing demand from foreign workers. The company is also looking to expand the B to B business, including company housing. Ambition also launched “Minpaku” hotels, although the scale of the business is limited so far.

In the medium- to long-term, Ambition aims to establish a new business model by applying IT technology to real estate. Recently, Ambition concluded alliance agreements with several IT specialist companies, such as RPA Technologies Inc. (robotic process automation), Accel Lab Ltd. (IoT smart home devices), and Nabiq Inc. (Wi-Fi based security service), to become the forerunner in these advanced areas. Ambition’s goal is to establish IT-connected communities through real estate management, and to provide value to related industries through the use of big data.

## FINANCIAL POSITION

Because of the nature of the core brokerage business, Ambition's balance sheet structure had been relatively simple in the past. However, the company's financial profile changed significantly in FY6/18, following the October 2017 acquisition of Veritas which is relatively debt-heavy. At the same time, however, Veritas has contributed significantly to Ambition's consolidated income statement and profitability.

### SALES AND OPERATING PROFIT BY BUSINESS SEGMENT

FY6/17	Sales	Operating		Operating
		Profit	(Weight)	
Property management	9,686	321	39.5%	3.3%
Brokerage	995	79	9.7%	7.9%
Investment	4,091	413	50.8%	10.1%
Sub total	14,772	813	100.0%	5.5%
Adjustments / SG&A	-193	-522		
Total	14,579	291		2.0%

(Source: Company data)

### SALES AND OPERATING PROFIT BY BUSINESS SEGMENT

FY6/18	Sales	Operating		Operating
		Profit	(Weight)	
Property management	13,325	1,024	44.9%	7.7%
Brokerage	1,173	115	5.0%	9.8%
Investment	9,628	1,143	50.1%	11.9%
Sub total	24,126	2,282	100.0%	9.5%
Adjustments / SG&A	-848	-1,140		
Total	23,278	1,142		4.9%

(Source: Company data)

**Income statement:** In FY6/18, Ambition's net sales increased by 59.7% YoY to JPY23,278 mn, with the strong growth achieved across all business segments. The property management, brokerage, and investment businesses grew by 37.6%, 17.9%, and 135.3%, respectively. The growth in the investment business was largely attributable to Veritas, which posted net sales of JPY8,060 mn. Consolidated operating profit in FY6/18 was 3.8 times compared to the previous year; property management was 3.2 times, brokerage was up by 45%, and investment was 2.8 times. The strong growth in property management and brokerage was driven by economies of scale; this is reflected in the dramatic improvement in operating profit margins (from 3.3% to 7.7% for property management).

The company aims to maintain the dividend payout ratio at more than 20%. The dividend to be paid for FY6/18 is forecasted at JPY16.5 per share, up from the JPY5 paid in the previous year.

**Balance sheet:** The balance sheet structure changed significantly in FY6/18 due to the acquisition of Veritas. Total assets increased by 3.7 times from the end of the previous year. Property inventory accounted for 64% of the total increase. A large part of the property inventory (JPY6,775 mn) is financed by long-term borrowings (JPY6,518 mn). Ambition held a relatively large cash position (JPY3,835 mn at the end of June 2018, accounting for 26% of total assets), which covered the short-term borrowings (including the portion of long-term borrowings and debentures with maturity of less than one-year) of JPY3,713 mn. Following the consolidation of Veritas, Ambition's equity ratio dropped to 13.0% at the end of FY6/18, from 32.1% at the end of previous year. Therefore, ROE was high at 32.1% in FY6/18. The company's equity base should grow over time given strong internal capital generation. However, some form of equity financing could be necessary in the future to keep up with the growth of the balance sheet.

**Cash flow:** Ambition's operating cash flow has been strong over the last couple of years thanks to improved profitability and the relatively fast turnover of inventories. Active investment activities are financed by bank borrowings, as the company has good access to the major Japanese banks. Under the current interest rate environment, Ambition will be able to enjoy ample liquidity, although future growth could eventually necessitate enhancement of the equity base, in our view.

## OUTLOOK AND VALUATION

According to the company's guidance for FY6/19, net sales and net income are forecast to grow by 20.7% and 6.1%, respectively, which we believe to be conservative. We expect profitability to further improve, due to higher operating margins. The property development business could add further upside.

In the medium-term, Ambition aims to achieve net sales of JPY100 bn (four times that of FY6/18) and operating profit of JPY10 bn (nine

times). In light of the growth trend over the last five years, we believe that the company’s target is feasible. The growth momentum should accelerate on the back of the enhanced brand recognition and customer base, and economies of scale should allow the company to expand its scope of business to create additional synergies. The Japanese real estate market, especially compact apartments in central Tokyo, is expected to enjoy favorable conditions for the foreseeable future, despite the negative demographic trend in Japan. Ambition is well

positioned to be a winner based on its forward-looking business model, in our view.

Based on a modest projection of 30% annual sales growth and a gradual improvement in profit margins (operating margin from 4.9% to 6.0%), Ambition’s net sales and net income should reach JPY50,000 mn and JPY2,000 mn, respectively, in three years. Our medium-term target price of Ambition shares is JPY5,600 at PER 20x, assuming no dilution.

**PERFORMANCE ESTIMATION**

	<b>FY6/18</b>	<b>FY6/19F</b>	<b>FY6/19E*</b>	<b>FY6/20E*</b>	<b>FY6/21E*</b>
Sales	23,278	28,085	30,000	40,000	50,000
Operating profit	1,142	1,300	1,500	2,200	3,000
Recurring profit	1,017	1,088	1,380	2,000	2,750
Net profit	611	648	960	1,400	1,925

**PROFIT MARGINS**

Operating profit	4.9%		5.0%	5.5%	6.0%
Recurring profit	4.4%		4.6%	5.0%	5.5%
Net profit	2.6%		3.2%	3.5%	3.9%

\* Analyst estimate for simulation purposes only.

**INTRINSIC SHARE VALUE MATRIX**

<b>Net profit</b>	600	648	960	1,400	1,925	2,500	3,000
<b># of shares in issue</b>	6,804,400						
<b>EPS</b>	88	95	141	206	283	367	441
<b>PER</b>							
<b>15</b>	1,323	1,428	2,116	3,086	4,244	5,511	6,613
<b>20</b>	1,764	1,905	2,822	4,115	5,658	7,348	8,818
<b>25</b>	2,204	2,381	3,527	5,144	7,073	9,185	11,022
<b>30</b>	2,645	2,857	4,233	6,172	8,487	11,022	13,227
<b>35</b>	3,086	3,333	4,938	7,201	9,902	12,859	15,431

Current price level

Midium-tem intrinsic value

FINANCIAL DATA

INCOME STATEMENT

(JPY mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19F
Sales	3,932	5,288	6,954	9,842	14,579	23,278	28,085
Gross profit	974	1,179	1,360	1,917	2,382	4,645	
SG&A	933	996	1,175	1,717	2,091	3,503	
Operating profit	41	183	185	199	291	1,142	1,300
Interest payment	3	5	8	19	24	103	
Recurring profit	51	185	176	196	269	1,017	1,088
Extraordinary profit/loss	0	2	5	-7	-16	0	
Pre-tax profit	51	187	181	189	253	1,017	
Taxation	-6	76	70	80	115	408	
Net profit/loss	57	111	111	109	138	611	648

(Source: Company data)

YoY CHANGE

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19F
Sales		34.5%	31.5%	41.5%	48.1%	59.7%	20.7%
Gross profit		21.0%	15.4%	41.0%	24.3%	95.0%	
SG&A		6.8%	18.0%	46.1%	21.8%	67.5%	
Operating profit		346.3%	1.1%	7.6%	46.2%	292.4%	13.8%
Finance costs		66.7%	60.0%	137.5%	26.3%	329.2%	
Recurring profit		262.7%	-4.9%	11.4%	37.2%	278.1%	7.0%
Net profit		-	150.0%	-240.0%	128.6%	342.8%	6.1%

(Source: Company data)

PROFIT MARGIN (AS % OF SALES)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19F
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	24.8%	22.3%	19.6%	19.5%	16.3%	20.0%	
SG&A	23.7%	18.8%	16.9%	17.4%	14.3%	15.0%	
Operating profit	1.0%	3.5%	2.7%	2.0%	2.0%	4.9%	4.6%
Finance costs	0.1%	0.1%	0.1%	0.2%	0.2%	0.4%	
Recurring profit	1.3%	3.5%	2.5%	2.0%	1.8%	4.4%	3.9%
Net profit	1.4%	2.1%	1.6%	1.1%	0.9%	2.6%	2.3%

(Source: Company data)

EBITDA

(JPY mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18
Pre-tax profit	51	187	181	189	253	1,017
Interest payment	3	5	8	19	24	110
Deprciation, etc	20	18	20	48	58	171
EBITDA	74	210	209	256	335	1,298
EBITDA margin	1.9%	4.0%	3.0%	2.6%	2.3%	5.6%
Debt/EBITDA	2.4	1.8	3.3	5.8	4.2	8.1

(Source: Company data)

CASH FLOW

(JPY mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18
Operation	46	54	-17	-16	1,911	1,218
Investment	18	-42	-123	-355	-1,337	-3,256
Free cash flow	64	12	-140	-371	574	-2,038
Financing	74	182	460	967	288	3,423
Total	138	194	320	596	862	1,385

(Source: Company data)

**BALANCE SHEET**

(JPY mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18
<b>Current assets</b>						
Cash and deposits	505	711	1,032	1,505	2,314	3,835
Receivables	57	67	99	119	176	377
Real estate for sale	47	256	439	929	405	6,775
Total current assets	653	1,068	1,620	2,581	2,959	11,185
<b>Fixed assets</b>						
Buildings	25	23	134	106	120	307
Land		1	138	89	257	585
Goodwill	50	42	171	150	129	1,281
Investment securities	19	32	93	76	73	143
Guarantee deposits	106	107	134	170	199	165
Total fixed assets	239	254	732	700	1,010	3,394
<b>Total assets</b>	893	1,322	2,352	3,286	3,973	14,591
<b>Current liabilities</b>						
Short-term borrowings	124	282	395	653	740	3,713
Accounts payable	75	97	129	93	122	294
Tax payable	1	65	43	58	109	316
Advances received	42	45	252	291	348	466
Deposits received	42	45	116	125	126	156
Total current liabilities	496	767	1,181	1,411	1,663	5,348
<b>Fixed liabilities</b>						
Long-term borrowing	54	89	211	693	491	6,518
Debentures			90	151	167	249
Deposits received	138	157	189	255	348	542
Total fixed liabilities	198	253	497	1,127	1,034	7,340
<b>Total liabilities</b>	694	1,020	1,678	2,538	2,697	12,689
<b>Net assets</b>						
Paid-in capital	40	40	180	180	380	380
Capital reserve			140	140	340	397
Retained earnings/losses	159	260	348	428	548	1,122
Treasury stock	-1	-1	-1	-1	-1	0
Total net assets	198	302	674	748	1,276	1,902
<b>Total liabilities and net assets</b>	893	1,322	2,352	3,286	3,973	14,591

(Source: Company data)

**FINANCIAL RATIOS**

	FY9/10	FY9/11	FY9/12	FY9/13	FY9/14	FY9/15
ROA	6.4%	8.4%	4.7%	3.3%	3.5%	4.2%
ROE	28.8%	36.8%	16.5%	14.6%	10.8%	32.1%
Equity / total assets	22.2%	22.8%	28.7%	22.8%	32.1%	13.0%

(Source: Company data)

**INTEREST-BEARING LIABILITIES**

	FY9/10	FY9/11	FY9/12	FY9/13	FY9/14	FY9/15
Total	178	371	696	1,497	1,398	10,480

(Source: Company data)

**DISCLAIMER**

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