

 Shinichi Fujita, President	MUGEN ESTATE Co., Ltd. (3299)
	

Company Information

Market	TSE 1st Section
Industry	Real Estate
President	Shinichi Fujita
HQ Address	Nihonbashi Hama-cho 3-19-3, Chuo-ku, Tokyo
Year-end	December
Homepage	https://www.mugen-estate.co.jp/en/

Stock Information

Share Price	Shares Outstanding		Market Cap.	ROE (Actual)	Trading Unit
¥587	24,361,000 shares		¥14,299 million	16.3%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥30.00	5.1%	¥116.03	5.1 x	¥902.41	0.7 x

*Stock price as of close on March 7, 2019. Shares outstanding is taken from the most recent earnings announcement documents. ROE and BPS are on actual data taken from the most recently ended fiscal year.

Earnings Trends

Fiscal Year	Sales	Operating Profit	Current Profit	Net Profit	EPS	DPS
December 2012	12,877	605	382	225	13.62	1.00
December 2013	20,830	2,254	1,974	1,127	68.27	2.00
December 2014	30,175	3,465	3,076	1,759	90.88	8.50
December 2015	45,706	6,123	5,573	3,382	154.15	16.00
December 2016	57,488	6,310	5,696	2,925	121.35	21.00
December 2017	63,568	7,122	6,478	4,276	175.61	25.00
December 2018	53,931	5,985	5,237	3,356	137.80	30.00
December 2019 (Est.)	58,143	5,043	4,381	2,826	116.03	30.00

*Forecasts are those of the Company, those thereafter are consolidated. A 500 for 1 stock split was performed on March 26, 2014. A 2 for 1 stock split became effective on July 1, 2016. EPS and dividends have been adjusted to reflect this stock split. From fiscal year December 2016, the definition for net profit has been changed to net profit attributable to parent company shareholders (Abbreviated as Parent Company Net Profit).

We present this Bridge Report reviewing the fiscal year December 2018 earnings results of MUGEN ESTATE Co., Ltd.

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Key points

- The sales in FY 12/18 were 53.9 billion yen, down 15.2% year on year. Sales were sluggish because financial institutions were taking a strict stance towards lending and buyers were wary due to the perceived high price of real estate. SG&A expenses decreased 9.7% year on year due to a decline in personnel expenses and sales commissions, but operating profit fell 16.0% year on year to 5.9 billion yen as a result of decreased sales. However, results exceeded the revised forecasts announced in January 2019 as a result of assertive business activities carried out in the second half of FY 12/18, such as conducting more careful purchase activities, stimulating demand by revising the selling price and strengthening the marketing system.
- The sales in FY 12/19 are expected to increase 7.8% year on year to 58.1 billion yen, and operating profit is expected to fall 15.7% year on year to 5 billion yen. While the company is getting inquiries from customers, the market environment will continue to be unfavorable for the company considering many uncertainties, such as financial institutions' stance on lending and consumption tax hike. Therefore, the company will focus on investigating and dealing with the issues for the restructuring of the management and business bases in the first year of the 3-year Mid-term Management Plan. The dividend forecast remains unchanged at 30 yen/share. The estimated payout ratio is 25.9%.
- Consecutive increase in sales and profit has ended for six years. Also in the current term, its profits are expected to decrease while sales are projected to rise. However, the effect of measures, such as the revision of selling prices and the strengthening of the marketing system, started to emerge in the latter half of the third quarter (July-September) of the previous term, and the number of units for both investment-type and residential-type properties is expected to increase with no major changes in the selling price. We would like to pay attention to how well they are able to gain a solid footing in the current fiscal year, which is the starting year of their first 3-year Mid-term Management Plan. In addition, we would like to expect from their efforts in development and sale of real estate-related products, although it will take time for these products to substantially contribute to profits.

1. Company Overview

MUGEN ESTATE is a pioneer in the resale business of used real estate, where used condominiums and other properties are purchased and then their exteriors and interiors are refurbished as a means of raising their value prior to resale. A characteristic of the Company is to have a single employee in charge of the entire business process including purchase, refurbishment, and sale. MUGEN ESTATE also boasts of a unique position within the industry, based upon its wide range of product offers that accurately match the needs of its customers.

1-1 Corporate History

Susumu Fujita, currently the Chairman of MUGEN ESTATE, founded the Company in 1990 for the acquisition of used condominiums to be refurbished for resale to first time purchasers. This marked the start of the used condominium refurbishment business. Amidst the expansion of the used condominium market, MUGEN ESTATE has been able to carry on without outside capital by cultivating staff on its own to achieve steady growth. The subsidiary FUJI HOME Co., Ltd. was established in 1997 to provide refurbishment services. The Company has been able to overcome various difficulties including the Lehman Shock and the Great East Japan Earthquake, and listed its shares on the Mothers Market of the Tokyo Stock Exchange in June 2014, and on the first section of the Tokyo Stock Exchange in February 2016.

Since its listing, the company has been striving to grow further with the used condominium refurbishment business as its core business, and planning to diversify and expand its business domain through acquisition of the permission of specified joint real estate ventures, establishment of an investment advisory firm, etc.

1-2 Management Philosophy

The corporate philosophy is reflected in its name “MUGEN” (“Dream comes true”; Japanese word) and calls for “the pursuit of ideals, realization of dreams.” MUGEN ESTATE’s goal is to help customers realize their own dreams by owning a house of their own, while also striving to realize dream through ongoing growth of the Company and of its employees.

VISION	Helping create a society that will inspire dreams through the real estate business.
MISSION	Helping customers make their dreams come true and growing with customer.

<Corporate Philosophy>

We will help society prosperity and will continue to grow
We will ensure compliance in our management
We will strive to enhance stakeholder satisfaction

<Code of Conduct>

1. Take benefits for sellers, buyers, and society into consideration at the same time
2. Emphasize the value of “MOTTAINAI”
3. Value a sense of gratitude
4. Continue to consider reforms and focus on taking on new challenge
5. Maintain trust
6. Act immediately, be sure to act, and follow through until the end
7. Emphasize compliance

1-3 Market Environment

1-3-1 Expanding Market for Refurbished and Used Residential Properties

The Ministry of Land, Infrastructure and Transport announced the “Total Plan for Renovating Existing Homes” in March 2012 with a view to double the size of the refurbished and used residential property market. Based upon the goal of achieving a shift in the focus from the newly constructed residential property market to the used residential property market where used residential properties are refurbished to improve their quality and functions, the used residential property refurbishment market is expected to double its current size to ¥20 trillion by 2020.

As part of such measures, “efforts will be made to quickly structure the market from the consumers’ point of view so that consumers can safely purchase used residential properties and carry out refurbishment. At the same time, MLIT will also promote comprehensive efforts to **cultivate companies and people who shall be responsible for providing attractive refurbished and used residential properties that respond to the diverse needs of consumers**, and with the goal of promoting improvements in quality and increasing liquidity of used residential properties.”

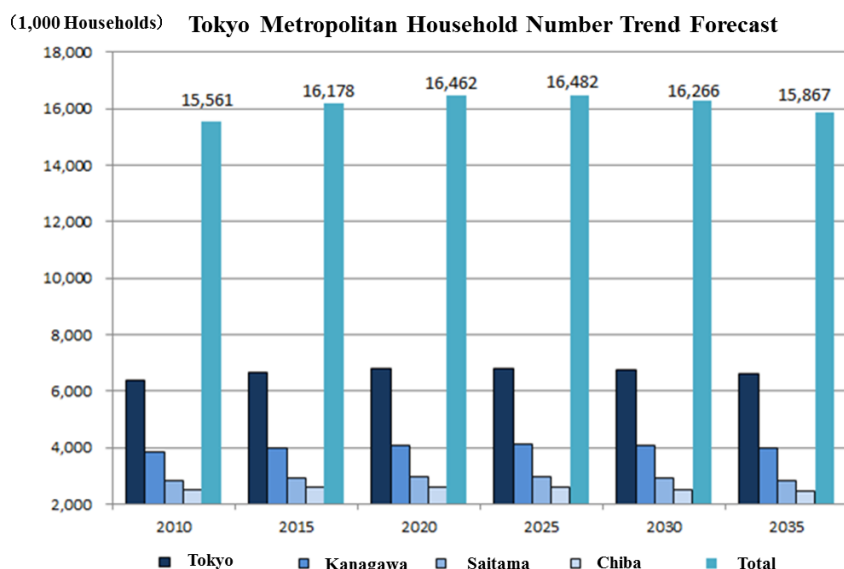
1-3-2 Attractive Real Estate Market in Tokyo Metropolitan Region

Huge Latent Market:

According to the “2013 House and Land Statistics Survey” published by the Ministry of Internal Affairs and Communications, the number of “non-wooden residential properties” in the Tokyo and greater metropolitan region (Tokyo, Kanagawa, Saitama and Chiba) stood at 7.70 million units. MUGEN ESTATE maintains a basic policy of purchasing only condominiums that pass the new earthquake standards implemented in 1981, which account for 63% of overall, or 4.40 million units of the total number of non-wooden structure multiple unit residence buildings constructed between 1981 and 2005. Given that the Company purchased 593 units of properties for investments and for residence during fiscal year December 2018, the latent market potential for MUGEN ESTATE remains huge.

Household Numbers in The Tokyo Metropolitan Region On The Rise:

While a contraction in the total population of Japan arising from declining birth rates appears to be unavoidable at present, the National Institute of Population and Social Security Research estimates that the number of households in the Tokyo metropolitan region will continue to grow until peaking in 2025.



“Japan Household Number Data” of the National Institute of Population and Social Security Research (April 2014)

1-3-3 Competitiveness of highly reliable suppliers is relatively on rise.

While the real estate market has been booming for the past few years because of robust demand, people’s willingness to invest and purchase is expected to fall with rising land prices and recent various distortions coming to light, such as the violation of the Building Standards Act by major apartment construction contractors and leasing companies, illegal lending of apartment loans by regional banks, inappropriate lending by new real estate firms through falsification of savings records, etc.

The market may not be as booming as before, but there is still a strong need for good-quality properties for actual acquisition and investment as interest rates remained at a low level, and the previously mentioned scandals have made highly reliable suppliers relatively more competitive, as a result of which they have entered a stage where they are being selected by investors and buyers.

<Peer Company Comparison>

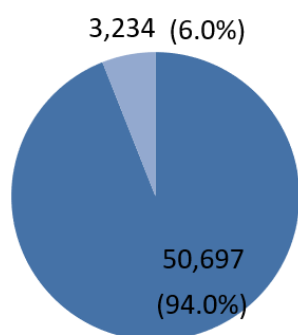
		Sales	YY Change	Operating Profit	YY Change	Operating Margin	Market Cap.	PER	PBR	ROE
3230	Star Mica Co., Ltd.	33,400	+10.3%	2,956	-23.0%	8.9%	24,936	15.7	1.5	13.2%
3288	Open House Co., Ltd.	510,000	+30.5%	54,000	+14.2%	10.6%	230,497	6.1	2.0	33.6%
3294	E'Grand Co., Ltd.	19,600	-4.6%	930	-34.1%	4.7%	4,536	9.2	0.8	12.8%
3299	MUGEN ESTATE Co., Ltd.	58,143	+7.8%	5,043	-15.7%	8.7%	15,323	5.4	0.7	16.3%
8923	Tosei Corp.	71,510	+16.2%	12,052	+11.3%	16.9%	50,379	6.5	1.0	14.0%
8934	Sun Frontier Fudosan Co., Ltd.	58,000	+22.2%	12,300	+9.4%	21.2%	60,603	7.4	1.2	17.6%
8940	INTELLEX Co., Ltd.	44,640	+2.6%	1,703	+9.2%	3.8%	6,163	7.0	0.6	8.2%

* Sales and operating profit are forecasts taken from each of the respective companies. ROE are actual data taken from the most recently ended fiscal year. Market capitalization, PBR and PER are based upon the closing share price on February 25, 2019.

* Units: ¥mn, Times

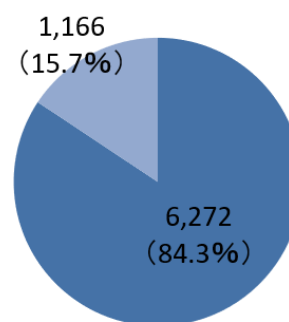
1-4 Business Description

MUGEN ESTATE's business is divided between the two segments of "real estate trading" and "real estate leasing and other" businesses, with the real estate trading segment business accounting for about 94% of total sales during fiscal year December 2018. The Company plans to promote efforts to expand its earnings deriving from the real estate leasing and other business segment.

Sales

■ Real Estate Trading ■ Real Estate Leasing and Other

* FY12/18, data in parenthesis is share of total sales(Sales to external clients), unit are ¥mn

Operating Profit

■ Real Estate Trading ■ Real Estate Leasing and Other

* FY12/18 data in parenthesis is share of total operating profit (pre-adjusted operating profit), unit are ¥mn

1-5 Real Estate Trading Business

The real estate trading business segment includes the three services of real estate resale, interior and exterior refurbishment and construction, and real estate distribution with the main service being the resale of real estate.

Purchases and Resale Business

The Company purchases used condominiums for sectional ownership, real estate for investment, and detached housing properties in the Tokyo Metropolitan Areas, including Tokyo, Kanagawa, Saitama and Chiba. To increase their value, the Company then has the subsidiary FUJI HOME, and some others, refurbish them in accordance with their age, space, layout, location and management condition.

BRIDGE REPORT



Main Value Addition Activities

- *Refurbishment of exteriors and interiors
- *Improve management conditions of buildings
- *Restoration of wear and tear caused by age
- *Leasing of vacant rooms
- *Collection of unpaid rent

After having increased real estate values as “real estate for resale” through any of the activities, the Company then sells to first time purchasers, individual investors, and small to medium sized companies.



(Source : MUGEN ESTATE)

The purchase and sale of real estate is performed by real estate brokers, but some of the transactions are undertaken by FUJI HOME in order to obtain a feel for the diversifying needs of customers and market trends. In order to respond quickly and accurately to the needs of customers, MUGEN ESTATE maintains a diverse lineup of condominiums for sectional ownership, real estate for investment (rental condominiums, apartments and office buildings) and detached housing. Properties are divided into two categories of real estate for investment and real estate for residence. Real estate for investment are properties purchased by investors for the purpose of deriving returns, which include whole rental condominium complexes, offices and apartment buildings, as well as condominiums for sectional ownership and others. The average price for real estate for investment is between ¥0.1 to ¥0.2 billion.

The residential-type properties are those which purchased by consumers for the purpose of living in them, which include detached housing in addition to its main item of condominiums for sectional ownership. These properties are bought primarily by first time purchasers and their prices are mostly in the ¥0.02 to ¥0.03 billion range. MUGEN ESTATE sold over the course of fiscal year December 2018, 302 units of real estate for investment and 291 units for residence, 593 in total.

MUGEN ESTATE boasts of a unique business process where one sales person is responsible for the acquisition, refurbishment and sale of real estate. Furthermore, the Company's sales staff visit real estate brokers such as Mitsui No Rehouse, Nomura Real Estate Urban Net Co., Ltd., Sumitomo Real Estate Sales Co., Ltd., Tokyu Livable Co., Ltd. and others in the Tokyo metropolitan region to obtain information about real estate for sale by both individuals and corporations. By visiting these real estate companies, sales staff are able to obtain real estate information on superior properties that have yet to be released through public channels.

After obtaining information on real estate for sale, analysis is conducted regarding the properties' potential for increased value and resale at higher prices after renovation and refurbishment. If MUGEN ESTATE finds that there is that potential, then they acquire the properties and then outsource the task of refurbishment to a subcontracting company under the supervision of its subsidiary, FUJI HOME.

An analysis of the potential customer base specific to the location of the property is conducted by sales staff to determine the price and other needs of the customers, and in some instances a three bedroom used condominium maybe converted into a two bedroom condominium and other refurbishments are undertaken to raise the attractiveness of the property (Refurbishments are conducted with a view to the end sale price and ensuring profitability on the sale).

Sales staff responsible for purchasing the real estate adhere to standards established by the Company. These internal standards are comprised of various factors including specific balance between acquisition price and management fees, proximity to train stations and no properties requiring bus rides, and other specific information known internally as the "12 purchase conditions," which have been developed over the history of the Company's operations and are effective as a context for the conduct of its business. At the same time, this standard developed on MUGEN ESTATE's own unique knowhow also serves to support less experienced sales staff in making the correct analysis and purchase of real estate. In addition, sales staff consult with their managers and superiors to obtain appropriate advice on how to carry on their business process. And while high commission involved in sales activities for condominiums tends to lead sales staff to act discretionally in general in the industry, MUGEN ESTATE maintains a culture of team work, where sales staff consult each other for advice and superiors lead their subordinates in the right direction on the business process. Also, the company pays commission for sales representatives based on profit gained at the time of resale rather than the resale price itself, so the risk of being stuck with unsold merchandise is relatively low when compared with other companies.

Interior and Exterior Refurbishment Business

The subsidiary FUJI HOME conducts refurbishment of both the interiors and exteriors of purchased used real estate. FUJI HOME boasts of bountiful knowhow in refurbishment services based upon over 500 refurbishment projects conducted through accurate surveys and analysis of real estate properties by its highly skilled staff, including first class registered architects. Orders from MUGEN ESTATE currently account for over 90% of FUJI HOME's total orders, but it is endeavoring to expand orders from external clients.

Brokerage Business

Information about real estate purchased for resale by MUGEN ESTATE is handled by FUJI HOME. In addition to the company website, they have also put it up on other portal sites for used real estate information operated by other companies. Furthermore, they also provide mediation services for MUGEN ESTATE in their acquisition of real estate properties. Also, synergies with the Company's real estate resale business can be realized by gathering accurate information about the needs of used real estate purchasers.

1-6 Real Estate Leasing and Other Business

Optimization of the sales function of the real estate resale business is being pursued.

Leasing Business

Real estate purchased as investment-type properties and as fixed asset properties are leased to end users. In principle, real estate is purchased with the objective of sales. However, renting and leasing is used as a means of deriving income until the properties are sold.

Property Management Business

Management services for leased real estate that have been acquired as investment-type properties and fixed asset properties are conducted. Improvement in the management of structures, restoration of wear and tear caused by age, leasing of vacant rooms, collection of outstanding rent, and other measures are implemented as part of a strategy of increasing the value of properties and improving the return on investment-type properties. In some cases, property management services are maintained even after investment-type properties is sold at the request of purchasers

1-7 Management Strategy

The “Three S’s” designed to collateralize sustained growth and establish a sound earnings foundation.

Speed	Improving the Speed of management
Satisfaction	Pursuing customer’s Satisfaction
Skill	Enhancing employee’s Skills

MUGEN ESTATE promotes a growth strategy to become a “**dominant player in the Tokyo and surrounding metropolitan region**” and is focused upon used real estate including not only condominiums and detached housing units, but also office buildings to become the company with the largest sales in the resale real estate business in the region. As a means of differentiating its business from its competitors, MUGEN ESTATE has chosen not to open offices in regions outside of Tokyo and the surrounding regions, and in principle will not deal in used real estate in regions outside of Tokyo Metropolitan area.

1-8 Characteristics and Strengths

1-8-1 Management Leveraging Synergies

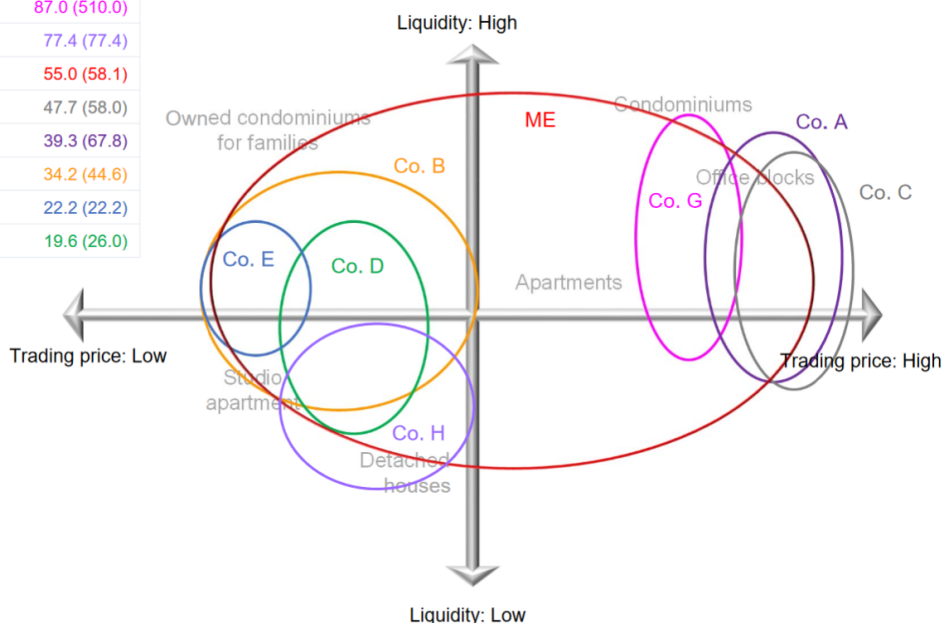
In addition to the above mentioned real estate resale service, MUGEN ESTATE also performs real estate rental, real estate refurbishment, real estate distribution, and real estate management services. The knowhow developed in its various businesses based on the results of the many years of operation is leverage to be able to respond flexibly to changes in the market and derive various synergies between its various businesses.

1-8-2 Diverse Product Lineup and Unique Positioning

With regards to the core real estate resale business, MUGEN ESTATE boasts of a strong information gathering capability based upon its network in the used real estate market in the Tokyo and the surrounding metropolitan region, which has enabled the Company to develop a diverse lineup including condominiums for sectional ownership, real estate for investment (whole rental condominium complexes, offices and apartment buildings) and detached housing, and to respond quickly and accurately to customers’ needs. In addition, MUGEN ESTATE has developed a strong reputation amongst real estate brokers for its ability to respond to all of the information gathered from them. Returning to those real estate brokers upon completion of rendering resale properties creates a benevolent cycle where the Company gains preferential treatment in the gathering of information on superior real estate.

■ Net sales comparison (billion yen)

1	Co. G	87.0 (510.0)
2	Co. H	77.4 (77.4)
3	ME	55.0 (58.1)
4	Co. C	47.7 (58.0)
5	Co. A	39.3 (67.8)
6	Co. B	34.2 (44.6)
7	Co. E	22.2 (22.2)
8	Co. D	19.6 (26.0)



(Source: MUGEN ESTATE)

As illustrated in the above diagram, MUGEN ESTATE has carved out a unique position within the real estate refurbishment industry through the creation of a diverse product lineup.

1-8-3 Strength of High Levels of Professional Skills

The information gathering, investment decision making, property management, technological response and other capabilities are all part of MUGEN ESTATE’s high levels of professional skills and allow the Company to provide superior properties to the market.

Additionally, the stable constructing and management system, the business know-how that has been developed over many years and the strong financing ability based on contracts with about fifty financial institutions are MUGEN’s strengths.

2. Fiscal Year December 2018 Earnings Overview

2-1 Earnings Overview

	FY Dec. 17	Share	FY Dec. 18	Share	YY Change	Compared with the initial forecasts	Compared with the revised forecasts
Sales	63,568	100.0%	53,931	100.0%	-15.2%	-29.3%	+0.1%
Gross Profit	11,402	17.9%	9,847	18.3%	-13.6%	-24.6%	-
SG&A	4,279	6.7%	3,862	7.2%	-9.7%	-24.3%	-
Operating Profit	7,122	11.2%	5,985	11.1%	-16.0%	-24.8%	+1.4%
Current Profit	6,478	10.2%	5,237	9.7%	-19.2%	-27.5%	+0.7%
Net Profit	4,276	6.7%	3,356	6.2%	-21.5%	-27.7%	+1.7%

* Revised forecasts comparison was announced in January 2019

*Unit: ¥mn

Sales and profits decreased.

The sales were 53.9 billion yen, down 15.2% year on year. Sales were sluggish because financial institutions were taking a strict stance towards lending and buyers were wary due to the perceived high price of real estate.

SG&A expenses decreased 9.7% year on year due to a decline in personnel expenses and sales commissions, but operating profit fell 16.0% year on year to 5.9 billion yen as a result of decreased sales. However, results exceeded the revised forecast announced in January 2019 as a result of assertive business activities carried out in the second half of the term, such as conducting purchase activities more carefully, stimulating demand by revising selling prices and strengthening the marketing system.

2-2 Segment Earnings Trends

	FY Dec. 17	Share	FY Dec. 18	Share	YY Change
Sales					
Real Estate Trading	61,212	96.3%	50,697	94.0%	-17.2%
Real Estate Leasing and Other	2,356	3.7%	3,234	6.0%	+37.3%
Total	63,568	100.0%	53,931	100.0%	-15.2%
Operating Profit					
Real Estate Trading	7,792	12.7%	6,272	12.4%	-19.5%
Real Estate Leasing and Other	908	38.5%	1,166	36.1%	+28.4%
Adjustments	-1,577		-1,454		
Total	7,122	11.2%	5,985	11.1%	-16.0%

* Sales represent sales to external clients. Operating profit share represents sales operating profit margin.

* Units: ¥mn

Sales and profits of leasing and other businesses rose due to a rise in revenue from leasing real estate resulting from increased real estate for sale.

2-2-1 Real Estate Trading Business Conditions

1) Sales Value, Volume

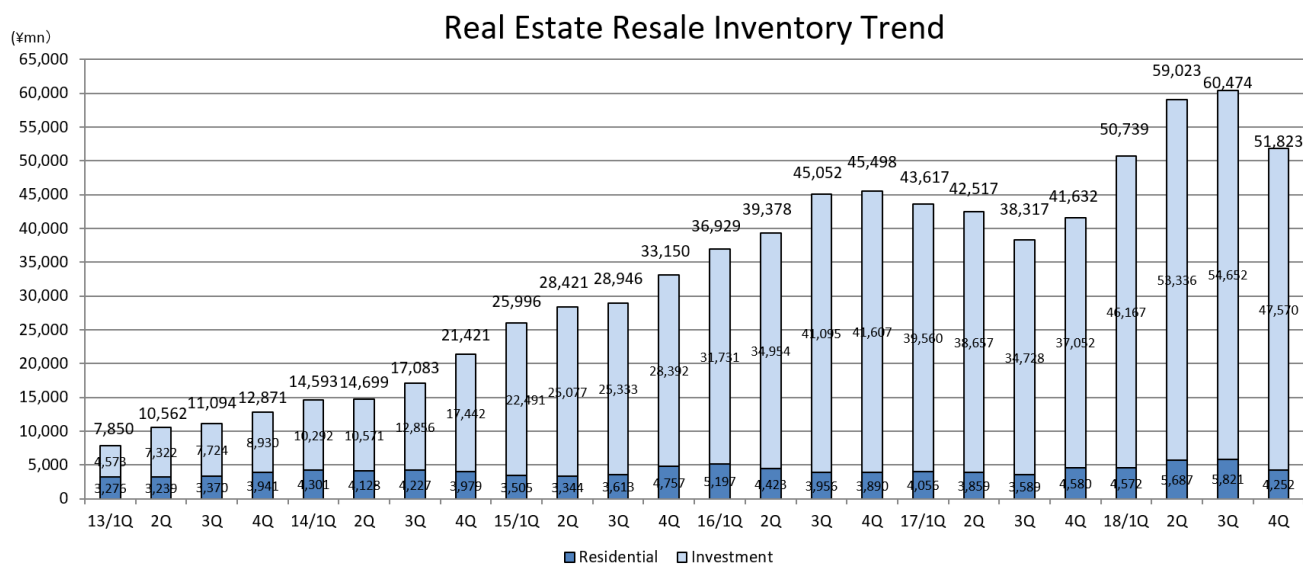
	FY Dec. 17	FY Dec. 18	YY Change
Sales	61,143	50,632	-17.2%
Investment-type	52,203	41,491	-20.5%
Residential-type	8,939	9,141	+2.3%
Number of units	676	593	-12.3%
Investment-type	318	302	-5.0%
Residential-type	358	291	-18.7%
Average Sales Price	90.4	85.3	-5.6%
Investment-type	164.1	137.3	-16.3%
Residential-type	24.9	31.4	+25.8%

* Units: ¥mn, Units Sold

- Both sales and the number of units decreased year on year. The average unit selling price decreased due to an increase in the number of investment property units sold.
- Excluding the sectional real estate for investment, the average unit selling price of buildings was 250.0million yen, (up 0.5% year on year).
- There were 38 sales of investment-type properties that exceeded 300 million yen, including the three sold for over 1 billion yen. Sales were down 9 year on year.
- For residential-type properties, barriers to entry are low and competition is increasing. Both sales and number of units sold declined, but unit sales prices were up year on year.
- Broken down by area, Tokyo's share of sales for investment and residential properties continues to grow.

- Sales ratio of properties for overseas investors improved for both sales and the number of units. The number of units increased in the previous term due to an increase in the sale of real estate for investment with low average unit price.

2) Real Estate for Sale Inventory Conditions



Inventories for investment-type and residential-type properties dropped from the end of the third quarter since the company conducted its purchase activities carefully in the second half.

2-3 Financial Conditions, Cash Flow

2-3-1 Balance Sheet

	End Dec. 17	End Dec. 18		End Dec. 17	End Dec. 18
Current Assets	56,339	63,934	Current Liabilities	13,325	10,532
Cash, Equivalents	13,268	10,517	ST Interest-Bearing Liabilities	10,311	8,109
Real Estate for Sale	41,500	51,635	Non current Liabilities	26,547	34,121
Unfinished Real Estate for Sale	114	87	LT Interest-Bearing Liabilities	25,729	33,156
Non current Assets	2,837	2,789	Liabilities, Total	39,872	44,654
Tangible Assets	2,379	2,366	Net Assets	19,340	22,106
Intangible Assets	124	83	Capital	2,549	2,552
Investments, Others	334	339	Capital, Retained Earnings	14,208	16,956
Assets Total	59,212	66,760	Liabilities and Net Assets	59,212	66,760

* Units: ¥mn

	End Dec. 17	End Dec. 18
Interest Bearing Liabilities Total	36,040	41,265
Equity Ratio	32.5%	32.9%

* Units: ¥mn

Total assets increased 7.5 billion yen from the end of the previous term to 66.7 billion yen as real estate for sale were up 10.1 billion yen. Total liabilities grew 4.7 billion yen from the end of the previous term to 44.6 billion yen, mainly due to a 5.2 billion yen increase in interest-bearing liabilities. Net assets were 22.1 billion yen, up 2.7 billion yen from the end of the previous term. As a result, equity ratio improved 0.4 points to 32.9% from 32.5% at the end of the previous term.

2-3-2 Cash Flow

	FY Dec. 17	FY Dec. 18	YY Change
Operating Cash Flow	7,266	-7,220	-14,486
Investing Cash Flow	-124	-104	+20
Free Cash Flow	7,142	-7,324	-14,466
Financing Cash Flow	-2,862	4,534	+7,396
Cash and Equivalents at Term End	11,942	9,151	-2,791

* Units: ¥mn

Operating CF and free CF turned negative due to an increase in inventory assets, etc.

Financing CF turned positive due to an increase in long-term debts and a decrease in expenses incurred in repaying the debts. The cash position declined.

3. Fiscal Year December 2019 Earnings Forecasts

3-1 Earnings Forecasts

	FY Dec. 18	Share	FY Dec. 19(Est.)	Share	YY Change
Sales	53,931	100.0%	58,143	100.0%	+7.8%
Gross Profit	9,847	18.3%	9,213	15.8%	-6.4%
SG&A	3,862	7.2%	4,170	7.2%	+8.0%
Operating Profit	5,985	11.1%	5,043	8.7%	-15.7%
Current Profit	5,237	9.7%	4,381	7.5%	-16.3%
Net Profit	3,356	6.2%	2,826	4.9%	-15.8%

*Forecasts are those of the Company.

*Units: ¥mn

Sales increased, but profits declined. The company will focus on investigating and dealing with the issues in restructuring the management and business bases.

The sales are expected to increase 7.8% year on year to 58.1 billion yen, and operating profit is expected to fall 15.7% year on year to 5 billion yen.

While the company is getting inquiries from customers, the market environment will continue to be unfavorable for the company considering many uncertainties, such as financial institutions' stance on lending and consumption tax hike. Therefore, the company will focus on investigating and dealing with the issues for the restructuring of the management and business bases in the first year of the 3-year Mid-term Management Plan. The dividend forecast remains unchanged at 30 yen/share. The estimated payout ratio is 25.9%.

3-2 Real Estate Trading Business Earnings

	FY Dec. 16	FY Dec. 17	FY Dec. 18	FY Dec. 19 Est.	YY Change
Sales	55,120	61,143	50,632	55,000	+8.6%
Investment-type	45,182	52,203	41,491	45,900	+10.6%
Residential-type	9,937	8,939	9,141	9,100	-0.4%
Sales Volume	617	676	593	665	+12.1%
Investment-type	249	318	302	340	+12.6%
Residential-type	368	358	291	325	+11.7%
Average Selling Price	89.3	90.4	85.3	82.7	-3.0%
Investment-type	181.4	164.1	137.3	135.0	-1.7%
Residential-type	27.0	24.9	31.4	28.0	-10.8%

* Units: ¥mn, Units Sales

4. Three-year Mid-term Management Plan

The company announced its mid-term management plan (FY 12/18 – FY 12/20) on February 13, 2018, and was in the process of implementation of the plan, but it formulated a new 3-year mid-term management plan with the current fiscal year as the starting year of its implementation, after another careful investigation of a business model, which is greatly influenced by real estate and the lending environment, recent business performance trends and management and business environment in future.

4-1 Management policy

The company strives to establish a solid management base to ensure continued growth with three business policies, i.e., “Making products that support the business base,” “Building networks that support the revenue base” and “Creating human resources and systems that support the management base.”

4-2 Positioning

The company considers this mid-term management plan as the first mid-term management plan and views this as the period to restructure its management base into a strong one so that the company can grow further through the implementation of the second and third mid-term management plans, which will be formulated later.

The company aims to establish a solid management base to ensure continued growth, as it is mentioned in its management policy, by reviewing the existing business from zero, carefully learning the obstacles and improving on them.

The whole company strives to achieve the target by fixing a clear deadline of 3 years.

4-3 Business policy

The company will carry out its business initiatives following the six business policies given below, under the management policies mentioned above.

Business Policies	Business Measures
(1) Providing products that respond to environmental changes, meet social needs and please customers	- Providing accumulated Group know-how as products for outside customers. Deeply cultivating a new customer base with the development of real estate-related products that meet current needs, utilizing the business base constructed by acquiring the permission of specified joint real estate ventures and establishing an investment advisory firm.
(2) Refurbishing properties held	- Maximizing added value by changing the application (conversion) according to the area and the architectural structure and by implementing large-scale repairs. Recently, it handled conversion to a shared residence. Also it will develop high value-added products.
(3) Mastering products and services	- Improving inventory turnover by accelerating the commercialization of vacant buildings and properties with a high vacancy rate by soon raising the occupancy rate. As for the improvement of operating rates, the leasing department and the marketing department will set a target and work jointly for its achievement. President Fujita will lead the project. - Providing safe, secure and comfortable properties by checking inspection items in detail after completion. - Developing high value-added properties for foreigners in Japan, such as Chinese customers, while understanding their needs.
(4) Mastering the selling and buying of properties	- Increasing profitability by reviewing and fully enforcing the profit management of each property and spending money for higher added value. - Fully enforcing risk management by strengthening compliance based on the case studies of other companies of previous years. - Expanding sales channels for foreign investors by holding seminars for them.

(5) Responding to diverse work styles (6) Further strengthening Group power	- Securing and cultivating human resources by promoting diversity; managing human resources by optimizing staff assignments in the Group and implementing stratified trainings; and visualizing work by improving the working environment and reviewing the workflow.
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4-4 Quantitative goal

The company targets to achieve the following numerical goal.

	FY Dec. 18	FY Dec. 19 (Est.)	FY Dec. 20 (plan)
Sales	53.9	58.1	63
Ordinary profit	5.2	4.3	5.5
Equity ratio	32.9%	30% or more	

* unit: ¥bn

5. Conclusion

Consecutive increase in sales and profit has ended for six years. Also in the current term, its profits are expected to decrease while sales are projected to rise. However, the effect of measures, such as the revision of selling prices and the strengthening of the marketing system, started to emerge in the latter half of the third quarter (July-September) of the previous term, and the number of units for both investment-type and residential-type properties is expected to increase with no major changes in the selling price. We would like to pay attention to how well they are able to gain a solid footing in the current fiscal year, which is the starting year of their first 3-year Mid-term Management Plan. In addition, we would like to expect from their efforts in development and sale of real estate-related products, although it will take time for these products to substantially contribute to profits.

<Reference: Regarding Corporate Governance>

Organization type and the composition of directors and auditors

Organization type	Company with audit and supervisory board
Directors	6 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

Corporate Governance Report

Updated on December 10, 2018

<Basic policy>

Our company, as mentioned in its policy, strives to realize “MUGEN” (make dreams come true and pursue the ideal), which is the root of our management policy and also the origin of the company’s name, and upholds the following three corporate philosophies in order to achieve a sustainable improvement of corporate value.

- We will help society to achieve prosperity and will continue to grow
- We will ensure compliance in our management
- We will strive to enhance stakeholder satisfaction

We believe that securement of transparency and soundness in management and strengthening of the management system to respond to environmental changes promptly and accurately are the most needed measures to realize these corporate philosophies, and consider the establishment of corporate governance as the most important task. Therefore, we promote (1) strengthening of check-and-balance and oversight of the person in charge of execution of work, (2) securement of transparency through information disclosure and (3) establishment of a management system for business execution.

In addition, the directors of our company provide a framework for effective governance in “Guidelines for Corporate Governance” to contribute to its realization.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
【 Supplementary Principle 1-2-4 Electronic Voting Platform Usage and English translation of Notice of Convocation】	Currently, we do not conduct Electronic Voting Platform Usage or English translations of the Notice of Convocation, but considering the current shareholder composition and the distribution of shares, we understand that shareholders are having no trouble exercising their voting rights. In the future, we will consider making improvements to the voting process as well as an English translation of the Notice of Convocation, based on changes in the ratio of institutional investors and overseas investors.
【 Supplementary Principle 4-10-1 Discretionary use of functions and the involvement and recommendations of independent outside directors】	The Company has a Board of Corporate Auditors, of which two out of six directors are appointed as independent outside directors. Currently, independent outside directors account for less than half of the Board of Directors, but we see that the system allows these individuals to make use of their unique skills, knowledge, and experience in order to stay involved and offer appropriate advice. At this time, we have not established an advisory committee, but we intend to further enhance governance in the future, and will use our discretion to make arrangements as needed so as to better interact with and receive advice from independent outside directors.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
【 Principle 1-4 So-called strategically held shares】	The company does not hold any shares of other listed companies as strategically held shares. In case a need for acquisition of strategically held shares arises, the company will hold the shares only after formulating evaluation criteria of shareholding and standards for exercising voting rights, and verifying medium/long-term economic reasonability and future prospects.
【 Principle 5-1 Policy for constructive dialogues with shareholders】	The Management Planning Section is in charge of IR, and the directors of said Section manage IR in collaboration with relevant sections. The Section regularly holds sessions to introduce the company to individual investors and financial settlement briefings to analysts and institutional investors. The Section also makes efforts to enrich mutual communications through constructive dialogues with shareholders and reports the results of analysis and evaluation concerning management to the executives. The basic policy concerning “dialogues with shareholders” is compiled in the company’s “Guidelines” and disclosed on the web-page.

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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