



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/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
588	24,361,000 shares		14,324 million	16.3%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	DPS Est.
30.00	5.1%	116.03	5.1 x	902.41	0.7 x

*Stock price as of close on September 2, 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 Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
December 2015 (Act.)	45,706	6,123	5,573	3,382	154.15	16.00
December 2016 (Act.)	57,488	6,310	5,696	2,925	121.35	21.00
December 2017 (Act.)	63,568	7,122	6,478	4,276	175.61	25.00
December 2018 (Act.)	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. 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 first half of fiscal year ending December 2019 earnings results of MUGEN ESTATE Co., Ltd.

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Key Points

- The sales in the second quarter of FY 12/19 were 18.7 billion yen, down 23.7% year on year. The number of units sold decreased because financial institutions continued to take a strict stance towards lending, and buyers were wary due to the perceived high price of real estate. The company revised prices by rotating inventory, and gross profit margin fell 2.2 points year on year. Operating profit decreased 35.0% year on year to 1.6 billion yen. SG&A expenses fell 29.6% due to a decrease in personnel expenses and sales commissions, but profits declined as a result of decreased sales.
- There is no change to the full-year forecast. Sales are expected to be 58.1 billion yen, up 7.8% from the previous term. Operating profit is forecast to be 5 billion yen, down 15.7% year on year. Although the company was about to enter a price revision phase in the first half, sales grew in the second quarter as a result of adjusting prices for inventory rotation. The rate of progress is low with regard to the full-year forecast, but the company plans to continue strengthening sales in the second half, while making steady, careful purchases. The dividend forecast remains unchanged at 30 yen/share. The estimated payout ratio is 25.9%.
- Although the number of units sold is expected to increase thanks to measures taken by the company such as reviewing sales prices and strengthening the sales structure, unfortunately the effects are not yet visible as of the second quarter (April-June). However, in the second quarter, there were two properties that sold for over 1 billion yen each, even though there were no such sales in the first quarter (January-March), and just three in the entire previous term, so this seems to be a good sign. We would like to pay attention to whether the company's statement that "sales will grow in the second quarter" will be more apparent in the second half.

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

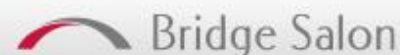
Susumu Fujita, currently the Chairman of MUGEN ESTATE, founded the Company in 1990 for the acquisition of used condominiums to be refurbished for resale to first time purchasers. This marked the start of the used condominium refurbishment business. Amidst the expansion of the used condominium market, 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 real estate brokerage. 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.

BRIDGE REPORT



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**◎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.”

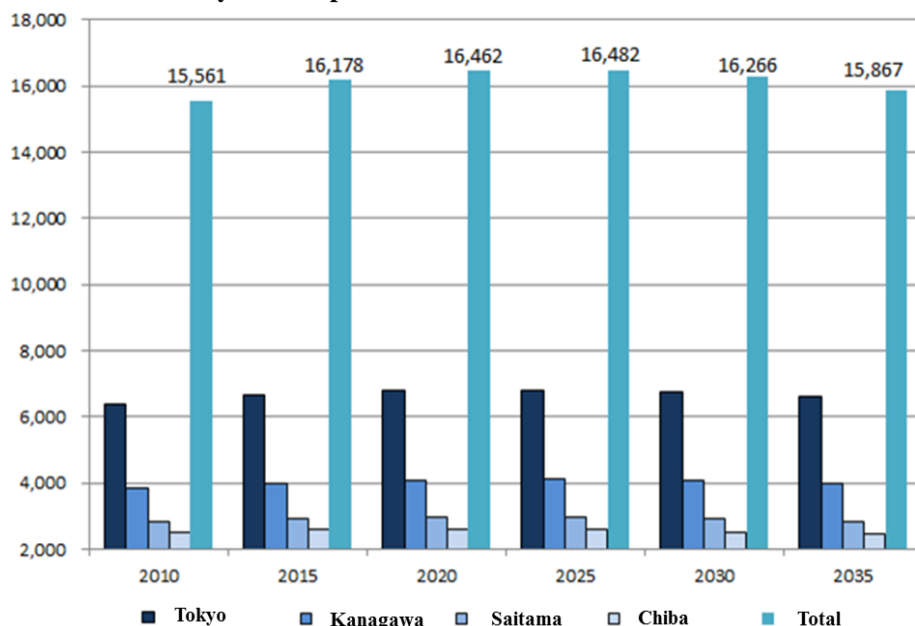
◎Attractive Real Estate Market in Tokyo Metropolitan Region**Huge Latent Market:**

According to the “2018 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 8.24 million units. 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.

(1,000 Households) Tokyo Metropolitan Household Number Trend Forecast



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

◎ **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 Income	YY Change	profit margin	Total market cap	PER	PBR	ROE
2975	Star Mica Co., Ltd.	33,400	+10.3%	2,956	-23.0%	8.9%	31,736	20.0	1.9	13.2%
3288	Open House Co., Ltd.	510,000	+30.5%	54,000	+14.2%	10.6%	268,967	7.1	2.3	33.6%
3294	E’Grand Co., Ltd.	22,800	+25.4%	1,350	+49.3%	5.9%	4,313	5.9	0.6	7.4%
3299	MUGEN ESTATE Co., Ltd.	58,143	+7.8%	5,043	-15.7%	8.7%	13,763	4.9	0.6	16.3%
8923	Tosei Corp.	71,510	+16.2%	12,052	+10.8%	16.9%	54,083	7.0	1.0	14.0%
8934	Sun Frontier Fudosan Co., Ltd.	70,000	+31.4%	14,500	+9.40%	20.7%	58,067	6.1	1.0	16.8%
8940	INTELLEX Co., Ltd.	42,182	+14.1%	1,164	-30.4%	2.8%	6,824	13.6	0.6	8.0%

* Unit: Million yen

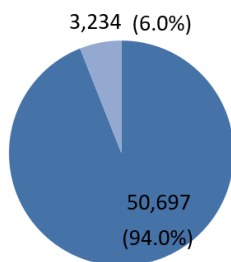
*Sales and operating profit are forecasts taken from each of the respective companies. ROE are actual data taken from the most recently ended fiscal year.

Market capitalization, PBR and PER are based upon the closing share price on August 9, 2019.

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.

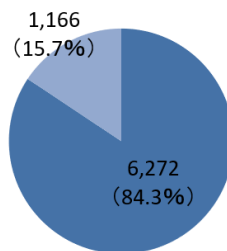
Sales



■ 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

<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.

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 is 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 may be 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.

<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 the real estate trading resale business, depending on the intentions of the buyer of real estate for investment, there are also cases in which rental management work continues after a sale is made.

1-5 Characteristics and strengths

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.

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. MUGEN ESTATE has carved out a unique position within the real estate refurbishment industry through the creation of a diverse product lineup.

③ Strength of High Levels of Professional Skill

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.

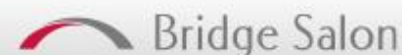
2. First Half of Fiscal Year ending December 2019 Earnings Results

(1) Business Results

	1H FY 12/18	Ratio to sales	1H FY 12/19	Ratio to sales	YoY
Sales	24,631	100.0%	18,797	100.0%	-23.7%
Gross profit	4,760	19.3%	3,212	17.1%	-32.5%
SG&A	2,217	9.0%	1,560	8.3%	-29.6%
Operating Income	2,542	10.3%	1,651	8.8%	-35.0%
Ordinary Income	2,182	8.9%	1,321	7.0%	-39.4%
Net Income	1,411	5.7%	906	4.8%	-35.7%

* Unit: Million yen

BRIDGE REPORT

**Sales and profits decreased.**

Sales were 18.7 billion yen, down 23.7% year on year. The number of units sold decreased because financial institutions continued to take a strict stance towards lending, and buyers were wary due to the perceived high price of real estate. The company revised prices by rotating inventory, and gross profit margin fell 2.2 points year on year.

Operating profit was down 35.0% year on year to 1.6 billion yen. SG&A expenses fell 29.6% due to a decrease in personnel expenses and sales commissions, but profits declined as a result of decreased sales.

(2) Segment Earnings Trends

	1H FY 12/18	Ratio to sales	1H FY 12/19	Ratio to sales	YoY
Sales					
Real Estate Trading	23,189	94.1%	17,125	91.1%	-26.1%
Real Estate Leasing and Other	1,442	5.9%	1,672	8.9%	+15.9%
Total	24,631	100.0%	18,797	100.0%	-23.7%
Operating Income					
Real Estate Trading	3,007	13.0%	1,640	9.6%	-45.4%
Real Estate Leasing and Other	534	37.0%	622	37.2%	+16.5%
Adjustments	-999	-	-611	-	-
Total	2,542	10.3%	1,651	8.8%	-35.0%

* Unit: Million yen

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

In real estate leasing and other businesses, although the amount of real estate for sale was down year on year, revenue from real estate rentals grew, and both sales and profits increased.

◎Real Estate Trading Business Conditions**①Sales Value, Volume**

	1H FY 12/18	1H FY 12/19	YoY
Sales	23,156	17,063	-26.3%
Investment-type	19,252	14,205	-26.2%
Residential-type	3,903	2,858	-26.8%
Number of units	293	173	-41.0%
Investment-type	154	88	-42.9%
Residential-type	139	85	-38.8%
Average Sales Price	79.0	98.6	+24.8%
Investment-type	125.0	161.4	+29.1%
Residential-type	28.0	33.6	+19.7%

* Unit: Million yen

* Both sales and the number of units sold decreased year on year. The average unit price rose due to a decline in the number of sectional investment-type properties sold.

* The average unit selling price of buildings was 278.9 million yen, up 4.6% year on year.

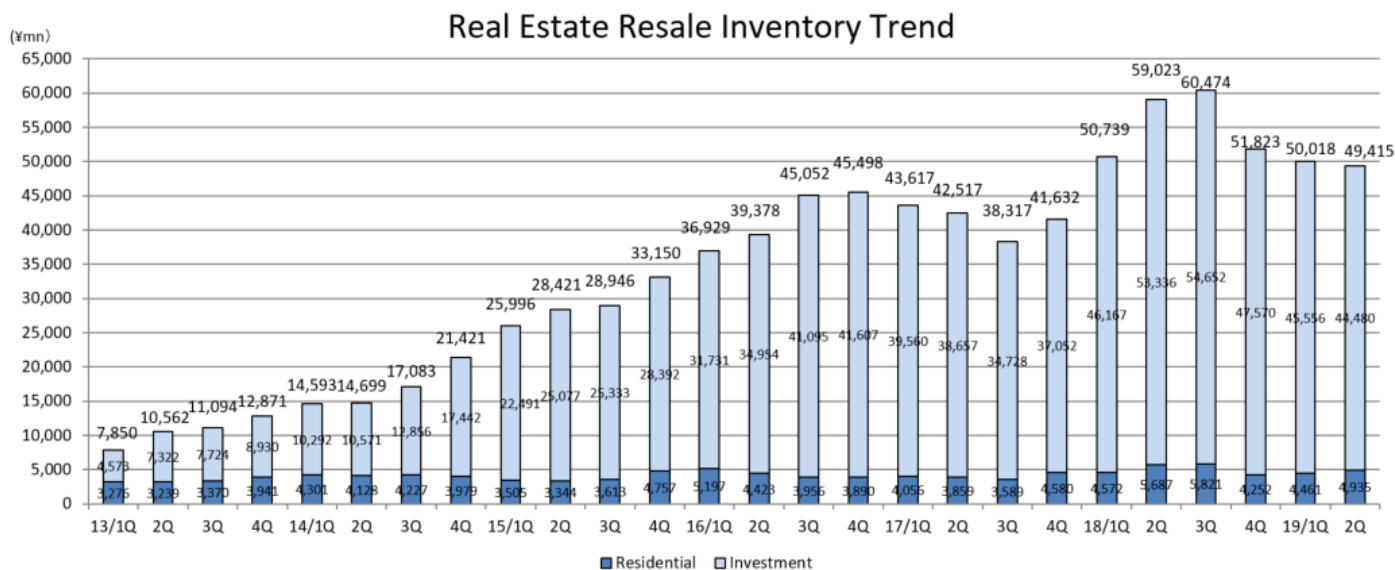
* There were 13 sales of real estate for investment that exceeded 300 million yen, down from 18 in the same period of the previous term. Two of these sold for over 1 billion yen.

* For real estate for residence, both sales and the number of units sold were less than those of the previous term. The average unit sales price was higher than in the previous term.

* Broken down by area, for investment properties, the average unit sales price in Tokyo increased year on year due to there being a higher ratio of condominiums among the properties sold, but the actual number of units sold decreased. For residential properties, there were fewer units sold in each area, but the average unit sales price increased year on year in all areas except Kanagawa Prefecture.

* Sales to overseas investors decreased significantly in both sales amounts and the number of units sold. The average unit sales price increased year on year due to fewer sales of investment properties with low unit prices.

② Real Estate for Sale Inventory Conditions



The company continued to rotate inventory and carefully select real estate for sale, and inventory of real estate for investment was reduced 4.6% from the end of the previous term.

(3) Financial standing and cash flows

◎Balance Sheet

	End of December 2018	End of June 2019		End of December 2018	End of June 2019
Current Assets	63,319	60,832	Current liabilities	10,532	10,007
Cash	10,517	11,019	Payables	400	342
Real estate for sale	51,635	49,250	ST Interest-Bearing Liabilities	8,109	8,434
Real estate for sale in process	87	83	Noncurrent liabilities	34,121	31,962
Noncurrent Assets	3,404	3,379	LT Interest-Bearing Liabilities	33,156	31,000
Tangible Assets	2,366	2,368	Total Liabilities	44,654	41,970
Intangible Assets	83	84	Net Assets	22,106	22,282
Investment, Others	954	926	retained earnings	16,956	17,132
Total assets	66,760	64,253	Total liabilities and net assets	66,760	64,253

* Unit: Million yen

Total assets fell 2.5 billion yen year on year to 64.2 billion yen due to a 2.3 billion yen decrease in real estate for sale. Total liabilities decreased 2.6 billion yen year on year to 41.9 billion yen due to a decrease in long-term interest-bearing debt. Net assets increased 0.1 billion yen to 22.2 billion yen.

As a result, equity ratio rose 1.6 points from 32.9% at the end of the previous term to 34.5%. Interest-bearing debt decreased 1.8 billion yen to 39.4 billion yen.

The ratio of interest-bearing debt was 61.4%, down 0.4 points from the end of the previous term. Net debt-to-equity ratio decreased 0.12 from the end of the previous term to 1.28, which is a good indicator of capital safety.

BRIDGE REPORT



◎Cash Flow

	1H FY 12/18	1H FY 12/19	YY Change
Operating Cash Flow	-16,673	3,132	+19,805
Investing Cash Flow	-236	-132	+104
Free Cash Flow	-16,909	3,000	+19,909
Financing Cash Flow	11,542	-2,576	-14,118
Cash and Equivalents at Term End	6,574	9,576	+3,002

* Unit: Million yen

Operating CF and free CF turned positive due to a decrease in inventories. Financing CF turned negative due to a decrease in proceeds from long-term loans payable. The cash position improved.

3.Fiscal Year ending December 2019 Earnings Forecasts

(1)Earnings Forecasts

	FY 12/18	Share	FY 12/19 Est.	Share	YoY	Progress rate
Sales	53,931	100.0%	58,143	100.0%	+7.8%	32.3%
Gross profit	9,847	18.3%	9,213	15.8%	-6.4%	34.9%
SG&A	3,862	7.2%	4,170	7.2%	+8.0%	37.4%
Operating profit	5,985	11.1%	5,043	8.7%	-15.7%	32.7%
Ordinary profit	5,237	9.7%	4,381	7.5%	-16.3%	30.2%
Net Income	3,356	6.2%	2,826	4.9%	-15.8%	32.1%

* Unit: Million yen

* Forecasts are those of the Company.

There is no change in the earnings forecast. Sales are forecast to increase, while profit is expected to decrease. The company plans to continue strengthening sales while making steady, careful purchases.

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.

Although the company was about to enter a price revision phase in the first half, sales grew in the second quarter as a result of adjusting prices for inventory rotation. The rate of progress is low with respect to the full-year forecast, but the company plans to continue strengthening sales in the second half, while making steady, careful purchases.

The dividend forecast remains unchanged at 30 yen/share. The estimated payout ratio is 25.9%.

<Real Estate Trading Business Earnings>

	FY 12/16	FY 12/17	FY 12/18	FY 12/19 (Est.)	YoY	Progress rate
Sales	55,120	61,143	50,632	55,000	+8.6%	31.0%
Investment-type	45,182	52,203	41,491	45,900	+10.6%	30.9%
Residential-type	9,937	8,939	9,141	9,100	-0.4%	31.4%
Number of units	617	676	593	665	+12.1%	26.0%
Investment-type	249	318	302	340	+12.6%	25.9%
Residential-type	368	358	291	325	+11.7%	26.2%
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%	-

* Unit: Million yen

The number of units sold is low relative to sales, because there are fewer sales of investment properties with low unit prices, and there is

a higher ratio of condominiums.

The company will continue to improve the yield by reviewing unit prices, occupancy rates, and rent, and by supplying properties that match current market conditions.

4. Conclusions

Although the number of units sold is expected to increase thanks to measures taken by the company such as reviewing sales prices and strengthening the sales structure, unfortunately the effects are not yet visible as of the second quarter (April-June). However, in the second quarter, there were two properties that sold for over 1 billion yen each, even though there were no such sales in the first quarter (January-March), and just three in the entire previous term, so this seems to be a good sign. We would like to pay attention to whether the company's statement that "sales will grow in the second quarter" will be more apparent in the second half.

<Reference 1: 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.

<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."

<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.

<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

	<p>lead the project.</p> <ul style="list-style-type: none"> ◇ 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	<ul style="list-style-type: none"> ◇ 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	<ul style="list-style-type: none"> ◇ 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.

<Quantitative goal>

The company targets to achieve the following numerical goal

	FY 12/18	FY 12/19 (Est.)	FY 12/21 (Plan)
Sales	53.9	58.1	63
Ordinary profit	5.2	4.3	5.5
Equity ratio	32.9%		30% or more

* Unit: Billion yen

<Reference2: Regarding Corporate Governance>

◎Organization type and the composition of directors and auditors

Organization type	Company with audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

◎Corporate Governance Report

Updated on March 26, 2019

<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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