



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	<a href="https://www.mugen-estate.co.jp/en/">https://www.mugen-estate.co.jp/en/</a>

## Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
503	24,361,000 shares		12,253million	7.6%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	DPS Est.
25.00	5.0%	66.53	7.6 x	943.48	0.5 x

\*Unit: yen

\*Stock price as of close on February 28, 2020. Numbers are taken from the earnings announcement documents of the fiscal year ended December 2019.

## Earnings Trend

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS	DPS
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 (Act.)	39,677	3,157	2,493	1,688	69.38	30.00
December 2020 (Est.)	45,157	3,219	2,443	1,595	66.53	25.00

\*Unit: million yen, yen

\*Forecasts are those of the Company. 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 ended December 2019 and earnings forecasts for December 2020 of MUGEN ESTATE Co., Ltd.

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## Key Points

- The sales for FY 12/19 were 39.6 billion yen, down 26.4% year on year. The number of units sold decreased because financial institutions took a stricter stance towards lending and buyers were wary due to the perceived high prices of real estate. Operating profit decreased 47.2% year on year to 3.1 billion yen. SG&A expenses fell 14.1% due to a decrease in personnel expenses and sales commission, but profit declined as a result of reduced sales.
- The sales for FY 12/20 are expected to be 45.1 billion yen, up 13.8% from the previous term. Regarding real estate trading, balanced procurement and sale will be made based on the trends in the real estate market and an early stage improvement in operating ratio will be aimed at, which will lead to commodification. Regarding development and real estate specific joint ventures, the company aims to achieve monetization in FY 12/21 or later. Regarding real estate leasing, by ascertaining the trends in the real estate market and taking the cash position standards into consideration, acquisition of fixed assets will continue. Operating profit is forecast to be 3.2 billion yen, up 1.9% year on year. The sharp increase in real estate prices and the strict stance towards lending by financial institutions is expected to continue and the gross margin ratio for real estate trading is expected to be at approximately the same level as the previous term. Further, advertising expenses, expenses incurred while relocating the headquarters and expenditure on taxes for the acquisition of fixed assets are expected to increase. The dividend is to be 25 yen/share, down 5 yen/share year on year. The estimated payout ratio is 37.6%.
- There have been large-scale adjustments in the stock markets due to the effects of the novel coronavirus, but after reporting a disconcerting decrease in sales and profit, the company stocks, which were trending towards recovery at the time of the previous report, have fallen to the lower price category since being listed in the stock market.
- This will inevitably have a large impact on the business environment, especially in the real estate market, but we would like to pay attention to whether the company will be able to recover and restore its trajectory of growth by displaying the strength of its unique business development and the company's business model while "aiming to evolve into a company that can build a firm business foundation and continue further growth by reconsidering our existing businesses from scratch, gently removing hurdles one by one and improving."

## 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.

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

#### <Corporate Philosophy>

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

#### <Code of Conduct>

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

### 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:

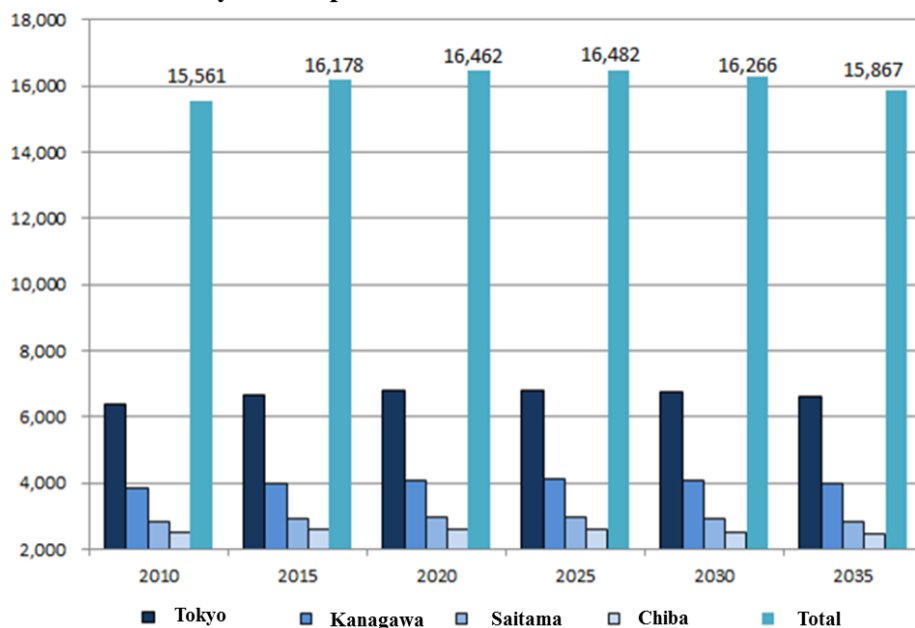
According to the “2018 House and Land Statistics Survey” published by the Ministry of Internal Affairs and Communications, the number of “non-wooden residential properties” in the Tokyo and greater metropolitan region (Tokyo, Kanagawa, Saitama and Chiba)

stood at 8.24 million units. Given that the Company purchased 409 units of properties for investments and for residence during fiscal year December 2019, 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)

Source : MUGEN ESTATE

### ◎ 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	profit margin	Total market cap	PER	PBR	ROE
2975	Star Mica Holdings Co., Ltd.	35,259	+9.6%	3,387	-6.6%	9.6%	23,514	12.7	1.3	11.4%
3288	Open House Co., Ltd.	600,000	+11.0%	65,500	+13.4%	10.9%	313,732	6.8	2.2	32.3%
3294	E’Grand Co., Ltd.	22,800	+25.4%	1,350	+49.3%	5.9%	4,466	6.1	0.7	7.4%
3299	<b>MUGEN ESTATE Co., Ltd.</b>	<b>45,517</b>	<b>+13.8%</b>	<b>3,219</b>	<b>+1.9%</b>	<b>7.1%</b>	<b>12,253</b>	<b>7.6</b>	<b>0.5</b>	<b>7.6%</b>
8923	Tosei Corp.	80,354	+32.3%	13,737	+8.2%	17.1%	56,467	6.3	0.9	15.3%
8934	Sun Frontier Fudosan Co., Ltd.	72,500	+36.0%	15,900	+19.5%	21.9%	52,022	5.1	0.9	16.8%
8940	INTELLEX Co., Ltd.	42,182	+14.1%	1,164	-30.4%	2.8%	4,823	9.3	0.5	8.0%

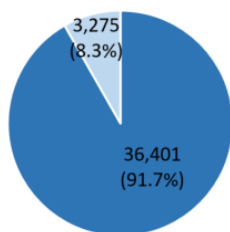
\* Unit: Million yen, Times

\*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 28, 2020.

#### 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 92% of total sales during fiscal year December 2019. The Company plans to promote efforts to expand its earnings deriving from the real estate leasing and other business segment.

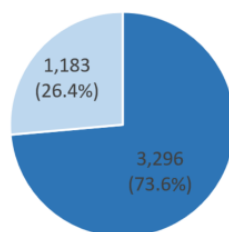
Sales



■ Real Estate Trading    ■ Real Estate Leasing and Other

\*FY12/19, data in parenthesis is share of total sales (sales to external clients).  
Unit: million yen

Operating Profit



■ Real Estate Trading    ■ Real Estate Leasing and Other

\*FY12/19, data in parenthesis is share of total operating profit (pre-adjusted operating profit).  
Unit: million yen

Source : MUGEN ESTATE

#### <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

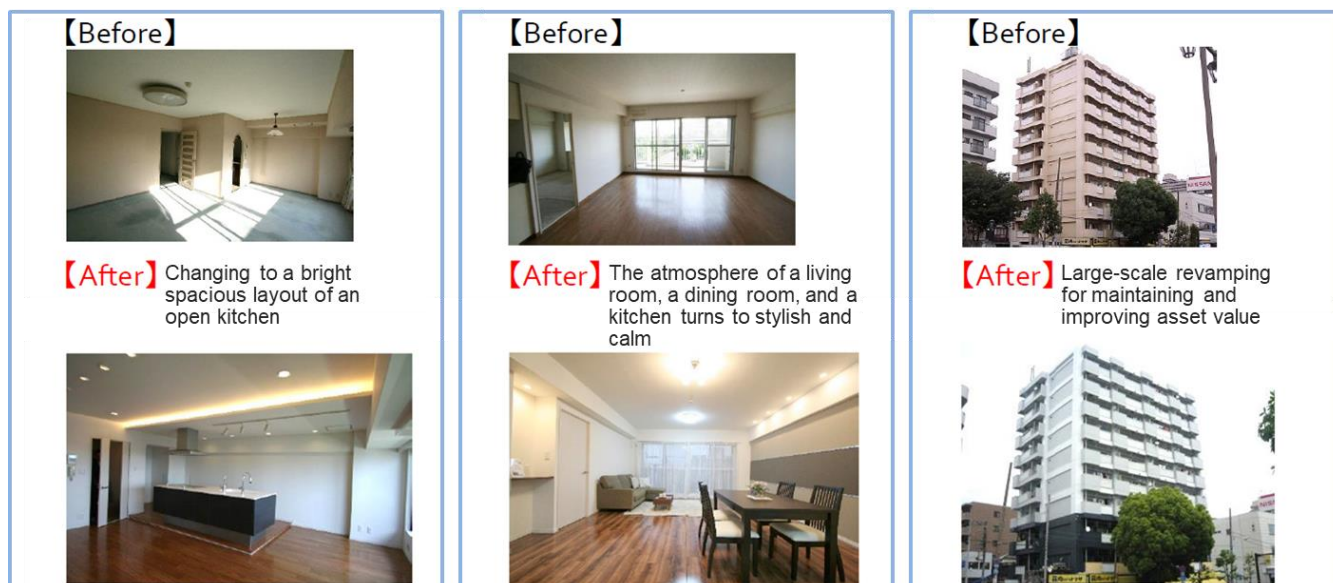
The Company purchases used condominiums for sectional ownership, real estate for investment, and detached housing properties in the Tokyo Metropolitan Areas, including Tokyo, Kanagawa, Saitama and Chiba. To increase their value, the Company then has the subsidiary FUJI HOME, and some others, refurbish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

## BRIDGE REPORT



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 2019, 252 units of real estate for investment and 157 units for residence, 409 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.

In addition to the above-mentioned business, the company initiated a development business and a specific joint venture for real estate with the aim of evolving into a company group which can continue to grow further.

#### <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 profit 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.

### ③Strength 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. Fiscal Year ended December 2019 Earnings Results

### (1) Business Results

	FY 12/18	Ratio to sales	FY 12/19	Ratio to sales	YoY	Compared with initial forecast
Sales	53,931	100.0%	39,677	100.0%	-26.4%	-31.8%
Gross profit	9,847	18.3%	6,475	16.3%	-34.2%	-29.7%
SG&A	3,862	7.2%	3,317	8.4%	-14.1%	-20.5%
Operating Profit	5,985	11.1%	3,157	8.0%	-47.2%	-37.4%
Ordinary Profit	5,237	9.7%	2,493	6.3%	-52.4%	-31.8%
Net Profit	3,356	6.2%	1,688	4.3%	-49.7%	-40.3%

\* Unit: Million yen

### Decrease in Sales and Profit

The sales for FY 12/19 were 39.6 billion yen, down 26.4% year on year. The number of units sold decreased because financial institutions took a stricter stance towards lending and buyers were wary due to the perceived high prices of real estate. Operating profit decreased 47.2% year on year to 3.1 billion yen. SG&A expenses fell 14.1% due to a decrease in personnel expenses and sales commission, but profit declined as a result of reduced sales.

### (2) Segment Earnings Trends

	FY 12/18	Ratio to sales	FY 12/19	Ratio to sales	YoY
<b>Sales</b>					
Real Estate Trading	50,697	94.0%	36,401	91.7%	-28.2%
Real Estate Leasing and Other	3,234	6.0%	3,275	8.3%	+1.3%
Total	53,931	100.0%	39,677	100.0%	-26.4%
<b>Operating Profit</b>					
Real Estate Trading	6,272	12.4%	3,296	9.1%	-47.4%
Real Estate Leasing and Other	1,166	36.1%	1,183	36.1%	+1.4%
Adjustments	-1,454	-	-1,322	-	-
Total	5,985	11.1%	3,157	8.0%	-47.2%

\* Unit: Million yen

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

In real estate leasing and other businesses, revenue from real estate rentals grew, and both sales and profits increased.



# BRIDGE REPORT



## ◎Real Estate Trading Business Conditions

### ①Sales Value, Volume

	FY 12/18	FY 12/19	YoY
Sales	50,632	36,277	-28.4%
Investment-type	41,491	30,986	-25.3%
Residential-type	9,141	5,291	-42.1%
Number of units	593	409	-31.0%
Investment-type	302	252	-16.6%
Residential-type	291	157	-46.0%
Average Sales Price	85.3	88.6	+3.9%
Investment-type	137.3	122.9	-10.5%
Residential-type	31.4	33.7	+7.3%

\* Unit: Million yen

\* Sales from both investment-purpose real estates and residence-purpose real estate decreased. The average spending for investment-purpose real estate declined. The average spending for residence-purpose real estate increased.

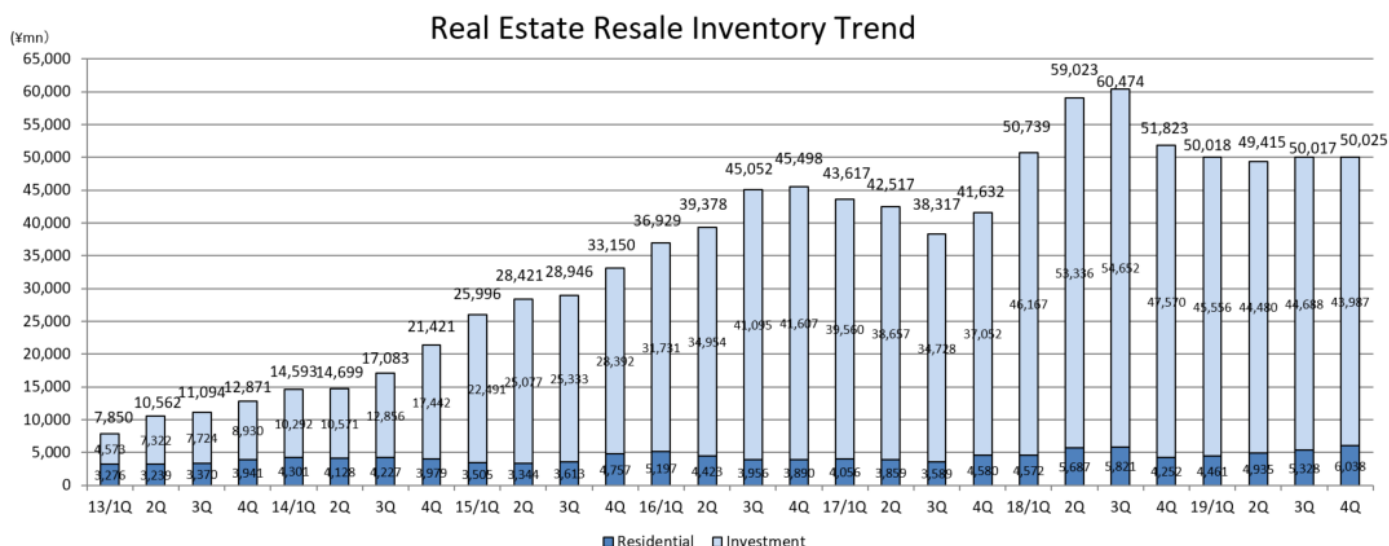
\* The average unit selling price of buildings was 248.4 million yen, down 0.6% year on year.

\* There were 29 sales of real estate for investment that exceeded 300 million yen, down from 38 in the same period of the previous term. Two of these sold for over 1 billion yen.

\* For real estate for investment, the average unit sales price and the number of units sold in Tokyo decreased. For real estate for residence, the number of units sold in each area decreased, but the average unit sales price in each area increased.

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

### ②Real Estate for Sale Inventory Conditions



Source : MUGEN ESTATE

The company continued to rotate inventory and carefully select real estate for sale, and inventory of real estate for investment was reduced 3.5% from the end of the previous term.

## BRIDGE REPORT



## (3) Financial standing and cash flows

## ◎Balance Sheet

	End of December 2018	End of December 2019		End of December 2018	End of December 2019
<b>Current Assets</b>	63,319	64,367	<b>Current liabilities</b>	10,532	12,185
<b>Cash</b>	10,517	13,708	<b>Payables</b>	400	467
<b>Real estate for sale</b>	51,635	49,887	<b>ST Interest-Bearing Liabilities</b>	8,109	10,340
<b>Real estate for sale in process</b>	87	147	<b>Noncurrent liabilities</b>	34,121	33,486
<b>Noncurrent Assets</b>	3,404	4,096	<b>LT Interest-Bearing Liabilities</b>	33,156	32,618
<b>Tangible Assets</b>	2,366	3,068	<b>Total Liabilities</b>	44,654	45,671
<b>Intangible Assets</b>	83	83	<b>Net Assets</b>	22,106	22,840
<b>Investment, Others</b>	954	944	<b>retained earnings</b>	16,956	17,914
<b>Total assets</b>	66,760	68,512	<b>Total liabilities and net assets</b>	66,760	68,512

\* Unit: Million yen

Cash and equivalent increased due to the issuance of unsecured corporate debentures, etc. and total assets increased 1.7 billion yen from the end of the previous term to 68.5 billion yen. Short-term interest-bearing liabilities augmented, which led to the total liabilities augmenting by 1 billion yen from the end of the previous term to 45.6 billion yen. Net assets increased by 700 million yen from the end of the previous term to 22.8 billion yen, due to an increase in retained earnings.

As a result, equity ratio rose 0.2 points from 32.9% at the end of the previous term to 33.2%. Interest-bearing debt increased 1.6 billion yen to 42.9 billion yen.

The ratio of interest-bearing debt was 62.7%, up 0.9 points from the end of the previous term. Net debt-to-equity ratio decreased 0.11 from the end of the previous term to 1.29, which is a good indicator of capital safety.

## ◎Cash Flow

	FY 12/18	FY 12/19	YY Change
Operating Cash Flow	-7,220	3,276	+10,496
Investing Cash Flow	-104	-872	-768
Free Cash Flow	-7,324	2,404	+9,728
Financing Cash Flow	4,534	712	-3,822
Cash and Equivalents at Term End	9,151	12,268	+3,117

\* Unit: Million yen

Operating cash flow and free cash flow turned positive due to a decrease in inventory assets (real estate for sale),

The surplus of financing CF shrunk due to a decrease in proceeds from long-term loans payable.

The cash position improved.

## (4) Topics

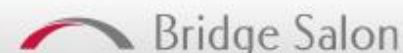
## ① Situation of the Acquisition of Treasury Stocks

The results of the acquisition of treasury stocks according to the resolution in November 2019 are listed below. (The acquisition of treasury stocks ended on January 24, 2020)

(Details of the Resolution)

Number of shares acquired (upper limit)	500,000
Cost of acquisition (upper limit)	300 million yen

## BRIDGE REPORT



Proportion of shares issued excluding treasury stocks	2.05%
Period of acquisition	November 8, 2019 – March 31, 2020

## (Results)

Number of shares acquired	382,200
Cost of acquisition	299 million yen
Period of acquisition	November 8, 2019 – January 24, 2020

### 3.Fiscal Year ending December 2020 Earnings Forecasts

#### (1) Earnings Forecasts

	FY 12/19	Share	FY 12/20 Est.	Share	YoY
Sales	39,677	100.0%	45,157	100.0%	+13.8%
Gross profit	3,157	8.0%	3,219	7.1%	+1.9%
SG&A	2,493	6.3%	2,443	5.4%	-2.0%
Operating profit	1,688	4.3%	1,595	3.5%	-5.5%

\* Unit: Million yen

\* Forecasts are those of the Company.

#### Increase in Sales and Operating Profit

The sales for FY 12/20 are expected to be 45.1 billion yen, up 13.8% from the previous term. Regarding real estate trading, balanced procurement and sale will be made based on the trends in the real estate market and an early stage improvement in operating ratio will be aimed at, which will lead to commodification. Regarding development and real estate specific joint ventures, the company aims to achieve monetization in FY 12/21 or later. Regarding real estate leasing, by ascertaining the trends in the real estate market and taking the cash position standards into consideration, acquisition of fixed assets will continue. Operating profit is forecast to be 3.2 billion yen, up 1.9% year on year. The sharp increase in real estate prices and the strict stance towards lending by financial institutions is expected to continue and the gross margin ratio for real estate trading is expected to be at approximately the same level as the previous term. Further, advertising expenses, expenses incurred while relocating the headquarters and expenditure on taxes for the acquisition of fixed assets are expected to increase. The dividend is to be 25 yen/share, down 5 yen/share year on year. The estimated payout ratio is 37.6%.

#### <Real Estate Trading Business Earnings>

	FY 12/17	FY 12/18	FY 12/19	FY 12/20 (Est.)	YoY
Sales	61,143	50,632	36,277	41,700	+14.9%
Investment-type	52,203	41,491	30,986	35,490	+14.5%
Residential-type	8,939	9,141	5,291	6,210	+17.4%
Number of units	676	593	409	440	+7.6%
Investment-type	318	302	252	260	+3.2%
Residential-type	358	291	157	180	+14.6%
Average Selling Price	90.4	85.3	88.6	94.7	+6.8%
Investment-type	164.1	137.3	122.9	136.5	+11.0%
Residential-type	24.9	31.4	33.7	34.5	+2.4%

\* Unit: Million yen

## 4. Three-year Mid-term Management Plan

The company is proceeding with its 3-year mid-term management plan with FY 12/19 being the initial year of the plan.

### (1) Overview

#### <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.

#### <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	<ul style="list-style-type: none"> <li>◇ 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.</li> </ul>
(2) Refurbishing properties held	<ul style="list-style-type: none"> <li>◇ 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.</li> </ul>
(3) Mastering products and services	<ul style="list-style-type: none"> <li>◇ 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.</li> <li>◇ Providing safe, secure and comfortable properties by checking inspection items in detail after completion.</li> <li>◇ Developing high value-added properties for foreigners in Japan, such as Chinese customers, while understanding their needs.</li> </ul>
(4) Mastering the selling and buying of properties	<ul style="list-style-type: none"> <li>◇ Increasing profitability by reviewing and fully enforcing the profit management of each property and spending money for higher added value.</li> <li>◇ Fully enforcing risk management by strengthening compliance based on the case studies of other companies of previous years.</li> <li>◇ Expanding sales channels for foreign investors by holding seminars for them.</li> </ul>
(5) Responding to diverse work styles (6) Further strengthening Group power	<ul style="list-style-type: none"> <li>◇ 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.</li> </ul>

### <Quantitative goal>

The company targets to achieve the following numerical goal

For financial safety for medium and long-term stable growth, the company will maintain an equity ratio above 30%.

	FY 12/18	FY 12/19	12/20 (Est.)	FY 12/21 (Plan)
Sales	53.9	39.6	45.1	63.0
Ordinary profit	5.2	2.4	2.4	5.5
Equity ratio	32.9%	33.2	30% or more	

\* Unit: Billion yen

## (2) Concrete Initiatives

The concrete initiatives following each management policy are as follows.

### ① Purchases and Resale Business

\*Management Policy: Development of products to support the business foundation and network building to support the revenue base.

- Aiming for sustainable growth, they are carefully observing market trends, carefully selecting and procuring property for which medium and long-term increase in value added is possible.
- In order to strengthen management of transactions, efforts were made to decrease man-hours through the installation of a business support system and shorten a project period by strengthening relations between group companies. These are important initiatives for the company where marketing staff are responsible for procurement, creating plans for value increase and sales.
- In addition to the procurement and resale, a development business was initiated. The aim is to increase recurring revenue from fixed assets by further improving know-how for procurement of land for new construction and development, design, construction management and operation management.

### ② Initiating a Business Based On Laws Regarding Specific Joint Venture for Real Estate

\*Management Policy: Development of products to support the business foundation and network building to support the revenue base.

The specific joint venture for real estate was started based on the permit obtained in FY 12/18.

The first step will be the large-scale renovation of a second-hand condominium building called “Fortune Court Yoyogi Project” for which there are plans to constitute an association in July 2020.

Investment instruments with high added value will be proposed under a plan for great living comfort and medium and long-term raise in rent.

The company plans to offer housing where one can continue to live comfortably for a long period, maintaining competitiveness and a high operating ratio through the implementation of appropriate renovations.

In addition, by effectively utilizing existing residential stocks, efforts will be made to extend the reconstruction cycle and reduce the environmental burden due to the waste material produced during reconstruction.

### ③ Initiating a Crowdfunding Business

\*Management Policy: Development of products to support the business foundation and network building to support the revenue base.

In January 2020, one of the subsidiary companies called Mugen Funding Co., Ltd. formed a business partnership with Funds Inc. (formerly Crowdport Corp.), which manages the online market “Funds” for loan-type funds.

Small-scale real estate investment services will be offered as an option in asset management for individual investors with very little experience in real estate investment.

The first step will be the creation and presentation of Fund as a way to procure funding for condominiums, a section of the purchases and resale business.

Whether this can be used as a method for fundraising for other business in the future will also be considered.

Firstly, the main objective is raising popularity among individual investors.

#### ④ Initiatives Towards Reform of Work Style Through Relocation of Headquarters

\*Management Policy: Development of personnel and systems to support the management foundation

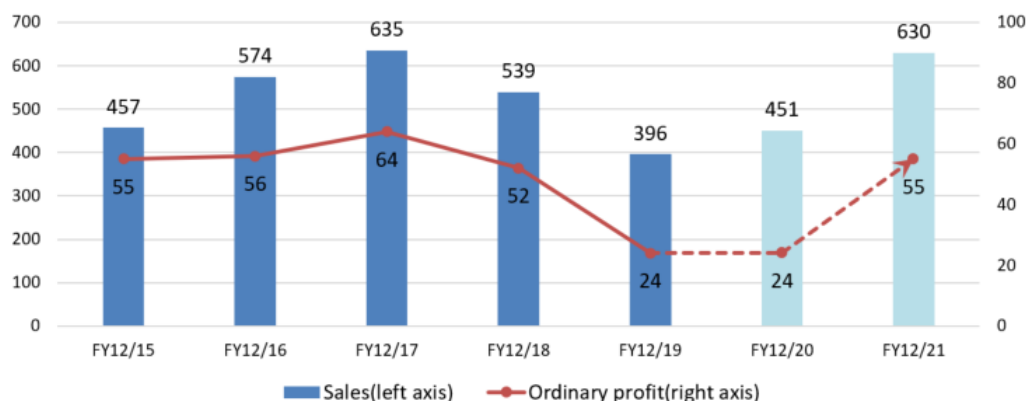
It was decided that the company headquarters will be relocated to Otemachi Financial City South Tower, Otemachi, Chiyoda-ku, Tokyo. The main office, all branches excluding Yokohama branch and group companies will be gathered together on one floor. The relocation of headquarters will be conducted in May 2020.

In addition to the streamlining of business operations in the entire group through concentration, improvement in work-life balance, stimulation of mutual communication between employees and the continuous securing of talented personnel can be expected, because of which the new headquarters will likely lead to new value creation.

## 5. Conclusions

There have been large-scale adjustments in the stock markets due to the effects of the novel coronavirus, but after reporting a disconcerting decrease in sales and profit, the company stocks, which were trending towards recovery at the time of the previous report, have fallen to the lower price category since being listed in the stock market.

This will inevitably have a large impact on the business environment, especially in the real estate market, but we would like to pay attention to whether the company will be able to recover and restore its trajectory of growth by displaying the strength of its unique business development and the company's business model while "aiming to evolve into a company that can build a firm business foundation and continue further growth by reconsidering our existing businesses from scratch, gently removing hurdles one by one and improving."



\* Unit: 100 million yen, Figures in FY12/20 are estimated, FY12/21 are planned.

Source : MUGEN ESTATE



## <Reference: 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.

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

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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