



Shinichi Fujita, President

MUGEN ESTATE Co., Ltd. (3299)



## Company Information

Market	TSE 1st Section
Industry	Real Estate
President	Shinichi Fujita
HQ Address	16th floor, Otemachi Financial City South Tower, 1-9-7 Otemachi, Chiyoda-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
¥487	24,361,000 shares		¥11,863 million	7.6%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	DPS Est.
-	-	-	-	¥943.48	0.5 x

\*Stock price as of close on August 12, 2020. Numbers are taken from the earnings announcement documents of the second term of the fiscal year ending December 2020. ROE and BPS are calculated based on the previous year. Earnings forecasts and dividend forecasts are undecided due to the spread of COVID-19.

## 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.)	-	-	-	-	-	-

\*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. Earnings forecasts and dividend forecasts are undecided due to the spread of COVID-19.

We present this Bridge Report reviewing the second term of the fiscal year ending December 2020 earnings results of MUGEN ESTATE Co., Ltd.

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## Key Points

- Sales and profits declined in the second quarter of FY 12/20. Sales dropped 24.1% year on year to 14.2 billion yen. The sales volume of both real estate for investment and real estate for residence declined. Operating profit fell 50.8% year on year to 800 million yen. Gross profit decreased 21.9% year on year, while SG&A expenses such as personnel expenses increased 8.6% year on year.
- Amid the growing and prolonged effects of COVID-19, a wait-and-see attitude has increased among real estate investors due to the uncertain outlook. Also, the restrictions on real estate sales activities had a significant impact, including financial institutions tightening real estate lending and prolonging loan screenings, MUGEN ESTATE's partner real estate brokerage companies refraining from sales activities due to the spread of COVID-19, and the extension of the construction period due to delays and suspensions of some supply of construction materials.
- After lifting the declaration of a state of emergency on May 25, 2020, some investors' demand trends showed signs of recovery, and business activities were recovering, including the recovery of supplies of construction materials. However, as the spread of COVID-19 started to accelerate again, sales activities at real estate brokerage companies are being affected once more. Also, the demand trends of domestic and foreign investors are uncertain due to refraining from going out and movement restrictions. Thus, it is difficult at this point to determine the demand and sales trends from the third quarter onwards. Therefore, the company has withdrawn the full-year earnings forecasts and dividend forecasts for FY 12/20, which had been announced, and have not yet determined new forecasts.
- Full-year earnings forecasts have not been decided. As investors, we have no choice but to wait for the disclosure in the third quarter, which will be in November. Still, if possible, we would like to acquire some qualitative information on the business environment and so on before the disclosure in the third quarter.
- On the other hand, regarding the three-year mid-term management plan, the real estate purchases and resale business is unlikely to be affected by the spread of COVID-19. Therefore, we will pay attention to how it will try to accomplish these goals while minimizing the COVID-19 impacts as much as possible by strengthening the purchase and sales of residential properties with a short holding period, and to the path and progress the company will take to achieve sales of 63 billion yen and ordinary profit of 5.5 billion yen in FY 12/21.

## 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 the real estate specified joint business, establishment of a funding 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 Used and Renovated Residential Properties

According to the Ministry of Land, Infrastructure, Transport and Tourism, the distribution share of existing housing in Japan's total housing distribution was about 14.7% in 2013. Although the market share is increasing, it is still at a low level, about 1/6 of that of Western countries. Moreover, comparing the cumulative amount of housing investment that has been made up to now and the amount of housing stock assets, housing stocks are about 540 trillion yen below the amount invested.

Moreover, with the declining birthrate and aging population, the number of housing stocks exceeds the number of households, and the number of vacant houses is increasing. Due to these circumstances, the government considered the need to improve the environment of the existing housing distribution and renovation market, and the "Basic Plan for Housing (National Plan)" was decided by the Cabinet in March 2016.

#### \* Points of Basic Plan for Housing (March 2016)

The following three points are the main factors of the plan, which "presents a new direction of housing policy that directly addresses the declining birthrate, aging population, and the declining population."

(1) Achieve a residential life in which young and child-rearing households and the elderly can live with peace of their mind

(2) Promote distribution of existing houses and utilization of vacant houses, and accelerate conversion to a market that utilizes housing stocks

(3) Revitalize the housing industry that supports housing and as a leader to achieve a strong economy

In "(2) Promote distribution of existing houses and utilization of vacant houses, and accelerate conversion to a market that utilizes housing stocks," the government aims to create a new flow in which existing houses are distributed and inherited as assets by the next generation through improving the quality of existing houses and attract more people who want to live in and buy them.

Specifically, the government will promote the rebuilding and refurbishment of condominiums that are deteriorating and becoming vacant and will increase the number of condominium rebuilding projects (cumulative from 1975) from approximately 250 in 2014 to about 500 in 2025.

Furthermore, the government will limit the increase in the number of vacant houses by about 1 million units by promoting the distribution of existing houses.

Additionally, in "(3) Revitalize the housing industry that supports housing and as a leader to achieve a strong economy," the government is promoting the supply of wooden houses and improving the production system (securing and training workers and developing technologies). Also, by revitalizing the housing stock business, the government aims to grow the scale of the existing housing distribution market from 4 trillion yen in 2013 to 8 trillion yen in 2035, and the renovation market from 7 trillion yen to 12 trillion yen, totaling 20 trillion yen.

### ◎Attractive Real Estate Market in Tokyo Metropolitan Region

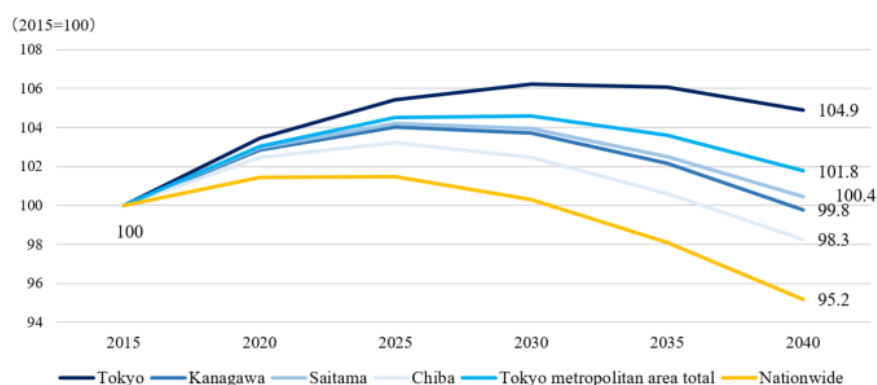
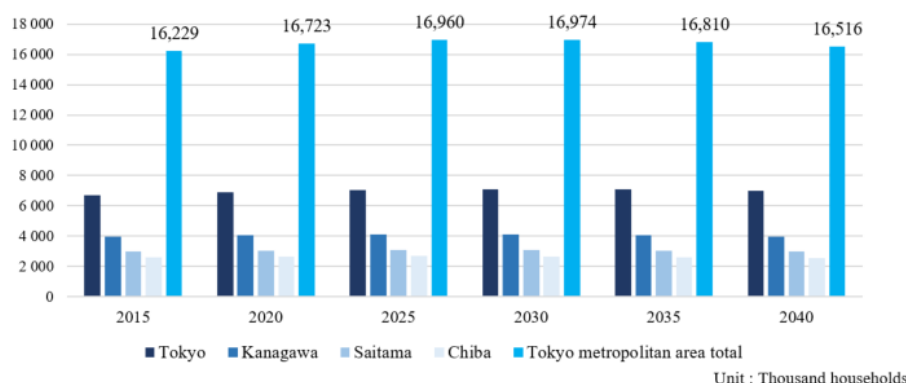
#### **Huge Latent Market:**

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 basically on The Rise:**

Moreover, the population will inevitably decrease in Japan as a result of the declining birthrate. According to estimates by the National Institute of Population and Social Security Research in 2019, by 2040, the number of households in Japan will decrease, while the number of households in the Tokyo metropolitan area is expected to increase in the future due to the ongoing concentration of population in Tokyo. However, it is unclear at this point how the spread of COVID-19 will affect Japanese people's lifestyle consciousness and behavior in the future.

## Tokyo Metropolitan Household Trend Forecast



Source: Future estimate of the number of households in Japan (Estimates by Prefecture, Estimation in 2019) by National Institute of Population and Social Security Research

### ◎ 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%	23,132	12.5	1.3	11.4%
3288	Open House Co., Ltd.	570,000	+5.5%	62,000	+7.3%	10.9%	404,901	6.6	2.8	32.3%
3294	E'Grand Co., Ltd.	19,069	-6.8%	814	-43.9%	4.3%	4,516	10.6	0.6	12.3%
<b>3299</b>	<b>MUGEN ESTATE Co., Ltd.</b>	-	-	-	-	-	<b>11,863</b>	-	<b>0.5</b>	<b>7.6%</b>
8923	Tosei Corp.	64,897	+6.9%	4,680	-63.1%	7.2%	46,252	18.8	0.8	15.3%
8934	Sun Frontier Fudosan Co., Ltd.	70,000	-4.4%	6,930	-58.2%	9.9%	41,295	10.1	0.6	17.7%
8940	INTELLEX Co., Ltd.	-	-	-	-	-	4,332	-	0.4	4.9%

\* 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.

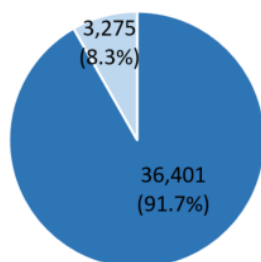
Market capitalization, PBR and PER are based upon the closing share price on August 12, 2020.

MUGEN ESTATE and Sun Frontier Fudosan have not yet forecasted the performance in the current term.

#### 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.

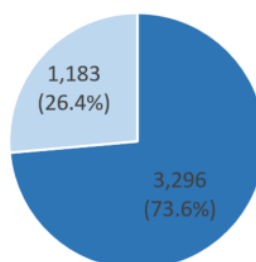
Sales



■ 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

#### <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

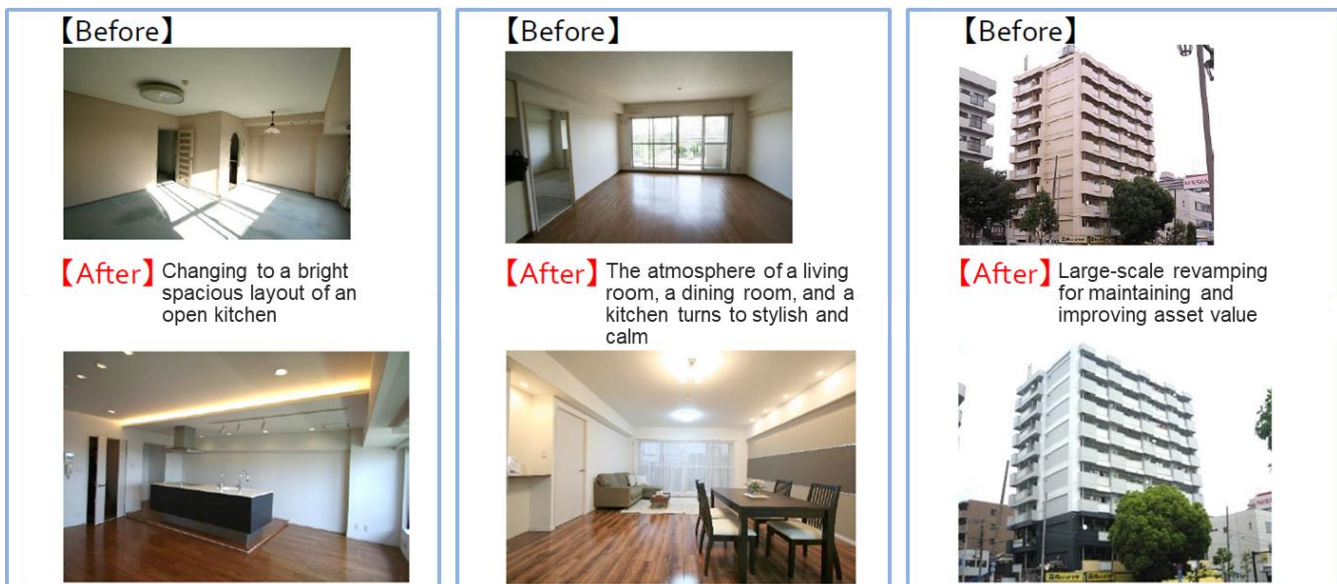
The Company purchases used condominiums for sectional ownership, real estate for investment, and detached housing properties in the Tokyo Metropolitan Areas, including Tokyo, Kanagawa, Saitama and Chiba. To increase their value, the Company then has the subsidiary FUJI HOME, and some others, refurbish 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 the development business and the real estate specified joint business 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. The Second Term of The Fiscal Year Ending December 2020 Earnings Results

### (1) Business Results

	2Q of FY 19/12	Ratio to sales	2Q of FY 20/12	Ratio to sales	YoY
Sales	18,797	100.0%	14,262	100.0%	-24.1%
Gross profit	3,212	17.1%	2,507	17.6%	-21.9%
SG&A	1,560	8.3%	1,695	11.9%	+8.6%
Operating Profit	1,651	8.8%	812	5.7%	-50.8%
Ordinary Profit	1,321	7.0%	458	3.2%	-65.3%
Net Profit	906	4.8%	333	2.3%	-63.2%

\* Unit: Million yen

### Decrease in Sales and Profit

Amid the growing and prolonged effects of COVID-19, a wait-and-see attitude has increased among real estate investors due to the uncertain outlook. Also, the restrictions on real estate sales activities had a significant impact, including financial institutions tightening real estate lending and prolonging loan screenings, MUGEN ESTATE's partner real estate brokerage companies refraining from sales activities due to the spread of COVID-19, and the extension of the construction period due to delays and suspensions of some supply of construction materials.

Sales dropped 24.1% year on year to 14.2 billion yen. The sales volume of both real estate for investment and real estate for residence declined. Operating profit fell 50.8% year on year to 800 million yen. Gross profit decreased 21.9% year on year, while SG&A expenses such as personnel expenses increased 8.6% year on year.

### (2) Segment Earnings Trends

	2Q of FY 19/12	Ratio to sales	2Q of FY 20/12	Ratio to sales	YoY
<b>Sales</b>					
Real Estate Trading	17,125	91.1%	12,717	89.2%	-25.7%
Real Estate Leasing and Other	1,672	8.9%	1,544	10.8%	-7.6%
Total	18,797	100.0%	14,262	100.0%	-24.1%
<b>Segment Profit</b>					
Real Estate Trading	1,640	9.6%	1,006	7.9%	-38.6%
Real Estate Leasing and Other	622	37.2%	558	36.1%	-10.3%
Adjustments	-611	-	-752	-	-
Total	1,651	8.8%	812	5.7%	-50.8%

\* Unit: Million yen

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

Real estate rental revenues in the leasing and other business declined 8.4% from the same period last year.

## BRIDGE REPORT



## ◎Real Estate Trading Business Conditions

## ①Sales Value, Volume

	2Q of FY 19/12	2Q of FY 20/12	YoY
Sales	17,063	12,652	-25.8%
Investment-type	14,205	10,245	-27.9%
Residential-type	2,858	2,407	-15.8%
Number of units	173	136	-21.4%
Investment-type	88	68	-22.7%
Residential-type	85	68	-20.0%
Average Sales Price	99	93	-5.7%
Investment-type	161	151	-6.7%
Residential-type	34	35	+5.3%

\* Unit: Million yen, units

\* Sales from both investment-type real estate and residential-type real estate decreased, and number of units sold also decreased. The average sales price for residential-type real estate increased.

\* The average unit selling price of buildings was 213.6 million yen, down 23.4% year on year.

\* There were 9 sales of real estate for investment that exceeded 300 million yen, down 4 from in the same period of the previous term. No units over 1 billion yen were sold.

\* By area, sales of real estate for investment increased in Kanagawa prefecture but decreased in Tokyo, Saitama, and Chiba prefectures. The number of units sold decreased in all areas. Similarly, for real estate for residence, the sales decreased in Tokyo, Saitama, and Chiba prefectures.

\* Sales to overseas investors decreased in sales, but the number of units sold remained the same. Average selling prices fell as the number of high-priced investment properties sold declined.

## ②Real Estate for Sale Inventory Conditions



Source : MUGEN ESTATE

Inventories of real estate for sale increased 6.2% from the end of the previous term. Inventories of real estate for investment and real estate for residence increased 6.6% and 3.6%, respectively, from the end of the previous term.

The business period was 212 days in the second quarter of FY 12/20. Although it was shortened by four days year on year, it was extended by 35 days from the third quarter of FY 12/18 when the stock level peaked.

## BRIDGE REPORT

**(3) Financial standing and cash flows****◎Balance Sheet**

	End of December 2019	End of June 2020		End of December 2019	End of June 2020
<b>Current Assets</b>	64,367	65,723	<b>Current liabilities</b>	12,185	13,474
<b>Cash</b>	13,708	12,180	<b>Payables</b>	467	373
<b>Real estate for sale</b>	49,887	52,953	<b>ST Interest-Bearing Liabilities</b>	10,340	12,127
<b>Real estate for sale in process</b>	147	94	<b>Noncurrent liabilities</b>	33,486	34,491
<b>Noncurrent Assets</b>	4,096	4,535	<b>LT Interest-Bearing Liabilities</b>	32,618	33,608
<b>Tangible Assets</b>	3,068	3,292	<b>Total Liabilities</b>	45,671	47,966
<b>Intangible Assets</b>	83	83	<b>Net Assets</b>	22,840	22,340
<b>Investment, Others</b>	944	1,159	<b>Retained earnings</b>	17,914	17,525
<b>Total assets</b>	68,512	70,306	<b>Total liabilities and net assets</b>	68,512	70,306

\* Unit: Million yen

Real estate for sale increased 3 billion yen from the end of the previous term, while cash and deposits decreased 1.5 billion yen. Total assets rose 1.7 billion yen to 70.3 billion yen. Long-term and short-term interest-bearing liabilities augmented 2.7 billion yen to 45.7 billion yen, which led to an increase in total liabilities 2.2 billion yen to 47.9 billion yen. Net assets dropped 500 million yen from the end of the previous term to 22.3 billion yen due to a decrease in retained earnings.

As a result, equity ratio fell 1.5 points from 33.2% at the end of the previous term to 31.7%.

Dependency on interest-bearing debts increased 2.4 points from the end of the previous term to 65.1%, and the net debt-to-equity ratio increased 0.22 to 1.51 from the end of the previous term.

Inventory turnover fell 0.13 points from the end of the term to 0.66.

**◎Cash Flow**

	2Q of FY19/12	2Q of FY 20/12	YoY Change
<b>Operating Cash Flow</b>	3,132	-2,217	-5,349
<b>Investing Cash Flow</b>	-132	-1,392	-1,260
<b>Free Cash Flow</b>	3,000	-3,609	-6,609
<b>Financing Cash Flow</b>	-2,576	1,967	+4,543
<b>Cash and Equivalents at Term End</b>	9,576	10,626	+1,050

\* Unit: Million yen

Both operating cash flow and free cash flow turned negative due to a decrease in income before income taxes and an increase in inventories.

The financing cash flow turned positive due to the rise in loans.

The cash position improved.

**(4) Topics****◎Head Office Relocated**

In May 2020, the company headquarters were relocated to Otemachi Financial City South Tower in Otemachi, Chiyoda-Ku, Tokyo. The main office, all branches excluding the Yokohama branch and group companies were gathered together on one floor.

Gathering the group companies in one building is expected to enhance the work efficiency of the entire group. It is also expected to improve work-life balance, revitalize communication among employees, and continuously secure excellent human resources. Thus, the company believes that the new headquarters will lead to creating new value.

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

#### (1) Earnings Forecasts and Dividend Forecasts

After lifting the declaration of a state of emergency on May 25, 2020, some investors' demand trends showed signs of recovery, and business activities were recovering, such as the recovery of supplies of construction materials. However, as the spread of COVID-19 started to accelerate again, sales activities at real estate brokerage companies are being affected once more. Also, the demand trends of domestic and foreign investors are uncertain due to refraining from going out and travel restrictions. Thus, it is difficult at this point to determine the demand and sales trends from the third quarter onwards. Therefore, the company has withdrawn the full-year earnings forecasts and dividend forecasts for FY 12/20, which had been announced, and have not yet determined new forecasts.

#### (2) Impact of the Spread of COVID-19

##### ● Real Estate Sales Business

<Real Estate Purchases and Resale Business>

\* Due to the voluntary restraints on activities and movement restrictions due to the declaration of a state of emergency, property inspections, sales negotiations, and decision-making are delayed.

\* End users are less motivated to purchase due to uncertain market conditions.

\* Sales to overseas investors are decreasing due to restrictions on entering Japan.

##### ● Real Estate Leasing and Other Businesses

<Real Estate Leasing Business>

\* The number of new contracts is decreasing due to the declaration of a state of emergency.

<Real Estate Interior and Exterior Refurbishment Business>

\* Some delays in the supply of renovation materials have been resolved.

<Development Business and Real Estate specified Joint Business >

\* Since regular sales activities are difficult, the company is focusing on non-contact sales activities.

\* The company restarted regular in-person sales activities in June.

### 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.

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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 the real estate specified joint business 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	<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	◇ 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.

## &lt;Quantitative goal&gt;

The company targets to achieve the following numerical goal. The goal for FY 12/20 has not been decided.

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	FY 12/20 (Est.)	FY 12/21 (Plan)
Sales	539	396	Undecided	630
Ordinary profit	52	24	Undecided	55
Equity ratio	32.9%	33.2%	30% or more	

\* Unit: 100 Million yen

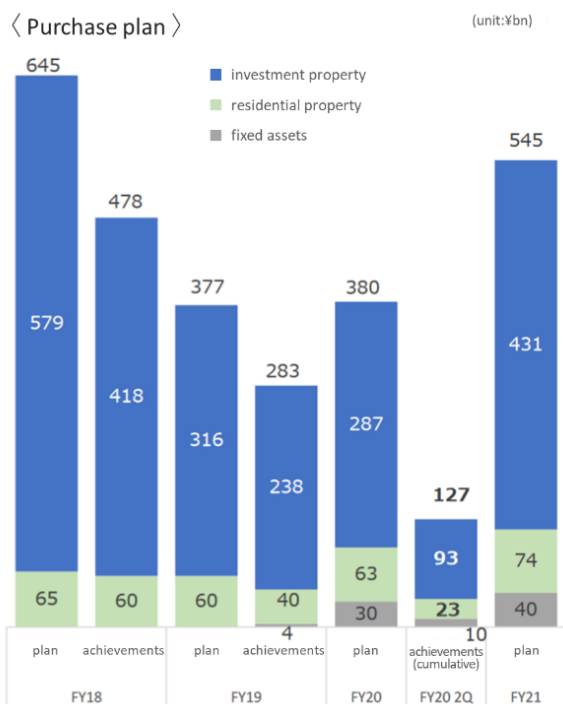
**(2) Concrete Initiatives for the second term of the fiscal year 2020**

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.



Source : MUGEN ESTATE

(Main Measures)

- \* Reinforce purchase and sale of residential properties with a short holding period, which is not susceptible to the impact of COVID-19.
- \* Improve cost of construction, which has been uneven depending on the project and enhance the gross margin ratio.
- \* Considering a balance between sale and purchase, maintain the inventory amount of real estate for sale at approximately 50 billion yen.

② Establishment of Development Division

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

To promote the mid-term management plan, in January 2020, the company established the "Development Business Headquarters" to explore new business areas and enhance planning functions.

Currently, six development projects are underway in the 23 wards of Tokyo, and all are in good locations with high profitability.



※「CraftMAP」 <http://www.craftmap.box-i.net/>

Source : MUGEN ESTATE

## 5. Conclusions

Full-year earnings forecasts have not been decided. As investors, we have no choice but to wait for the disclosure in the third quarter, which will be in November. Still, if possible, we would like to acquire some qualitative information on the business environment and so on before the disclosure in the third quarter.

On the other hand, regarding the three-year mid-term management plan, the real estate purchases and resale business is unlikely to be affected by the spread of COVID-19. Therefore, we will pay attention to how it will try to accomplish these goals while minimizing the COVID-19 impacts as much as possible by strengthening the purchase and sales of residential properties with a short holding period, and to the path and progress the company will take to achieve sales of 63 billion yen and ordinary profit of 5.5 billion yen in FY 12/21.

### <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 24, 2020

##### <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.

Also, the company's Board of Directors has established "Guidelines for Corporate Governance" (hereinafter referred to as "Company Guidelines") to show an effective governance framework and contribute to its realization.

Please refer to the company's website for the full text of the Company Guidelines.

→[https://www.mugen-estate.co.jp/ir/management/governance/pdf/CGguidelines\\_20200324.pdf](https://www.mugen-estate.co.jp/ir/management/governance/pdf/CGguidelines_20200324.pdf)

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

Principles	Reasons for not implementing the principles
[Supplementary Principle 4-2-1 Remuneration of management for sustainable growth]	Remuneration for management consists of fixed remuneration (money) and stock option compensation (stock acquisition rights) granted to executive directors. The Board of Directors has resolved to appoint to the President the specific distribution of fixed remuneration to the seven Directors within the limit of the total remuneration of the Board of Directors which is decided by the General Meeting of Shareholders.

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	<p>The President decides the specific distribution of remuneration to each director, taking into consideration the company's business performance, business content, economic conditions, and the evaluation of each director. Regarding the granting of stock option compensation (stock acquisition rights) to five Executive Directors, the Board of Directors decides the allocation in accordance with internal regulations.</p> <p>The current remuneration system for management is not linked to the company's management plan. Thus, the ratio of fixed remuneration and stock option compensation is not stipulated. Based on the belief that "achieving the business plan" is the foundation that leads to "sustainable growth," we will continue to consider establishing voluntary advisory committees, etc. to enhance objectivity and transparency and performance-based compensation system that will contribute to the achievement of our business plan.</p>
<p>【 Supplementary Principle 4-10-1 Discretionary use of functions and the involvement and recommendations of independent outside directors】</p>	<p>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.</p>

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

Principles	Disclosure contents
<p>【 Principle 1-4 So-called strategically held shares】</p>	<p>The company does not hold any shares of other listed companies as strategically held shares. However, if there was a need to acquire them to strengthen relationships or form tie-ups with other partner companies, the company will hold the shares upon verifying medium/long-term economic reasonability and disclosing its results.</p>
<p>[Supplementary Principle 4-11-3 Analysis and evaluation of the effectiveness of the Board of Directors as a whole]</p>	<p>The company's Board of Directors conducted an evaluation of the effectiveness of the Board of Directors for FY 2019 in March 2020. A survey of all directors and corporate auditors was conducted regarding the size, composition, and role division of the Board of Directors, information provision and support system for the Board of Directors, the quantity and quality of the agenda and discussions at the Board of Directors. The evaluation was conducted in the form of discussions at the Board of Directors based on the results of the survey.</p> <p>As a result of the evaluation, the Board of Directors determined that the effectiveness of the Board of Directors is generally at a high level. Moreover, we will steadily implement measures to reform the points that we recognized that have room for improvement in terms of operation such as the quantity and quality of the agenda for the Board of Directors and the way information should be provided.</p>
<p>【 Principle 5-1 Policy for constructive dialogues with shareholders】</p>	<p>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.</p>



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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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