



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	https://www.mugen-estate.co.jp/en/

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥490	24,361,000 shares		¥11,936 million	2.6%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	DPS Est.
¥10.00	2.0%	¥27.17	18.0x	¥939.11	0.5x

*Stock price as of close on August 11, 2021. Shares outstanding, DPS and EPS are taken from the financial briefing of the 2Q of FY12/21. ROE and BPS are taken from the previous fiscal year.

Earnings Trend

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS	DPS
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 (Act.)	34,858	2,465	1,785	599	24.98	10.00
December 2021 (Est.)	35,412	1,916	1,315	651	27.17	10.00

*Unit: million yen, yen. Forecasts are those of the Company. The definition for net profit is net profit attributable to parent company shareholders. The same applies below.

We present this Bridge Report reviewing the second quarter of fiscal year ending December 2021 earnings results of MUGEN ESTATE Co., Ltd.

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Key Points

- **In the second quarter of FY 12/21, sales went up 24.8% year on year to 17,795 million yen. Operating profit stood at 1,318 million yen, up 62.3% year on year. The sales volume and the number of units sold increased for real estate both for investment and for residence. Meanwhile, selling, general and administrative (SG&A) expenses decreased 7.8% year on year because the Company cut back on general expenses although sales commissions rose following an increase of the quantity of real estate sold. Ordinary profit grew 129.2% year on year to 1,050 million yen. Interest expense declined because the increase in the quantity of properties sold helped the Company pay back borrowings.**
- **The earnings forecast remains unchanged. In FY 12/21, it is projected that sales will grow slightly by 1.6% year on year to 35,412 million yen and operating profit will shrink 22.3% year on year to 1,916 million yen. The progress of the actual business results exceeded the forecast thanks to the Company's mainstay Purchase and Resale Business that led the business performance; however, the Company has left its earnings forecast as it is because it will focus on proactive procurement activities toward the future and the impact of such factors as COVID-19 on the real estate market is unclear. The Company plans to pay a dividend of 10.00 yen per share, unchanged from the previous term. The payout ratio will be 36.8%.**
- **In the second quarter, sales and profit grew considerably year on year on both a cumulative basis and a quarterly basis. With the mainstay Purchase and Resale Business driving the business performance, helping the Company generate sales and profit higher than the forecast, the rate of progress of profit to the full-year forecast is at a high level. Based on the quarterly business performance in the Purchase and Resale Business, however, it cannot be considered at this moment that both the number of sales and the number of units sold have clearly bottomed out and started to show a recovery trend. We would like to pay attention to how each key performance indicator (KPI) will change in the third quarter onward.**

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 enterprise 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.

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

<Corporate Philosophy>

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

<Code of Conduct>

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

1-3 Market Environment

◎ Policies for Expanding the Market for Used and Renovated Residential Properties

According to the Ministry of Land, Infrastructure, Transport, and Tourism’s “Vitalization of the Existing Housing Market” announced in May 2020, the distribution share of existing housing in Japan’s total housing distribution volume was 14.5% in 2018, which has declined by about 3% in the last ten years and is at an extremely low level compared to the United States (81.0%), the United Kingdom (85.9%), and France (69.8%).

In June 2006, the government promulgated and enforced “the Basic Plan for Housing under basic principles,” including “the supply of high-quality houses, which is the basis for the present and future stable housing for people.” It has formulated the “Basic Plan for Housing (National Plan)” in order to take measures for ensuring and improving stable housing for people, including “formation of safe and secure quality housing stocks” and “improvement of the environment of the housing market for optimization of housing transactions and smooth distribution.”

The Basic Plan for Housing (National Plan) is reviewed on an irregular basis so as to incorporate measures against the social and economic conditions and changes in the environment surrounding housing, and the latest edition was approved by the Cabinet in March 2021.

*Points of the Basic Plan for Housing (March 2021)

The environment around Japan’s residential life is undergoing drastic changes, including not only the declining birthrate and the dwindling and aging population, but also the emergence of the necessity to ensure safety of housing against natural disasters that occur more frequently and with a greater degree of intensity and the advent of new ways of living following changes in lifestyles and work styles triggered by the COVID-19 pandemic.

Based on the understanding “in order to realize enriched residential life that can deal with enormous changes in the social environment and people’s diverse senses of values, it is necessary to aim for a society in which every individual can secure a house for living safely

through enhancement of the safety net function based on a combination of housing policies and welfare policies and realization of a mutually supportive society in which all generations support each other in their communities. At the same time, it is also necessary to build a system for housing circulation that allows people to change their residences as many times as they want depending on their lifestyles through a shift to a policy system centering on existing houses,” the plan presents objectives of the housing policies for the new era of Reiwa in three perspectives and eight goals.

Three perspectives	Eight goals
① Perspective of changes in the social environment	Goal 1: New daily life and promotion of digital transformation (DX) Goal 2: Creation of safe houses and residential areas
② Perspective of residents and communities	Goal 3: Comfortable residences in which people can have children and bring them up comfortably Goal 4: Community in which the elderly can live with a sense of safety and security Goal 5: Development of the safety net function
③ Perspective of housing stocks and industry	Goal 6: Establishment of a housing circulation system Goal 7: Management, removal, and utilization of vacant houses Goal 8: Development of the residential life industry

The specific policies for “Goal 6: Establishment of a housing circulation system and creation of high-quality housing stocks toward a decarbonized society” from a perspective of “housing stocks and industry” are “the vitalization of existing houses distribution which would allow people to change their residences flexibly depending on their lifestyles,” “streamlining of maintenance, management, and repair toward a prolonged use life and regeneration of aged apartments (rebuilding and sale of apartment premises),” and “creation of stocks that can be traded as existing houses from generation to generation.”

Policies for “Goal 8: Development of the residential life industry for improving the convenience and enrichment of residents” are “to ensure and nurture people who can play roles in the extensive residential life industry that supports local communities” and “to further grow the industry through improvement of productivity and creation of an environment for overseas business expansion based on the development of new technologies and entry into new fields.”

The plan considers the scale of the market of distribution and renovation of existing houses as the performance indicator for the two goals. The long-term numerical goal is 20 trillion yen (which was 14 trillion yen in 2000).

◎Attractive Real Estate Market in Tokyo Metropolitan Region

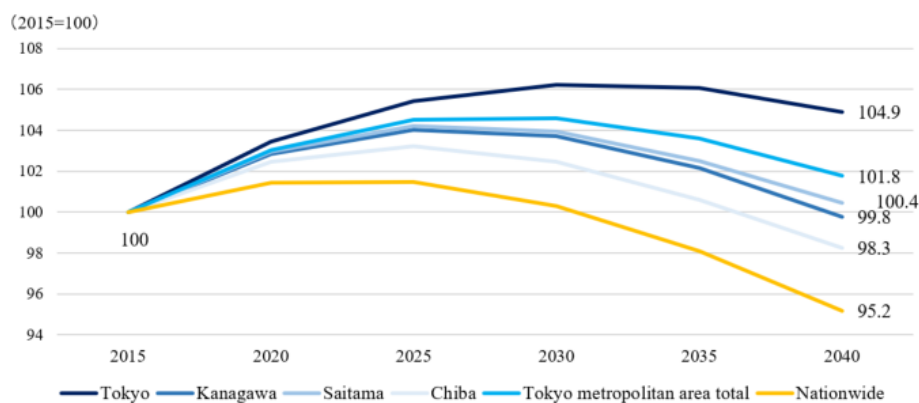
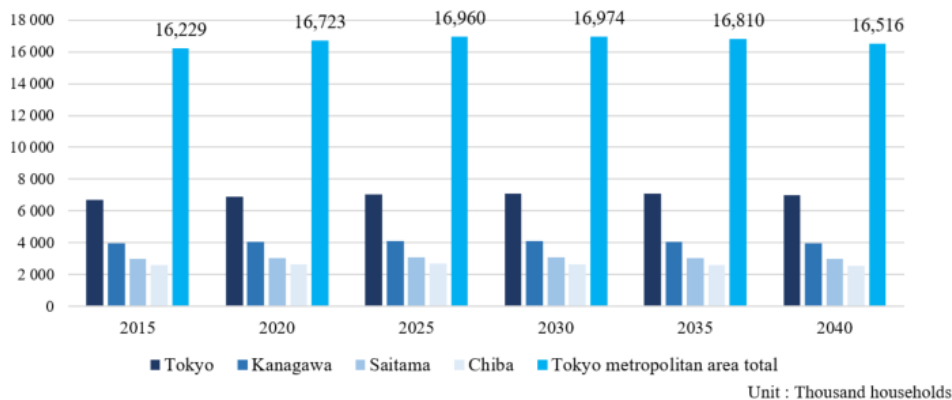
Huge Latent Market:

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 332 units of properties for investments and for residence during fiscal year December 2020, 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.

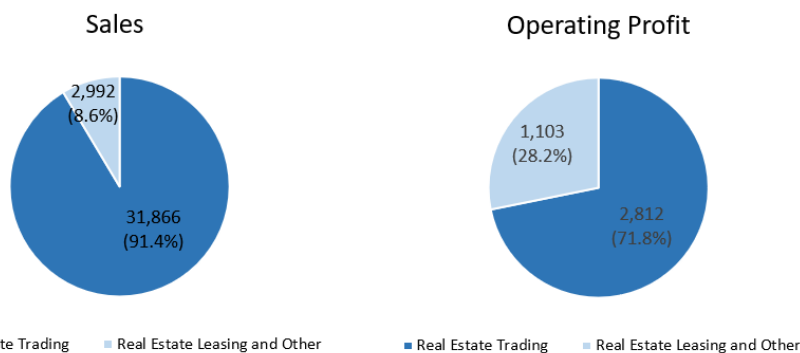
<Peer Company Comparison>

		Sales	YY Change	Operating Profit	YY Change	Profit margin	Total market cap	PER	PBR	ROE
2975	Star Mica Holdings Co., Ltd.	40,013	+1.1%	2,982	-9.1%	7.5%	23,372	14.7	1.2	9.1%
3288	Open House Co., Ltd.	788,000	+36.8%	96,000	+54.5%	12.2%	697,746	10.4	3.0	32.0%
3294	E'Grand Co., Ltd.	23,000	+13.5%	1,640	+11.4%	7.1%	8,267	8.3	1.0	12.1%
3299	MUGEN ESTATE Co., Ltd.	35,412	+1.6%	1,916	-22.3%	5.4%	11,937	18.0	0.5	2.6%
8923	Tosei Corp.	61,657	-3.6%	11,036	+71.7%	17.9%	56,765	8.0	0.9	6.1%
8934	Sun Frontier Fudosan Co., Ltd.	76,000	+27.4%	12,000	+51.7%	15.8%	53,143	7.2	0.8	6.5%
8940	INTELLEX Co., Ltd.	43,234	+5.3%	1,283	-40.9%	3.0%	6,208	8.6	0.5	10.2%

* Unit: Million yen, Times. Sales and operating profit are forecasts taken from each of the respective companies for this term. 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 11, 2021.

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 91% of total sales during fiscal year December 2020. The Company plans to promote efforts to expand its earnings deriving from the real estate leasing and other business segment.



<Real Estate Trading Business>

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

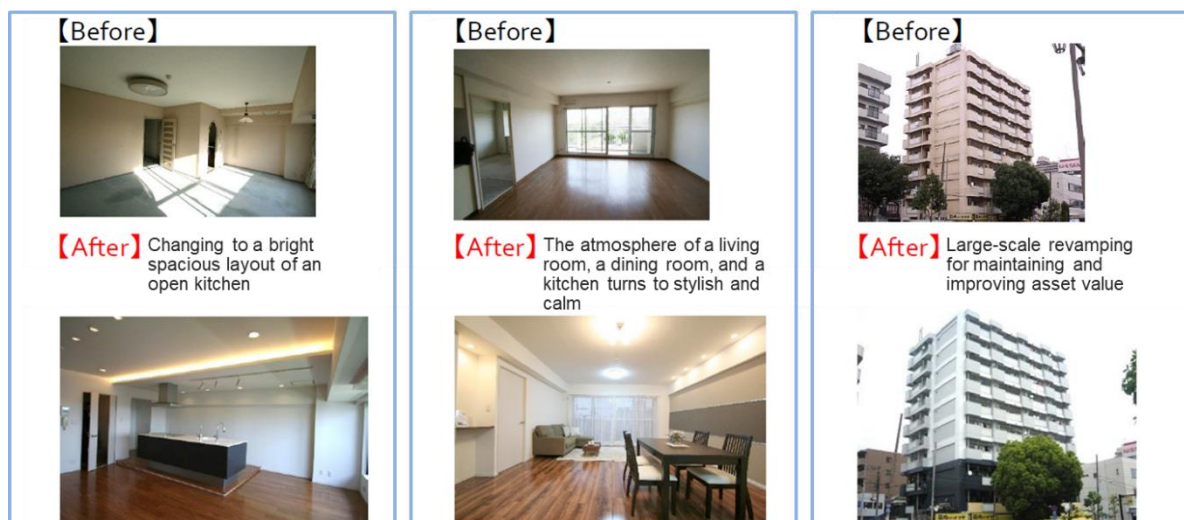
◎ Purchases and Resale Business

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

Main Value Addition Activities

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

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



Source : MUGEN ESTATE

The purchase and sale of real estate is performed by real estate brokers, but some of the transactions are undertaken by FUJI HOME in order to obtain a feel for the diversifying needs of customers and market trends.

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

The residential-type properties are those which purchased by consumers for the purpose of living in them, which include detached housing in addition to its main item of condominiums for sectional ownership. These properties are bought primarily by first time purchasers and their prices are mostly in the ¥0.02 to ¥0.03 billion range. MUGEN ESTATE sold over the course of fiscal year December 2020, 184 units of real estate for investment and 148 units for residence, 332 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 enterprise 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.

In addition, the company is engaged in a development business where it develops its own properties and a real estate specific joint enterprise business that aims to make real estate investment approachable to a wider range of individual investors through small-lot real estate investment.

1-5 Characteristics and strengths

① Management Leveraging Synergies

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

② Diverse Product Lineup and Unique Positioning

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

③ Strength of High Levels of Professional Skill

The information gathering, investment decision making, property management, technological response and other capabilities are all part of MUGEN ESTATE's high levels of professional skills and allow the Company to provide superior properties to the market. Additionally, the stable constructing and management system, the business know-how that has been developed over many years and the strong financing ability based on contracts with about fifty financial institutions are MUGEN's strengths.

2. Second Quarter of Fiscal Year Ending December 2021 Earnings Results

(1) Business Results

	2Q of FY 12/20	Ratio to s Sales	2Q of FY 12/21	Ratio to Sales	YoY
Sales	14,262	100.0%	17,795	100.0%	+24.8%
Gross Profit	2,507	17.6%	2,882	16.2%	+14.9%
SG&A	1,695	11.9%	1,563	8.8%	-7.8%
Operating Profit	812	5.7%	1,318	7.4%	+62.3%
Ordinary Profit	458	3.2%	1,050	5.9%	+129.2%
Quarterly Net Profit	333	2.3%	737	4.1%	+121.0%

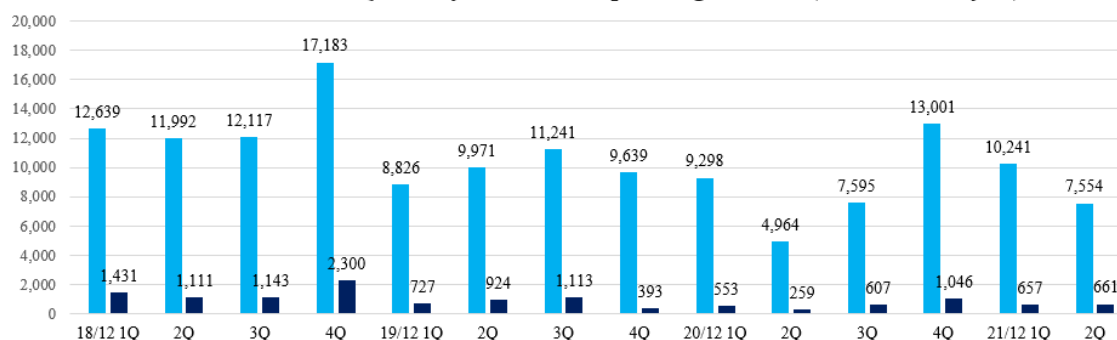
* Unit: Million yen.

Increase in sales and profit

Sales went up 24.8% year on year to 17,795 million yen. Operating profit stood at 1,318 million yen, up 62.3% year on year. The sales volume and the number of units sold increased for real estate both for investment and for residence. Meanwhile, selling, general and administrative (SG&A) expenses decreased 7.8% year on year because the Company cut back on general expenses although sales commissions rose following an increase of the quantity of real estate sold.

Ordinary profit grew 129.2% year on year to 1,050 million yen. Interest expense declined because the increase in the quantity of properties sold helped the Company pay back borrowings.

Trends of Quarterly Sales and Operating Income (unit: million yen)



Although both sales and profit increased year on year also on a quarterly basis, the business performance fell short of that of the first quarter (January to March).

(2) Segment Earnings Trends

	2Q of FY 12/20	Ratio	2Q of FY 12/21	Ratio	YoY
Sales					
Real Estate Trading	12,717	89.2%	16,721	94.0%	+31.5%
Real Estate Leasing and Other	1,544	10.8%	1,074	6.0%	-30.4%
Total	14,262	100.0%	17,795	100.0%	+24.8%
Segment Profit					
Real Estate Trading	1,006	7.9%	1,584	9.5%	+57.4%
Real Estate Leasing and Other	558	36.1%	380	35.4%	-31.8%
Adjustments	-752	-	-646	-	-
Total	812	5.7%	1,318	7.4%	+62.3%

* Unit: Million yen. Sales represent sales to external clients. Operating profit ratio represents sales operating profit margin.

Sales and profit grew in the Real Estate Trading Business. Sales of real estate for investment and residence were strong.

BRIDGE REPORT



The Real Estate Leasing and Other Business showed decreases in sales and profit. The revenues from real estate leasing dropped because the balance of real estate for investment shrank from the end of the year before.

◎Real Estate Trading Business Conditions

①Sales Value, Volume

	2Q of FY 12/20	2Q of FY 12/21	YoY
Sales	12,652	16,546	+30.8%
Investment-type	10,245	12,882	+25.7%
Of which foreign investors	2,141	2,140	-0.1%
Residential-type	2,407	3,664	+52.2%
Number of Units	136	172	+26.5%
Investment-type	68	87	+27.9%
Of which foreign investors	19	19	0.0%
Residential-type	68	85	+25.0%
Average Sales Price	93.0	96.2	+3.4%
Investment-type	150.6	148.0	-1.7%
Of which foreign investors	112.7	112.6	-0.1%
Residential-type	35.4	43.1	+21.8%

* Unit: Million yen, units

The sales volume and the number of units sold of real estate for investment increased year on year owing to demand from Japanese investors. As well as the average spending per customer increased. The sales volume, the number of units sold, and the average spending per customer regarding overseas investors were almost at the same level as those of the same period of the previous year.

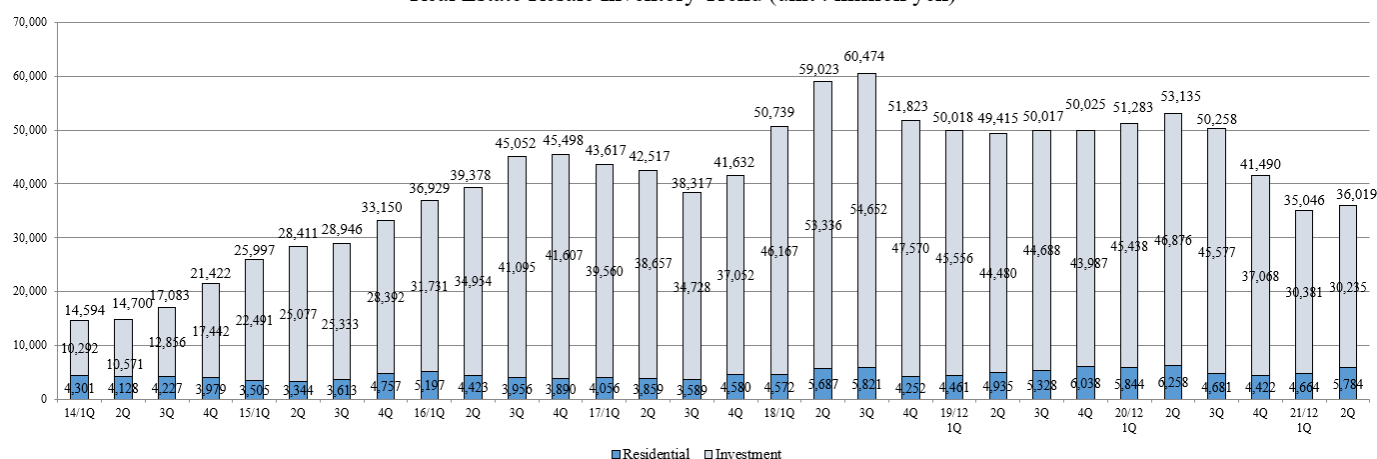
The sales, the number of units sold, and the average spending for real estate for residence significantly exceeded those of the same period of the last year.

By area, there has been continuous strong demand for real estate for investment, which has been seen since the fourth quarter of the previous year. Investors have a great appetite for investing particularly in real estate located in the Tokyo metropolitan area and real estate for residence. There is a certain degree of demand for office buildings.

Demand for real estate for residence continues to be huge in the Tokyo metropolitan area. The average unit price rose in areas other than Kanagawa Prefecture.

②Real Estate for Sale Inventory Conditions

Real Estate Resale Inventory Trend (unit : million yen)



The increase in the sales volume and the decline in the number of units procured decreased the inventory of real estate for sale compared to the end of the year before; however, the inventory of real estate for residence increased by 1.3 billion yen from the end of the previous year because the Company focused primarily on procurement of real estate for residence.

BRIDGE REPORT



(3) Financial standing and cash flows

◎Balance Sheet

	End of December 2020	End of June 2021	Increase/ Decrease		End of December 2020	End of June 2021	Increase/ Decrease
Current Assets	57,937	54,098	-3,838	Current liabilities	11,137	8,540	-2,596
Cash	16,065	17,348	+1,283	Payables	216	284	+68
Real estate for sale	41,337	35,885	-5,452	ST Interest-Bearing Liabilities	9,104	6,891	-2,213
Real estate for sale in process	283	375	+92	Noncurrent liabilities	28,744	26,935	-1,809
Noncurrent Assets	4,504	4,441	-63	LT Interest-Bearing Liabilities	28,027	26,278	-1,748
Tangible Assets	3,838	3,817	-21	Total Liabilities	39,882	35,476	-4,405
Intangible Assets	83	79	-4	Net Assets	22,605	23,109	+503
Investment, Others	583	544	-39	Retained earnings	17,790	18,288	+498
Total assets	62,487	58,585	-3,902	Total liabilities and net assets	62,487	58,585	-3,902

* Unit: Million yen

Real estate for sale decreased 5.4 billion yen from the end of the previous term, and total assets declined 3.9 billion yen from the end of the previous term to 58.5 billion yen. Total liabilities decreased 4.4 billion yen from the end of the previous term to 35.4 billion yen due to the repayment of interest-bearing liabilities for inventory reduction leading to their decline by 3.9 billion yen from the end of the previous term. Net assets increased 500 million yen from the end of the previous term.

As a result, equity ratio rose 3.3 points from 36.0% at the end of the previous term to 39.3%.

Dependency on interest-bearing debts decreased 2.8 points from the end of the previous term to 56.6%, and the net debt-to-equity ratio decreased 0.25 to 0.69 from the end of the previous term.

Inventory turnover rose 0.23 points from the end of the term to 1.07.

◎Cash Flow

	2Q of FY 12/20	2Q of FY 12/21	Increase/Decrease
Operating Cash Flow	-2,217	5,519	+7,736
Investing Cash Flow	-1,392	-168	+1,224
Free Cash Flow	-3,609	5,351	+8,960
Financing Cash Flow	1,967	-4,215	-6,182
Cash and Equivalents at Term End	10,626	15,785	+5,159

* Unit: Million yen

An increase in quarterly net profit before taxes turned the operating and free cash flows into the black.

The cash position increased.

3. Fiscal Year ending December 2021 Earnings Forecasts

(1) Forecast of financial results and dividends

	FY 12/20	Ratio to Sales	FY 12/21(Est)	Ratio to Sales	YoY	Progress Rate
Sales	34,858	100.0%	35,412	100.0%	+1.6%	50.3%
Gross profit	5,864	16.8%	5,773	16.3%	-1.6%	49.9%
SG&A	3,398	9.7%	3,857	10.9%	+13.5%	40.5%
Operating Profit	2,465	7.1%	1,916	5.4%	-22.3%	68.8%
Ordinary Profit	1,785	5.1%	1,315	3.7%	-26.3%	79.9%
Net Profit	599	1.7%	651	1.8%	+8.8%	113.2%

* Unit: Million yen

Earnings forecast remains unchanged. Increase in sales, decrease in profit

The earnings forecast remains unchanged. It is projected that sales will grow slightly by 1.6% year on year to 35,412 million yen and operating profit will shrink 22.3% year on year to 1,916 million yen. The progress of the actual business results exceeded the forecast, thanks to the Company's mainstay Purchase and Resale Business that led the business performance; however, the Company has left its earnings forecast as it is because it will focus on proactive procurement activities toward the future and the impact of such factors as COVID-19 on the real estate market is unclear. The Company plans to pay a dividend of 10.00 yen per share, unchanged from the previous term. The payout ratio will be 36.8%.

(2) Real Estate Trading Business Conditions

① Sales Value, Volume

	FY12/20	FY12/21(Est)	YoY	Progress Rate
Sales	31,712	30,100	-5.1%	55.0%
Investment-type	25,901	25,200	-2.7%	51.1%
Residential-type	5,810	4,900	-15.7%	74.8%
Number of units	332	280	-15.7%	61.4%
Investment-type	184	140	-23.9%	62.1%
Residential-type	148	140	-5.4%	60.7%
Average Sales Price	95.5	107.5	+12.6%	-
Investment-type	140.7	180.0	+27.9%	-
Residential-type	39.2	35.0	-10.7%	-

* Unit: Million yen, units

Real estate for residence, which had an increase in sales in the previous term, is expected to witness declines in both sales volume and average unit price.

The Company is making a steady progress regarding both sales and the number of units sold.

4. Three-year Mid-term Management Plan

(1) Outline

<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	◇ 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.
(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.
(3) Mastering products and services	◇ Improving inventory turnover by accelerating the commercialization of vacant buildings and properties with a high vacancy rate by soon raising the occupancy rate. ◇ Providing safe, secure and comfortable properties by checking inspection items in detail after completion. ◇ Developing high value-added properties for foreigners in Japan.
(4) Mastering the selling and buying of properties	◇ Increasing profitability by reviewing and fully enforcing the profit management of each property. ◇ Fully enforcing risk management by strengthening compliance. ◇ Expanding sales channels for foreign investors by holding seminars for them.
(5) Responding to diverse work styles (6) Further strengthening Group power	◇ Securing and cultivating human resources by promoting diversity; managing human resources by optimizing staff assignments in the Group and implementing stratified trainings; and visualizing work by improving the working environment and reviewing the workflow.

<Quantitative goal>

	FY 12/18	FY 12/19	FY 12/20	FY 12/21 (Plan)
Consolidated Sales	539	396	348	354
Consolidated Ordinary Profit	52	24	17	13
Consolidated Equity Ratio	32.9%	33.2%	36.0%	Above 30%

* Unit:100 Million yen

The company still maintains a capital adequacy ratio of 30% or more as a financial security measure to achieve stable growth over the medium to long term.

(2) Concrete Initiatives for the fiscal year 2021

The concrete initiatives following each management policy are as follows.

① Purchases and Resale Business

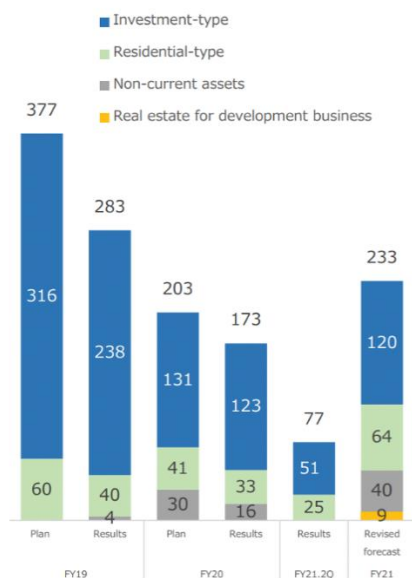
*Management Policy: Development of products to support the business foundation and network building to support the revenue base.

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< Acquisition Target >

(hundred million yen)



Source : MUGEN ESTATE

(Major policies to be taken in the second quarter of FY 12/21 onward)

***Sale**

The Company will continuously engage in sales activities focusing on profitability while keeping an eye on the trend in the real estate market.

***Procurement**

The volume of real estate procured in the Purchase and Resale Business achieved a considerable growth in the second quarter. The amount on a contract basis has risen to about 14.1 billion yen, ensuring a level of approximately 70% of the full-year forecast. In addition to acquiring real estate for development projects and fixed assets, which are behind schedule, the Company intends to open stores that specialize in fulfilling user demand in the capital region in anticipation of the future growth of the used real estate market.

② Real Estate Development Business

* Management policy: Creating products that support the business foundation and networks that support the earnings base

(Completion and sales of development projects)

SIDEPLACE OSHIAGE was completed in July 2021.

It is an apartment building made of reinforced concrete, relatively spacious for an apartment room for a single person with an occupied area of 26.33 m² (a western-style room of a size of about 8.6 tatami mats), and pet-friendly with a footbath for pets and a roof-top dog park (multi-purpose space) in the common area.

The apartment is built using eco-friendly materials, such as phosphorescent tiles, water-retaining tiles, and shading artificial turf, in an effort to attain four of the 17 goals of the Sustainable Development Goals (SDGs), which are “07. Affordable and Clean Energy,” “11. Sustainable Cities and Communities,” “12. Responsible Consumption and Production,” and “13. Climate Action.”

③ Business based on the Act on Specified Joint Real Estate Ventures

*Management policy: Development of products that support the business foundation and establishment of networks that support the revenue base

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(Sales situation)

The Company began offering to sell its second product, “the Voluntary Union for Shibuya Kamiyama-cho Project”, in August 2021. With the asset property, stability, and profitability, this real estate can meet a wide range of investors’ needs, including ones from beginners of investment and asset inheritance.

The period of the offering is between August 2, 2021, and December 10, 2021. The amount of the offering is 850 million yen (850 units). The property is to be operated for about 10 years with the estimated gross rate of return being approximately 3.93% and the estimated dividend yield being about 3.14%.

④ Creation of new added value

*Management policy: Development of products that support the business foundation and establishment of networks that support the revenue base

The Company invested in Color & Decor Co., Ltd. (Minato-ku, Tokyo) in July 2021 through third-party allocation of shares. The rate of investment was 6.14%.

(Background of the investment)

Color & Decor Co., Ltd. offers a service of home staging (interior design) that is spatial presentation of properties using the 3D and virtual reality (VR) technologies in order to provide customers with an image of life there.

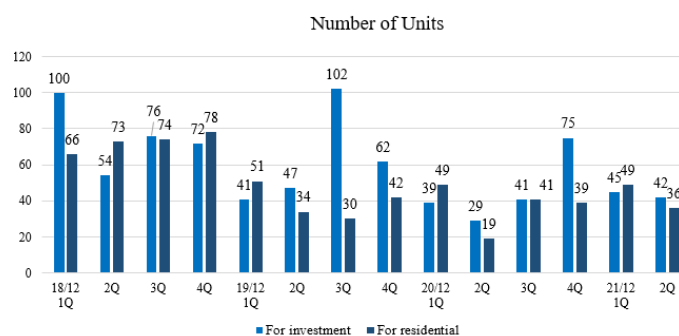
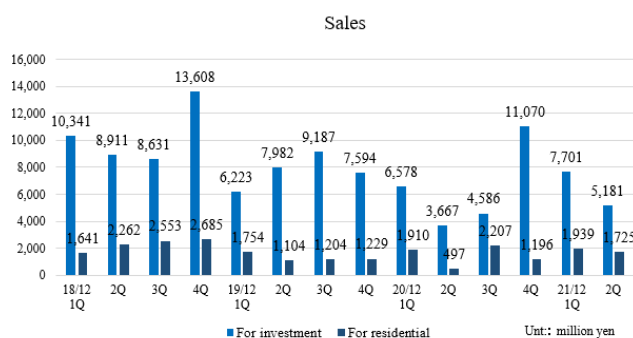
The home staging service that coordinates rooms with furniture so as to raise the value of the properties is common in overseas countries, and the awareness of it is increasing and the popularity is soaring in Japan’s real estate industry on a steady basis.

In addition, the home staging service of Color & Decor, which is offered virtually, has improved the quality of online viewings of rooms for which demand has risen in the wake of the COVID-19 crisis and contributed to bringing deeper customer satisfaction.

Considering it to be a promising service in real estate transactions, MUGEN ESTATE Co., Ltd. decided to make an investment with the aim of creating new added value, innovating its services, and raising its corporate value through cooperation with Color & Decor Co., Ltd.

5. Conclusions

In the second quarter, sales and profit grew considerably year on year on both a cumulative basis and a quarterly basis. With the mainstay Purchase and Resale Business driving the business performance, helping the Company generate sales and profit higher than the forecast, the rate of progress of profit to the full-year forecast is at a high level. Based on the quarterly business performance in the Purchase and Resale Business, however, it cannot be considered at this moment that both the number of sales and the number of units sold have clearly bottomed out and started to show a recovery trend. We would like to pay attention to how each key performance indicator (KPI) will change in the third quarter onward.



<Reference: Regarding Corporate Governance>

◎Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	7 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

◎Corporate Governance Report

Updated on March 25, 2021

<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/en/ir/management/governance/pdf/Corporate-Governance-Guidelines_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]	<p>Remuneration for management consists of fixed remuneration (money) and stock option compensation (stock acquisition rights) granted to executive directors.</p> <p>The Board of Directors has resolved to entrust the president with the decision on a specific amount of fixed remuneration that each of the seven directors will receive within the limits of the total remuneration of the Board that was determined at a general meeting of shareholders after explanations to that effect are given to the outside directors and opinions are obtained properly.</p> <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 system of remuneration for the management is not linked to our company’s business plan, and no specific rule is in place regarding the ratio. 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>

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

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 2020 in March 2021. 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 department 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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