



**JINUSHI  
REIT**



**JINUSHI  
Business**

# Results of Operations

for the Fiscal Year Ended March 31, 2017

June 6, 2017

Securities code: 3252 (TSE/NSE, First Sections)

 **Nippon Commercial Development Co., Ltd.**

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2. JINUSHI REIT
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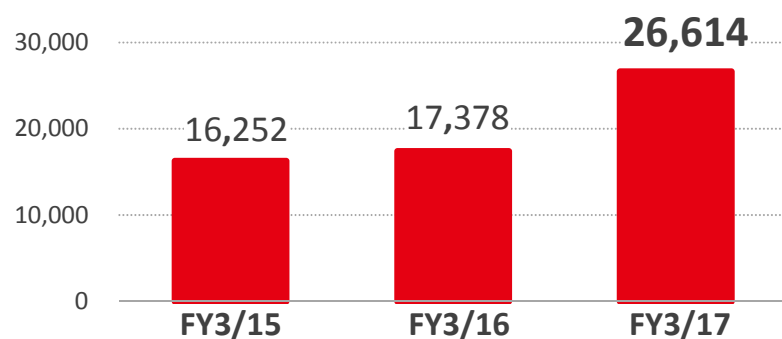
FY3/17

Financial Highlights

## Highlights

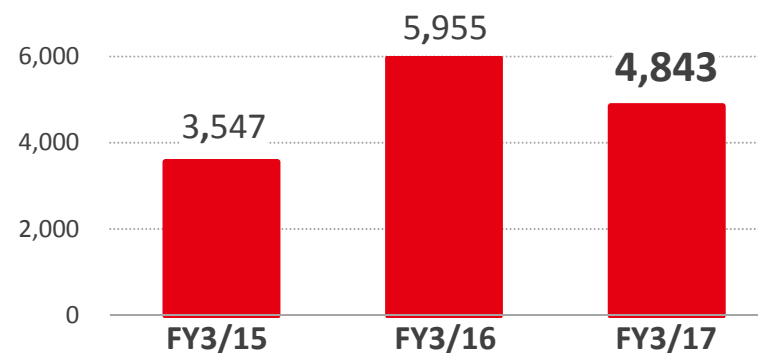
- Sales up 53.1% to a record high due mainly to sales of properties to JINUSHI REIT
- Operating profit down 18.7% and ordinary profit down 7.9% because of the large number of sales of high-margin properties in FY3/16
- Record-high profit attributable to owners of parent, up 78.5%, in part because of gain on bargain purchase from the acquisition of New Real Property

### Net sales

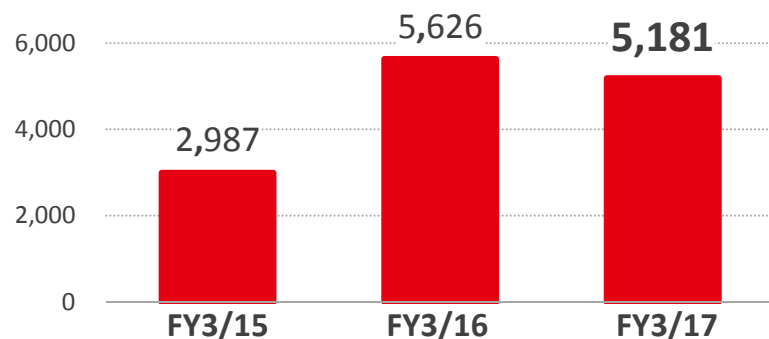


### Operating profit

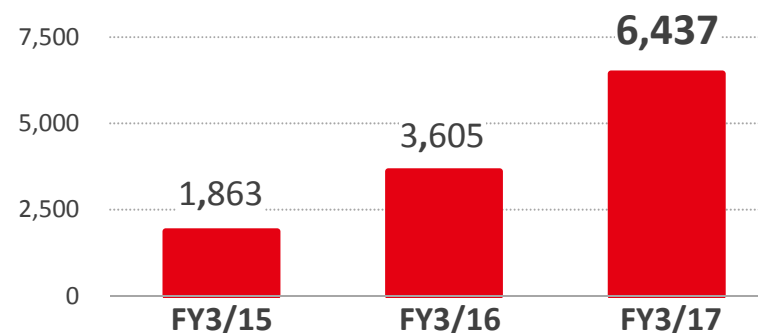
(Millions of yen)



### Ordinary profit



### Profit attributable to owners of parent

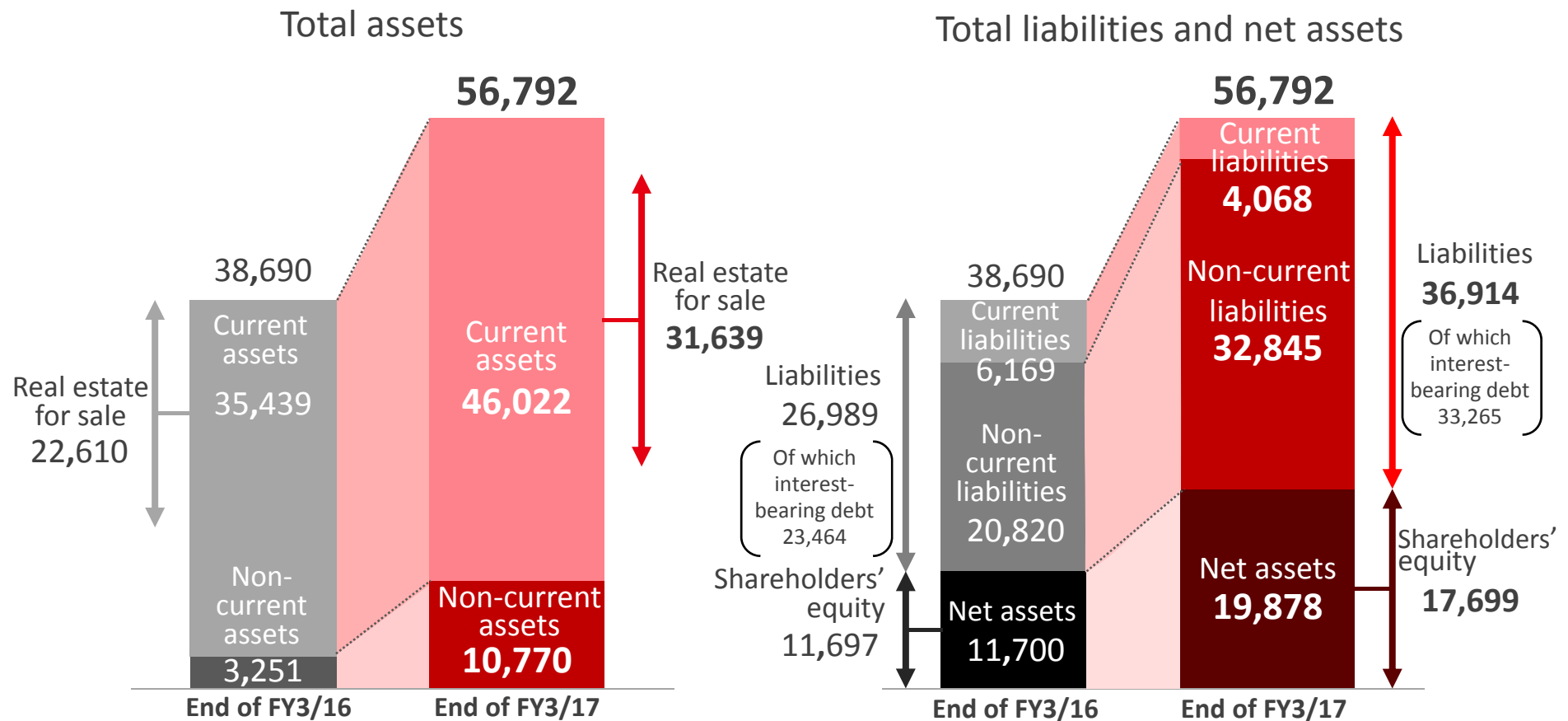


# Assets, Liabilities and Net Assets

## Highlights

- Real estate for sale increased ¥9,029 million to ¥31,639 million from ¥22,610 million the previous year
- Interest-bearing debt increased ¥9,800 million to ¥33,265 million from ¥23,464 million the previous year

(Millions of yen)

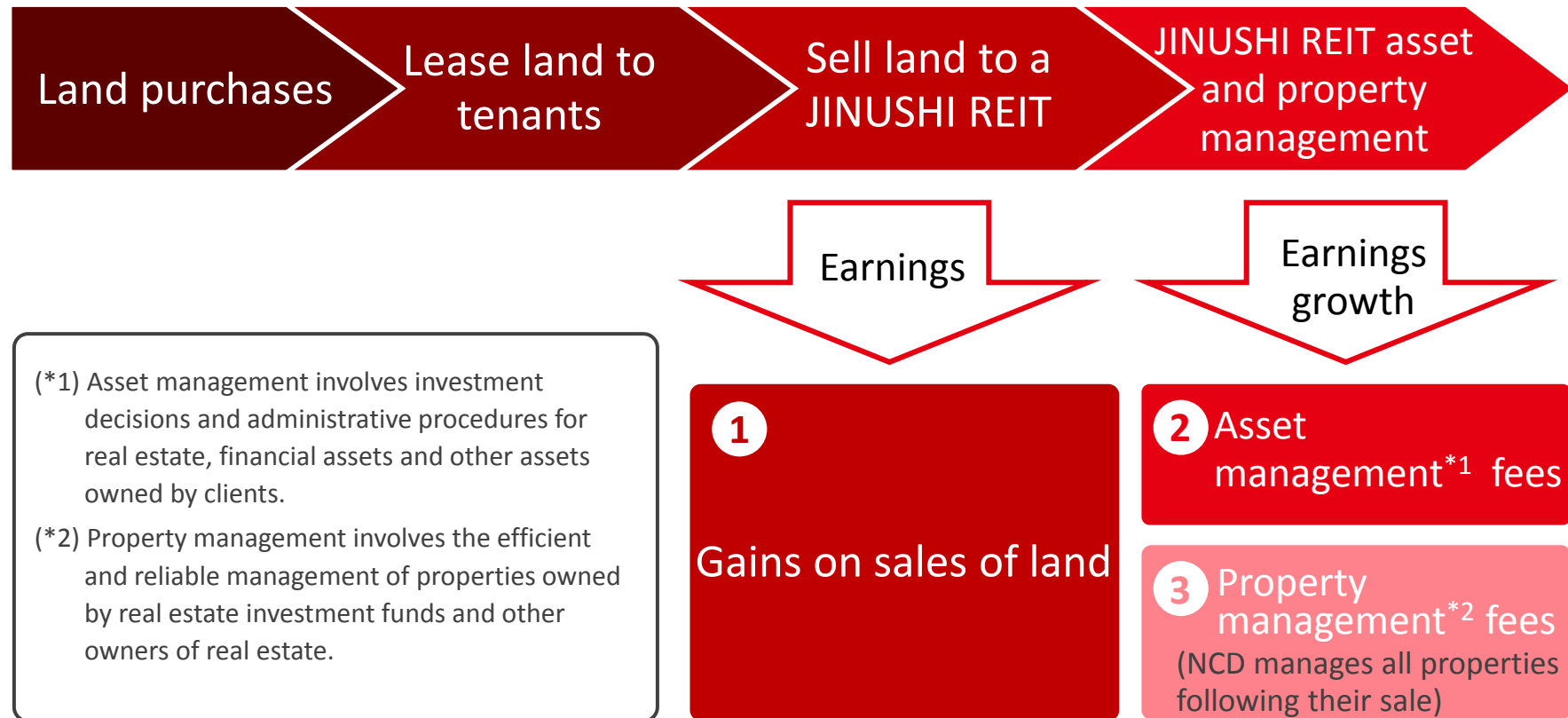


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JINUSHI REIT

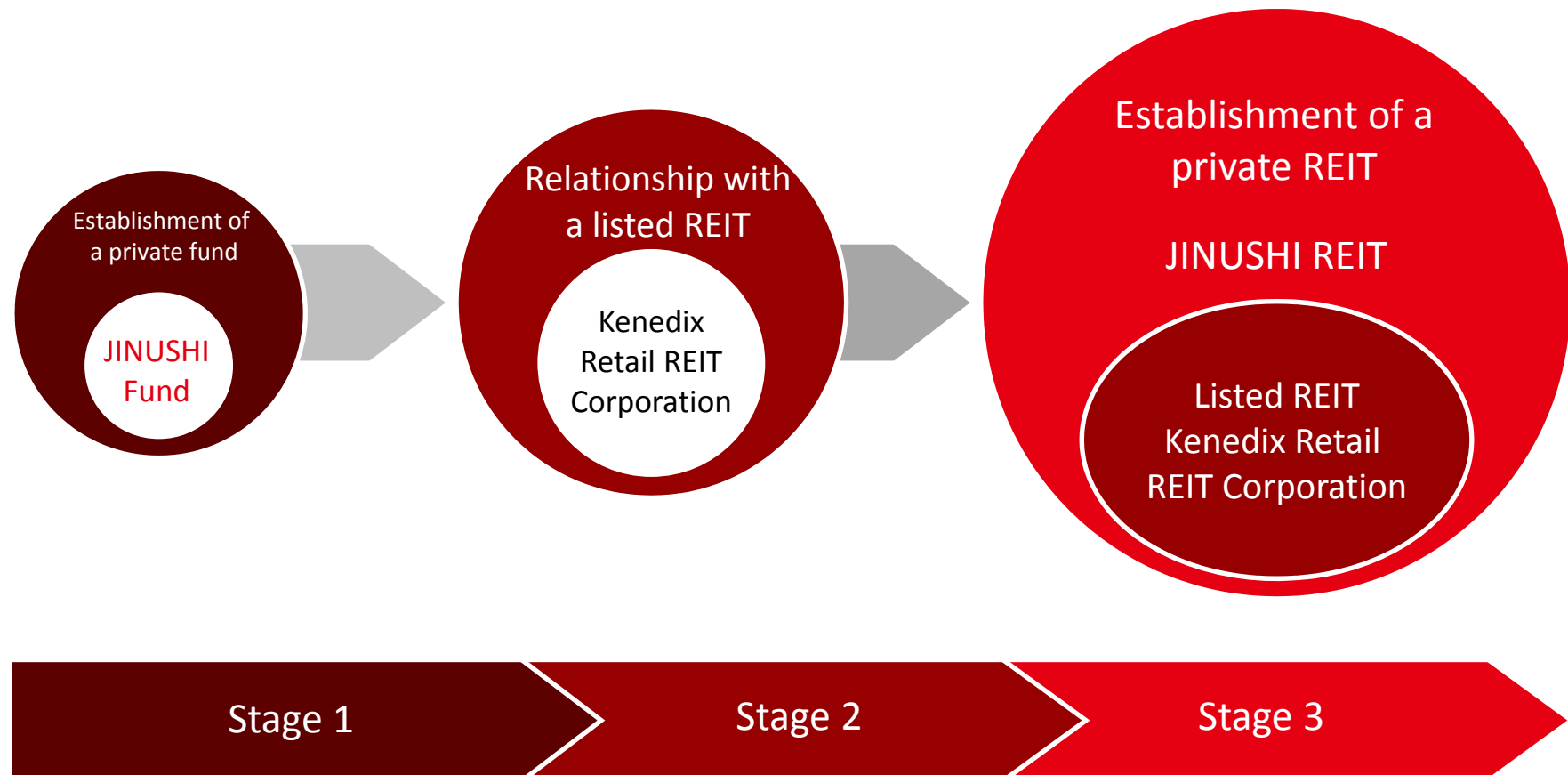
# Profit Structure after Start of JINUSHI REIT Management

With the establishment of JINUSHI REIT, Nippon Commercial Development (NCD) Group now has a complete infrastructure for the JINUSHI Business



# Growth Stages of the JINUSHI Business

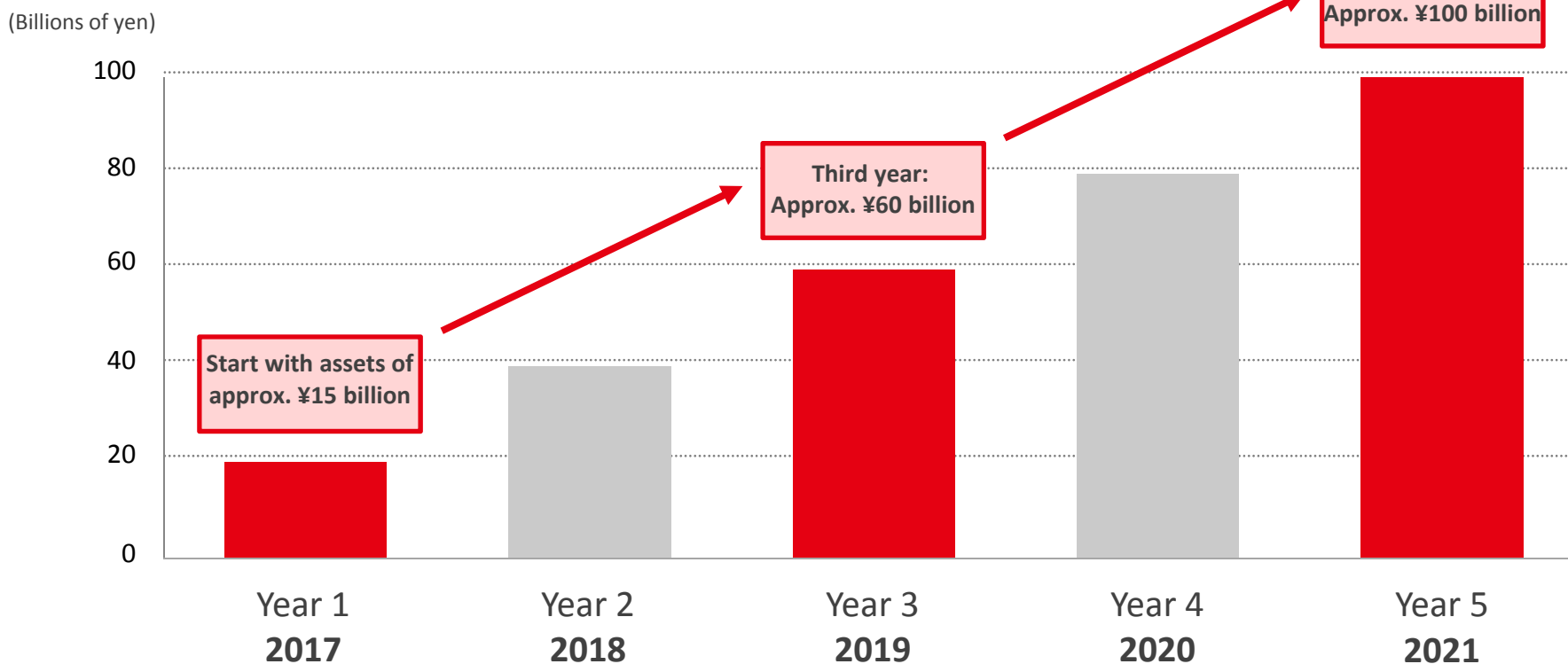
By using JINUSHI REIT as an exit strategy, the plan is for the JINUSHI Business to continue advancing to more growth stages





# Projection for the Growth of JINUSHI REIT

Assets of approx. ¥15 billion in the first year  
Plan to increase equity by approx. ¥25 billion in Jan.  
2018, the second year  
Goal is assets of approx. ¥100 billion in the fifth year

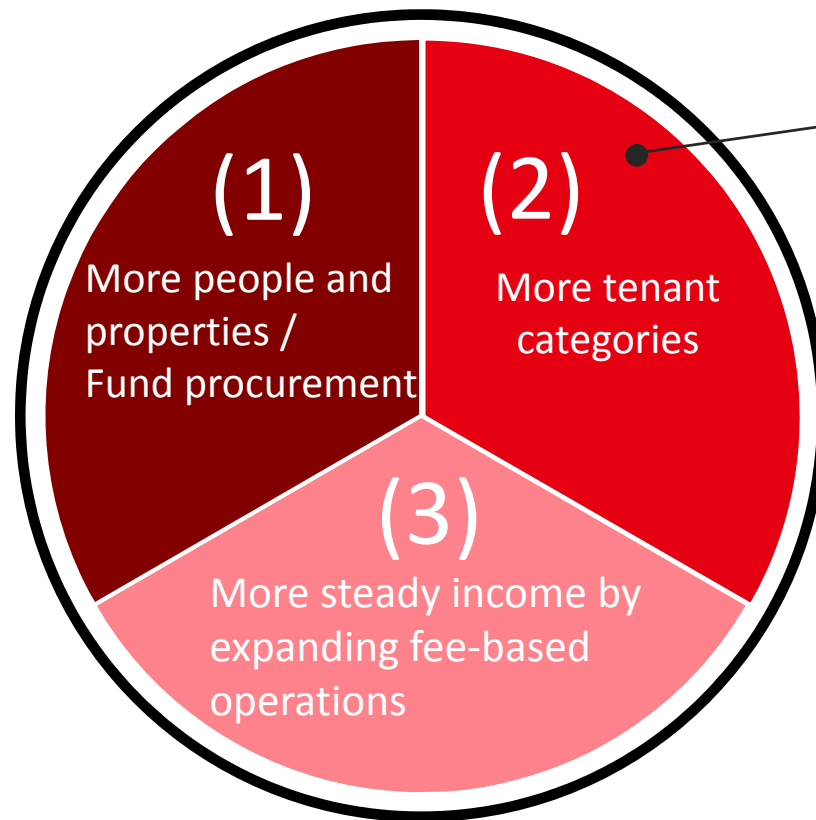


Note: This pattern for asset growth is a current outlook based on certain assumptions and a specific length of time. This is not a guarantee concerning asset growth. Actual asset growth may differ from this example due to changes in the real estate market and a variety of other reasons.

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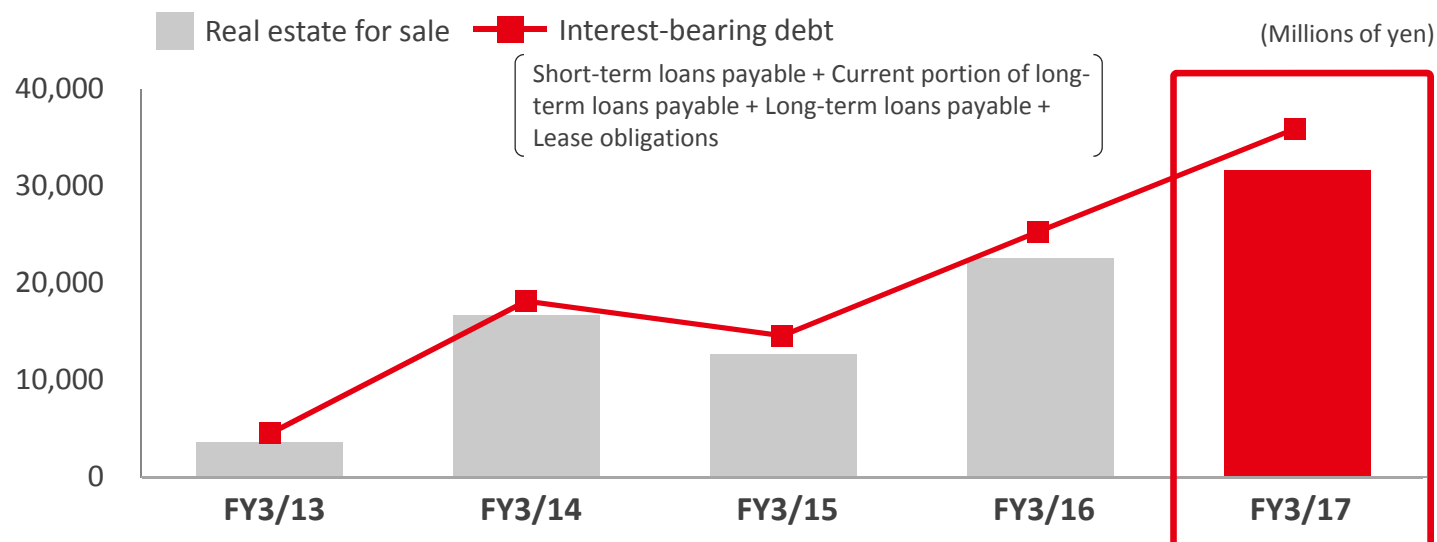
# Outlook

More JINUSHI Business Growth



## (1) More people and properties / Fund procurement

(Millions of yen)	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
Total assets	6,705	20,489	24,104	38,690	56,792
Real estate for sale	3,593	16,682	12,640	22,610	31,639
Total liabilities	5,187	18,256	15,593	26,989	36,914
Interest-bearing debt	4,197	16,834	13,529	23,464	33,265
Net assets	1,518	2,232	8,510	11,700	19,878



## (1) More people and properties / Fund procurement

	FY3/16		FY3/17	
Sales force	22	(*1)	31	(*2)
Properties	35	(*1) (*3)	70	(*2) (*3)
Investments	Approx. ¥50 billion	(*1) (*3)	Approx. ¥100 billion	(*2) (*3)
Banks used	16		21	

(\*1) As of April 2016

(\*2) As of April 2017

(\*3) Includes properties and investments under consideration

- Length of loans: 10 to 30 years
- Eliminate financial covenants, acceleration clause and other restrictions in loan contracts
- Able to increase the credit line to ¥23.1 billion and total fund procurement to approx. ¥80 billion

## (2) More tenant categories

### Expansion to more categories of tenants

#### Current tenants

- Supermarkets
- Home improvement stores
- Wedding facilities
- Service stations, others



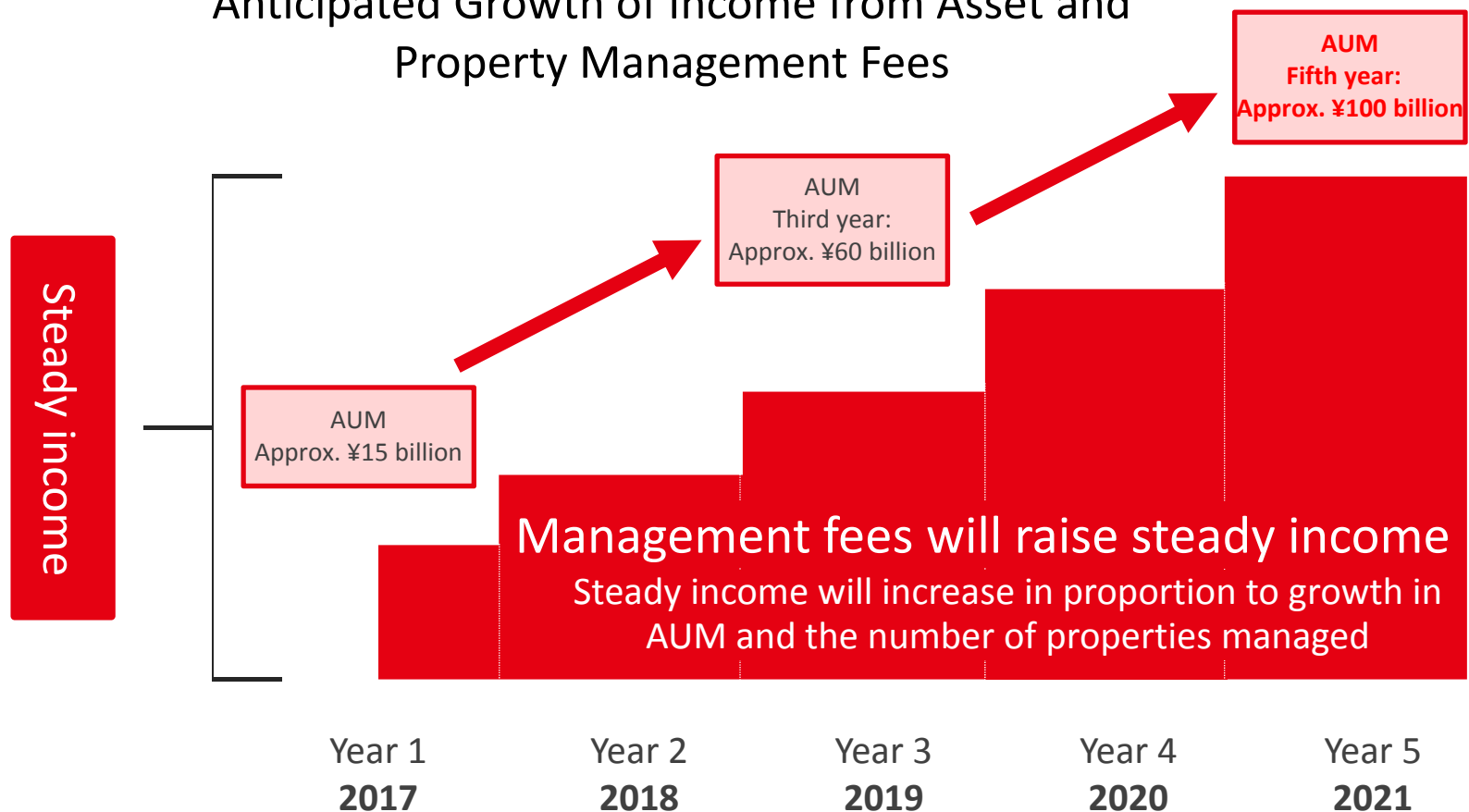
#### New tenant categories

- Schools
- Certified nursery schools
- Funeral facilities
- Hotels
- Automobile maintenance shops, others

## Growth of the JINUSHI Business

## (3) More steady income by expanding fee-based operations

### Anticipated Growth of Income from Asset and Property Management Fees



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## Overseas Growth at New Real Property

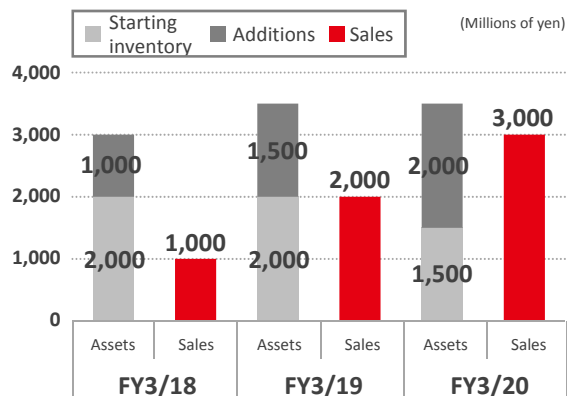


## Use overseas real estate investments to increase earnings

### New York



Projected growth of condominium investments and sales



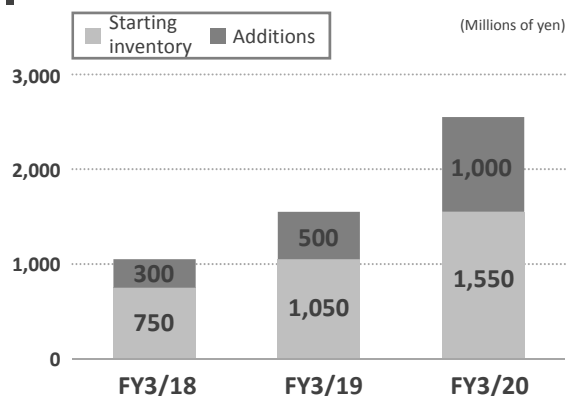
- Currently own 15 condominiums in Manhattan with a total value of approx. ¥2 billion
- Plan to start selling U.S. properties in FY3/18 targeting investors in Japan and U.S.
- Goal for FY3/20 is assets of ¥4.5 billion and sales of ¥3 billion

Investments in Manhattan townhouses (approx. ¥2 to ¥5 billion) for Japanese investors interested in making even larger investments

### Sydney



Projected growth in assets



- Currently own 5 properties with a total value of approx. ¥750 million
- Plan to sell these properties after three to five years while making substantial new investments
- Goal for FY3/20 is assets of approx. ¥2,500 million

Plans include the possibility of acquisitions of properties in the ¥1 billion to ¥5 billion range, primarily in central Sydney

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FY3/18

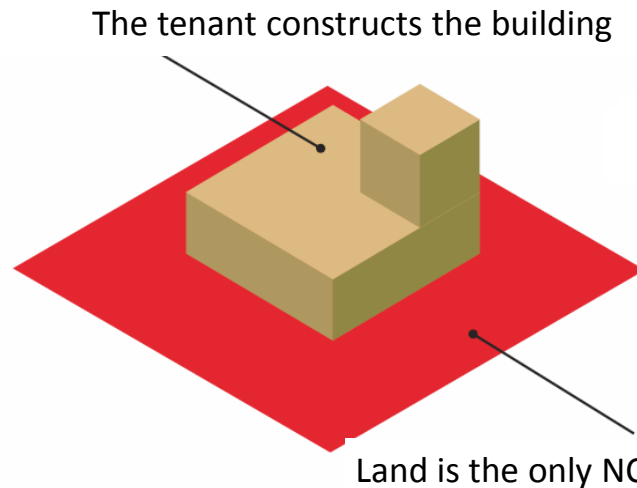
Earnings Forecast

<b>Net sales</b>	Forecast a 16.9% increase to record-high sales mainly because of growth in sales of properties, the result of growth in properties purchased, and sales of properties to JINUSHI REIT
<b>Operating profit</b>	Forecast a 46.3% decrease caused by a downturn in the gross profit margin resulting from higher expenses due to more sales personnel and the increase in land price
<b>Ordinary profit</b>	Forecast a 61.4% decrease, the result of the lower operating profit and the inclusion in FY3/16 of a one-time valuation gain on shares of subsidiaries and associates of held by an overseas subsidiary of NRP, a one-time contribution to non-operating income (equity-method income)
<b>Profit attributable to owners of parent</b>	Forecast a 78.3% decrease because of the lower operating and ordinary profit and the inclusion in FY3/16 of gain on bargain purchase of ¥2.79 billion and other one-time factors
<b>Dividends</b>	Plan to pay a dividend of ¥55 per share, the same as the FY3/17 dividend

(Millions of yen)	FY3/17 Results	FY3/18 forecasts (Announced on May 10)	YoY change	
			Amount	%
Net sales	26,614	31,100	4,486	16.9%
Operating profit	4,843	2,600	(2,243)	(46.3)%
Ordinary profit	5,181	2,000	(3,181)	(61.4)%
Profit attributable to owners of parent	6,437	1,400	(5,037)	(78.3)%
Dividends (yen)	55	55	-	-

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# Appendix



Buy land. Lease land. Sell leased land.

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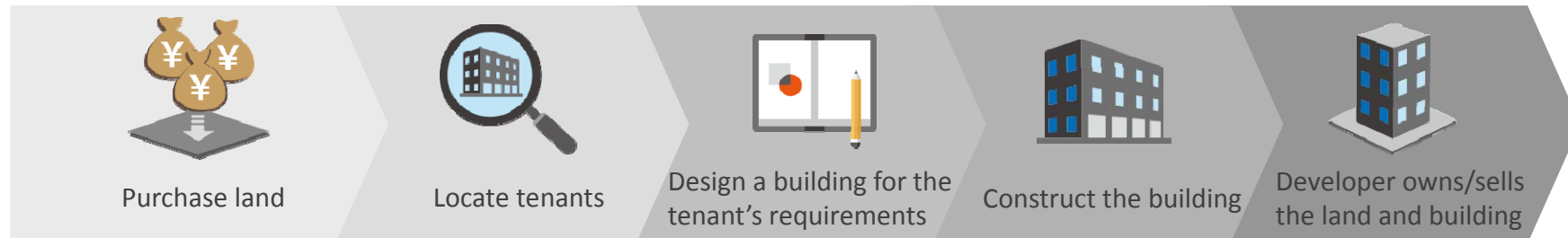
We call this **the JINUSHI Business** because our role is solely as the landowner. We buy and lease land and sell leased land, **but do not construct buildings.** We buy land and then **lease the property to a tenant** using a commercial fixed-term land lease. The tenant may be a grocery store or any other business. **This business model enables us to sell safe real estate investment products with leasing income.**

## JINUSHI Business Flowchart



\* The fixed-term land lease is a system created to protect the rights of landowners. The JINUSHI Business is a real estate investment scheme that is based on this land lease system.

## Conventional commercial real estate development project



## Locations

- All properties are in Japan
- Properties are concentrated in the three major metro areas of Tokyo, Osaka and Nagoya or in or near major local cities with a population of at least 200,000.

## Prime sites

Land is purchased in locations that can easily attract a new tenant if the original tenant withdraws.

## Easy conversion

Land is in locations that can easily be switched to residential buildings.



Strict internal investment standards

## Examples of JINUSHI Business Tenants



Supermarket  
(LIFE CORPORATION)



Supermarket  
(MANDAI Co.,Ltd)



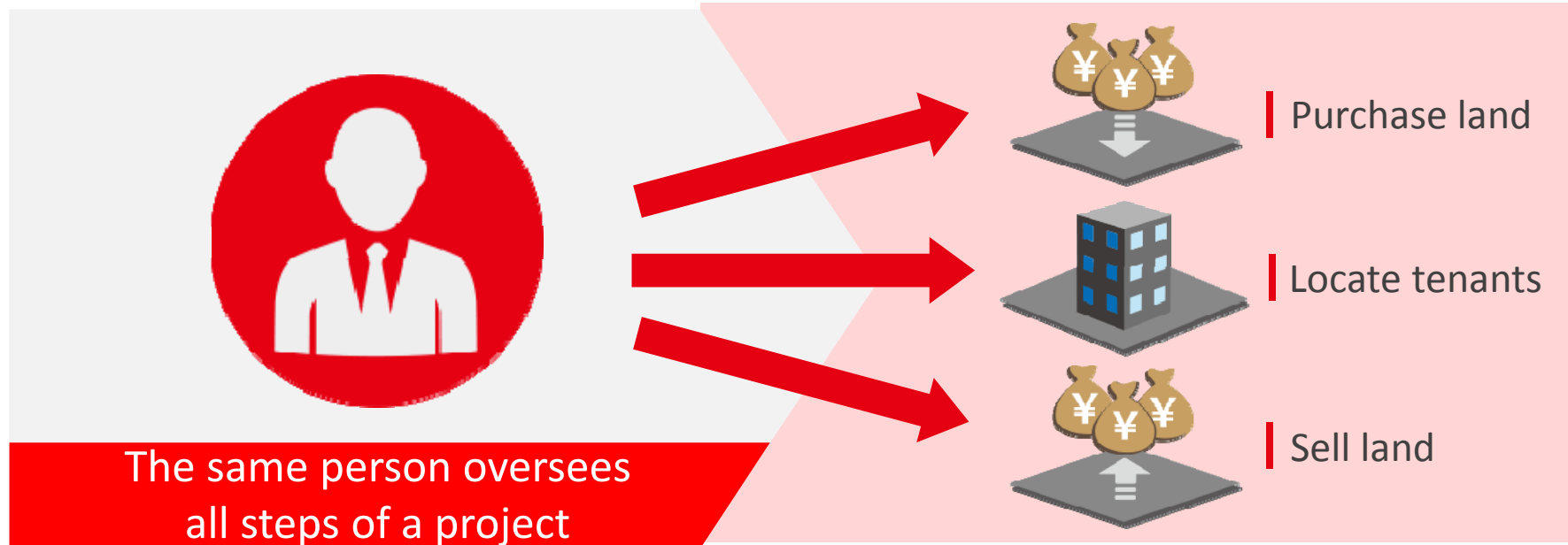
Hotel  
(TAKE AND GIVE NEEDS Co., Ltd.)



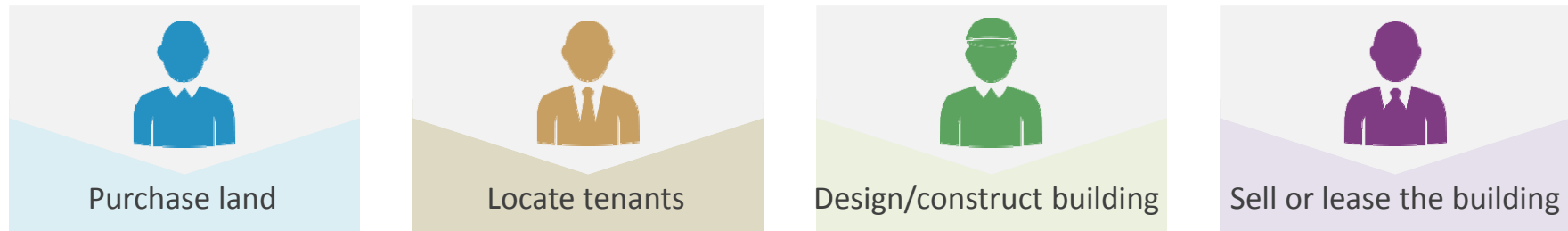
Wedding facility  
(CRYSTAL INTERNATIONAL CORPORATION)

We only purchase land in outstanding locations that can satisfy our strict standards for new investments.

## JINUSHI Business Flowchart



At conventional commercial development projects, a different person is responsible for each step.



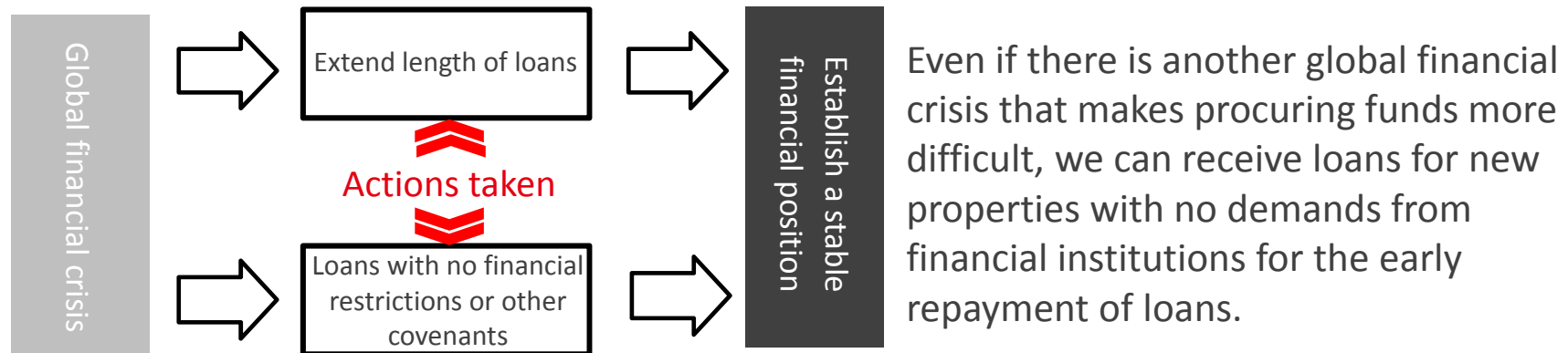


# Financial Strategy

(More loans, switch to more favorable borrowing terms, etc.)

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## Building an even sounder financial position



(1) Establish large credit lines by using commitment lines and other measures backed by a large number of banks.

(2) Eliminate financial covenants, acceleration clause and other restrictions in loan contracts

(3) Extend length of loans (10 to 30 years)

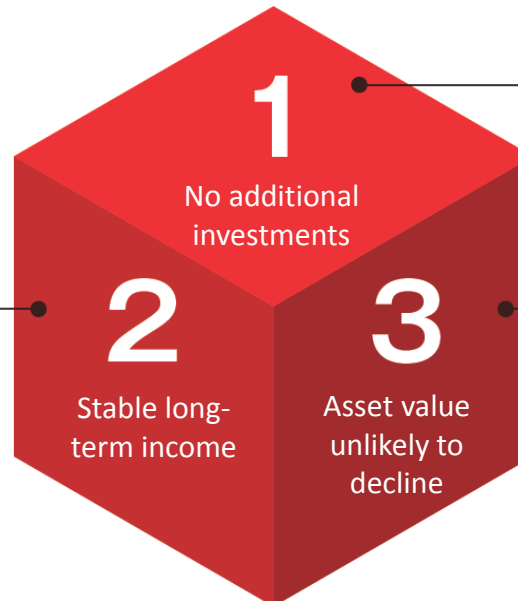
(4) Obtain financing from more financial institutions

# Three Strengths of a JINUSHI Fund for Investors



JINUSHI  
Business

Tenants invest in buildings through fixed-term land lease agreements, so the risk of tenants leaving is small, and land can be expected to generate stable, long-term income.



Tenants construct and own buildings, so there are no additional investments for maintenance, repairs, renovations and other activities.

No building ownership, so no exposure to aging structures and equipment. When the fixed-term land lease ends, the site is returned to its original state, which means the maximum asset value is returned to the owner.

## Real estate needs of institutional investors



Reliable source of long-term income

- Rising expectations for financial products able to generate a return higher than government bonds amid today's low interest rates.

- Reliable long-term income stream due to a commercial fixed-term land lease agreement.
- No additional investments for maintenance, repairs, renovations and other activities.
- The tenant makes the substantial expenditures for constructing a building, so there is very little risk of losing a tenant.
- A JINUSHI Fund invests only in the land, so there are only minimal risks involving fires and other disasters and the building's construction (compliance with laws and regulations).

No big swings in value of the original investment

- Prices of many types of investments fell sharply during the global financial crisis and many institutional investors had to sell at losses and write down holdings. This is why investors like using a JINUSHI Fund to greatly reduce exposure to price volatility risk.

- Investment is only land, which does not age like a building and income is based on lease payments that do not fluctuate. The result is only negligible changes in the appraised value.
- When the fixed-term land lease ends, the site is returned to its original state, which means high liquidity is ensured. (There may be a capital gain, too.)
- Using a private REIT shields investments from capital market movements and allows valuing funds based on the value of real estate holdings.

# Prevention of Conflicts of Interest between NCD and JINUSHI REIT

A highly transparent decision-making process for JINUSHI Asset Management Co., Ltd.



NRP consists of three businesses: Real estate business, Overseas PFI business, and Entertainment business.

## Real estate business

### Japan

- Sale of housing sites, etc.
- Operation of leased properties, other activities

### Overseas

- Operation of leased properties

### Affiliated companies



## Overseas PFI business

- Ownership and operation of Sydney Harbour Tunnel
  - Operation of Hong Kong Eastern Harbour Crossing
- \* In a private finance initiative, a private-sector company's funds and management and technical expertise are used to construct, own, maintain and operate a public-service infrastructure facility.

### Affiliated companies



## Entertainment business

- Operation of the Yamashiro Golf Club in Ishikawa prefecture

### Affiliated company



### Legend



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