JINUSHI Business

Results of Operations for the Fiscal Year Ended March 31, 2020

(Supplementary Materials for Financial Results)

May 14, 2020

日本商業開発株式会社
Nippon Commercial Development Co., Ltd.

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

https://www.ncd-jp.com/

To Everyone Affected by COVID-19

We would like to extend our deepest sympathies to those who have contracted COVID-19 and people around them, and everyone affected by the spread of the infection.

And we would like to express our sincere respect to all healthcare professionals engaged in their work night and day for infection control and medical treatment.

All executives and staff at Nippon Commercial Development Co., Ltd.

Contents

1. FY3/20 Summary of Consolidated Financial Results (1)

Explanation of Results of Operations and Financial Position

- The Nippon Commercial Development (NVD) Group reported net sales of a record high ¥74.1 billion, operating profit of ¥5.2 billion, ordinary profit of ¥4.5 billion, and profit attributable to owners of parent of ¥3.1 billion. All performance metrics exceeded the initial forecast.
- Last summer, foreseeing changes in the real estate market, we worked on enhancing the Group's financial strength with sale of real estate for sale worth about ¥22.0 billion at reasonable prices, realizing gains at an earlier stage of development and reducing interest-bearing debt.
- In addition to a decrease in interest-bearing debt by 36.9% year on year to ¥46.5 billion, the Group has achieved a significant improvement in its financial indicators such as the equity ratio, total asset turnover, and return on equity. (as shown on Slide 9.)

(Millions of yen, unless otherwise stated)

	FY3/19 (Previous fiscal year)	FY3/20 (Current fiscal year)	YoY Change
Net sales	39,834	74,187	+34,352
Operating profit	4,446	5,244	+797
Ordinary profit	4,327	4,599	+271
Profit attributable to owners of parent	2,684	3,177	+492
Total assets	99,597	75,054	(24,542)
of which cash and deposits	18,856	21,850	+2,993
of which real estate for sale	69,516	43,493	(26,023)
Total liabilities	77,985	51,184	(26,801)
of which interest-bearing debt	73,762	46,564	(27,198)
Shareholders' equity	21,591	23,870	+2,279
Equity ratio (%)	21.7	31.8	+10.1
Net income per share (Yen)	149.30	174.59	+25.29
Net assets per share (Yen)	1,196.94	1,305.43	+108.49

1. FY3/20 Summary of Consolidated Financial Results (2)

Consolidated Statement of Income

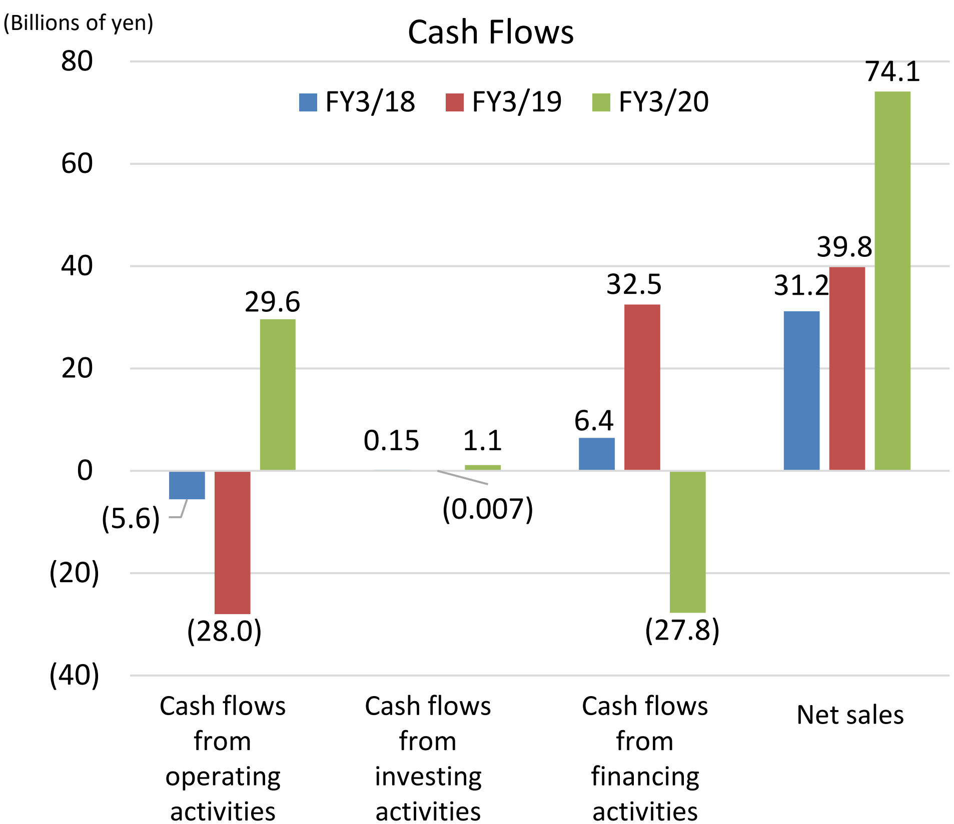
Net sales, gross profit, operating profit, ordinary profit, and profit for the current fiscal year all increased year on year. Among others, operating profit showed an increase of 17.9% over the previous fiscal year.

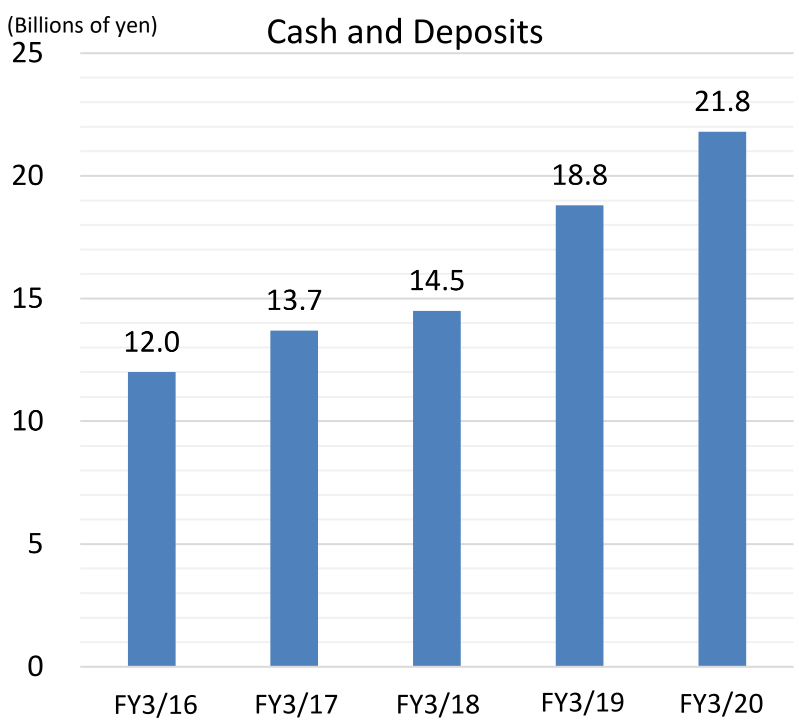
- For the purpose of strategically enhancing the Group's financial strength, we sold real estate for sale by utilizing the comprehensive facility for trading that we have agreed with SMFL MIRAI Partners Co., Ltd. and ML Estate Company, Limited.
- The Group has secured a reasonable margin in early sale of the real estates, not incurring loss on sale.
- The soaring land prices have caused the gross profit to sales ratio of the existing properties to decline because such properties have already been occupied by tenants and turned into investment products, making their profit margin lower than that of our internally developed properties.

(Millions of yen)	FY3/19	FY3/20	YoY Change	YoY Change (%)
Net sales	39,834	74,187	34,352	86.2%
Gross profit	8,172	9,100	928	11.4%
SG&A expenses	3,725	3,855	130	3.5%
Operating profit	4,446	5,244	797	17.9%
Non-operating income	702	403	(299)	(42.6)%
Non-operating expenses	822	1,048	226	27.6%
Ordinary profit	4,327	4,599	271	6.3%
Extraordinary income	333	130	(202)	(61.0)%
Extraordinary losses	829	101	(727)	(87.7)%
Income taxes	1,146	1,450	304	26.5%
Profit	2,684	3,177	492	18.3%

1. FY3/20 Summary of Consolidated Financial Results (3)
Operating cash flow turned positive with ¥21.8 billion cash and deposits

- Cash and deposits held by the Group at the end of the fiscal year ended March 31, 2020 was ¥21.8 billion.
- In order to allowing ourselves to actively and readily purchase land, we are managing our business with a focus on liquidity on hand. The balance of cash and deposits at the end of the current fiscal year was approximately ¥10.0 billion more than that at March 31, 2016.
- We worked on enhancing the Group's financial strength. As a result, the cash flow from operating activities turned from negative to positive at ¥29,681 million for the fiscal year ended March 31, 2020 (compared with cash outflow of ¥28,020 million for the previous fiscal year), enhancing our financial soundness.





2. FY3/20 Financial Strategy (1): Conclusion of the Basic Agreement

NCD and JINUSHI Asset Management Co., Ltd. ("JINUSHI AM"), a wholly owned subsidiary of NCD, concluded basic agreements with SMFL MIRAI Partners Co., Ltd. ("SMFL MIRAI"), a wholly owned subsidiary of Sumitomo Mitsui Finance and Leasing Co., Ltd., and ML Estate Company, Limited ("MLE"), a wholly owned subsidiary of Mizuho Leasing Company, Limited, respectively, to set a comprehensive facility for trading of real estate for sale.

Executed early sale of approx. ¥22.0 billion in the current fiscal year by utilizing the facility for trading

(1) Improved financial indicators such as the total asset turnover and equity ratio.
(2) Expanded capability to procure additional funds by reducing interest-bearing debt.
(3) Achieved record high consolidated sales by realizing gains at an earlier stage of development.

Practicing active and consistent purchasing operations

Summary of the basic agreement

Agreement with SMFL MIRAI

(1) Limit set for the facility for trading
¥30.0 billion

(2) Period set for the facility for trading
From the date of conclusion of the basic agreement (November 18, 2019) to January 31, 2025

(3) Notes
When SMFL MIRAI sells the real estate acquired using the facility for trading, a third party designated by JINUSHI AM (assuming, but not limited to, JINUSHI REIT) has a preferential negotiating right for the acquisition.

Agreement with MLE

(1) Limit set for the facility for trading
¥30.0 billion

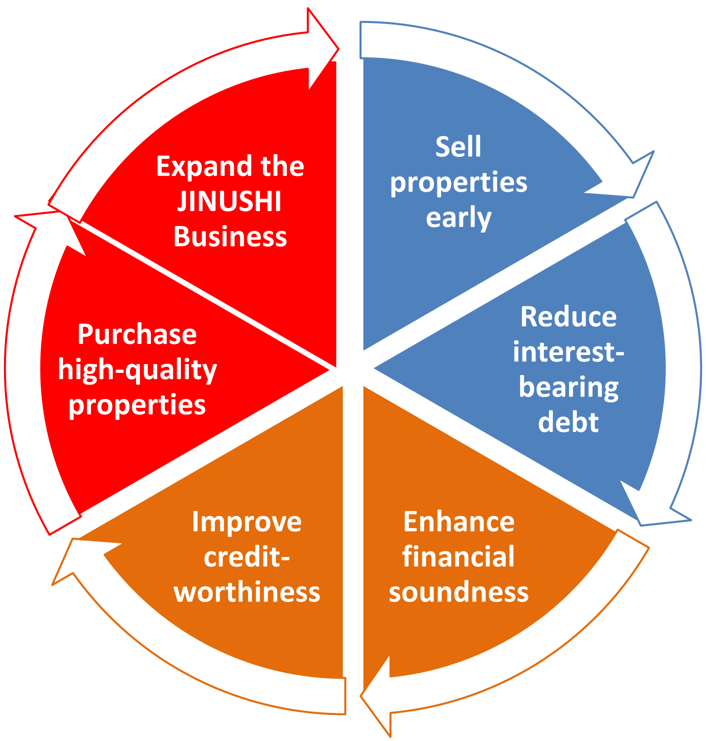
(2) Period set for the facility for trading
From the date of conclusion of the basic agreement (December 10, 2019) to January 31, 2025

(3) Notes
When MLE sells the real estate acquired using the facility for trading, a third party designated by JINUSHI AM (assuming, but not limited to, JINUSHI REIT) has a preferential negotiating right for the acquisition.

2. FY3/20 Financial Strategy (2): Reducing Interest-bearing Debt, Realizing a Virtuous Cycle

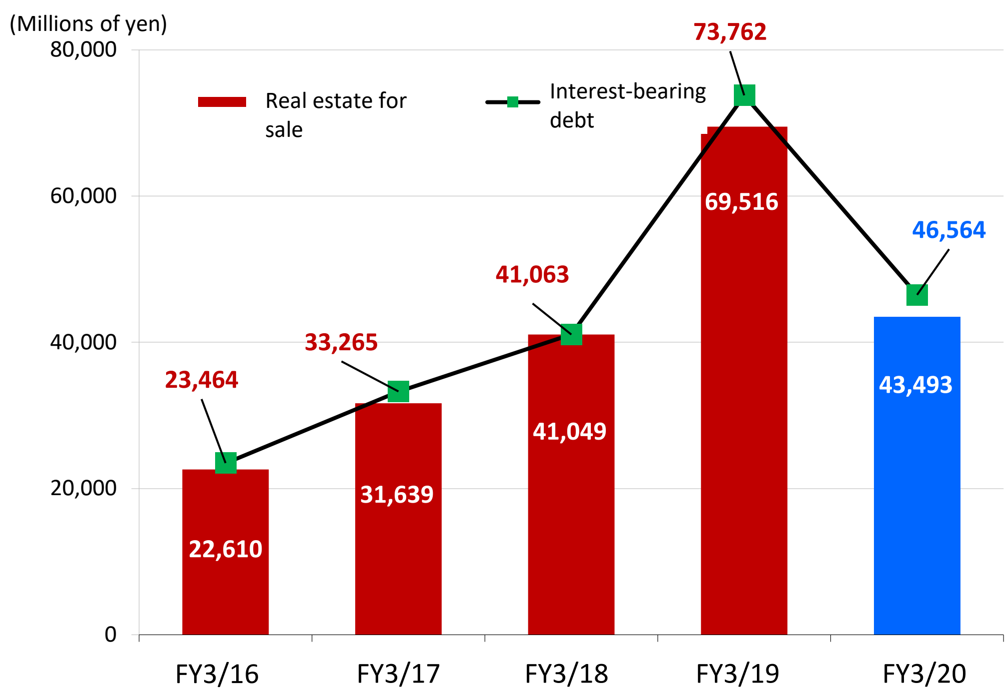
(1) Realizing a virtuous cycle by enhancing financial soundness

- Sold real estate for sale at an earlier stage to reduce interest-bearing debt.
- Worked on enhancing financial strength to improve creditworthiness.
- Purchased high-quality properties in an agile and flexible manner to expand "JINUSHI Business."



(2) Reducing interest-bearing debt by ¥27.1 billion

- As a result of the early sale of approx. ¥22.0 billion worth of real estate for sale, interest-bearing debt was reduced by approx. ¥27.1 billion year on year.
- On the other hand, we have continued to purchase properties that will lead to profit in the future. The balance of the real estate for sale as of March 31, 2020 was ¥43.4 billion (¥60 billion for 59 properties if including those with a preferential negotiating right).

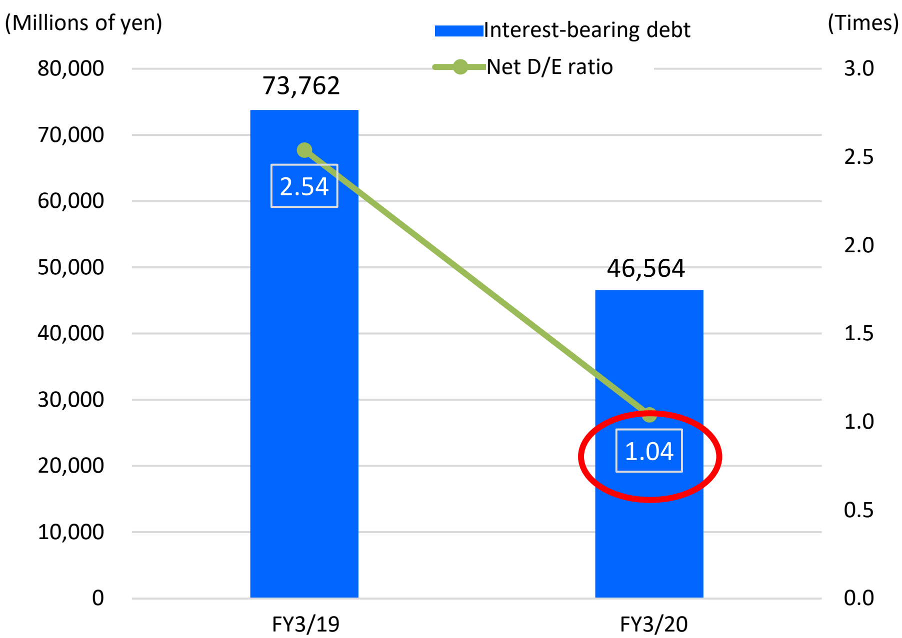


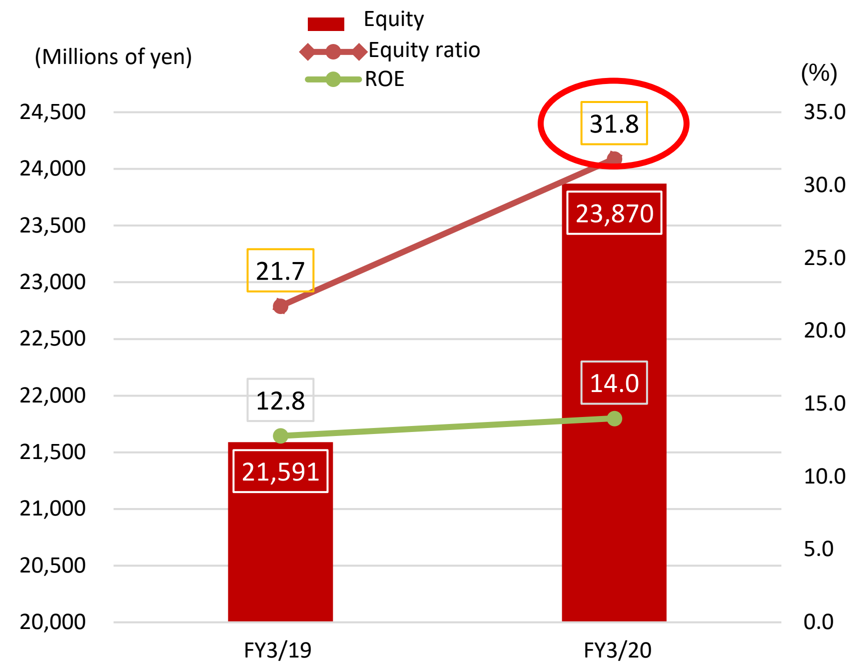
2. FY3/20 Financial Strategy (3): Improving Financial Indicators (Solvency Ratios)

Financial indicators such as the net debt-to-equity (D/E) ratio (*) and equity ratio significantly improved due to the measures to enhance the financial soundness. We are successfully creating a virtuous cycle: Improving creditworthiness -> Purchasing high-quality properties -> Expanding "JINUSHI Business."

	FY3/19	FY3/20	YoY Change
ROA (Return on assets)	3.2%	3.6%	0.4%
(Total asset turnover)	0.48 times	0.85 times	0.37 times
(Net profit margin)	6.7%	4.3%	(2.5)%
ROE (Return on equity)	12.8%	14.0%	1.2%

(*) Net D/E ratio: An index for measuring the financial soundness of a company, which is calculated by dividing net interest-bearing debt by equity, where:
Net interest-bearing debt
= Interest-bearing debt - Cash and deposits





2. FY3/20 Financial Strategy (4): Building a Stronger Financial Position

Global financial crisis

- Measures to enhance financial strength (Reducing interest-bearing debt by early sale of real estate for sale)
- Loans with no financial restrictions or other covenants
- Extend length of loans
- Securing large borrowing limit such as commitment lines through a wide range of bank formations

Establish a stable financial position

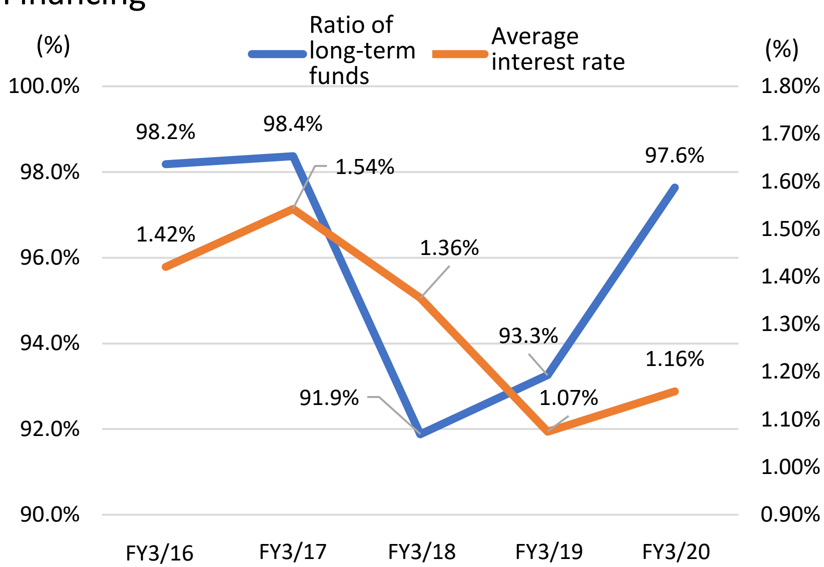
By these measures to enhance financial strength, we have been able to procure new funds continuously and smoothly.

Applying lessons from the financial crisis triggered by the collapse of Lehman Brothers, our loans have no financial covenants.

The loans have long-term repayment periods of 5 to over 30 years with no acceleration clause (apart from scheduled repayments).

With the aim of procuring funds swiftly and stably, we have entered into commitment line agreement of ¥6,700 million with three financial institutions and credit line agreement of ¥22,300 million with four financial institutions.

Financing



Status of Credit Facilities (as of March 31, 2020)

◆ Committed line of credit agreements (Millions of yen)

(a) Total amount	6,700
(b) Amount drawn	461
(c) Amount undrawn (a – b)	6,239

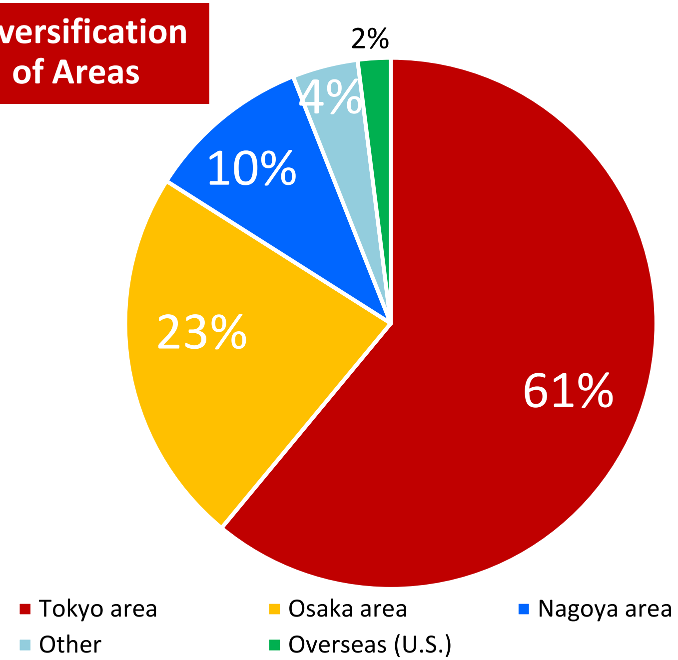
◆ Borrowing facility agreements (Millions of yen)

(a) Total amount	22,300
(b) Amount drawn	638
(c) Amount undrawn (a – b)	21,662

3. Real Estate for Sale as of March 31, 2020—Diversification of Areas and Use

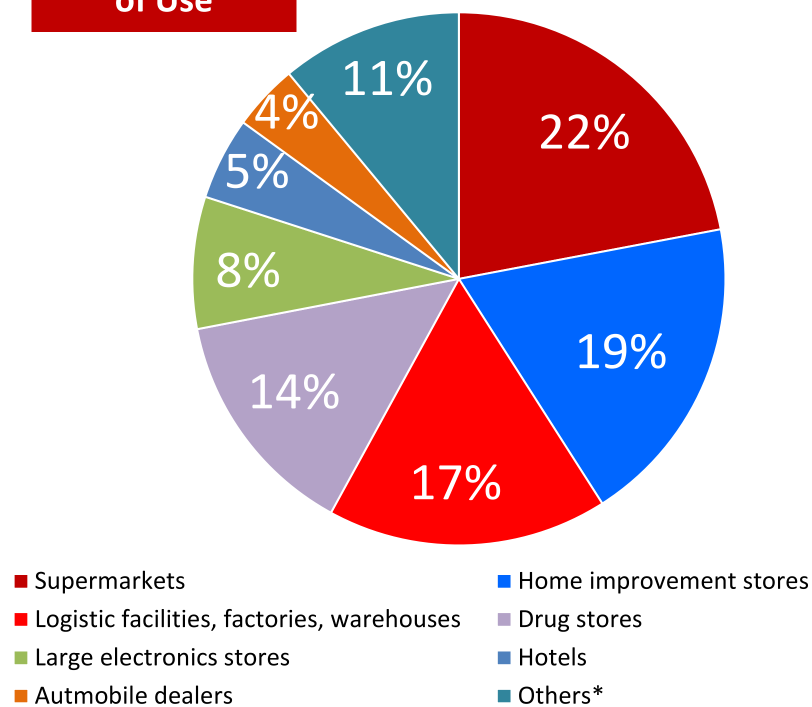
Global economy have been affected by what should be called "the coronavirus crisis." On the other hand, as of March 31, 2020, **80%** of the tenants of our "JINUSHI Business" **belong to the industry sectors (including the logistics sector) that handle daily necessities such as supermarkets, home improvement stores and drug stores**. Such tenants are generally performing well backed by the "cocooning" consumer behavior.

Diversification of Areas



Area	Definition
Tokyo area	Tokyo, Kanagawa, Saitama, Chiba and some areas of Ibaraki (Tsukuba city, Moriya city, etc.)
Osaka area	Osaka, Hyogo, Kyoto, Shiga and Nara
Nagoya area	Aichi, Mie and Gifu
Other	Government-designed municipalities, core regional cities and nearby areas (excluding Tokyo area, Osaka area and Nagoya area)

Diversification of Use



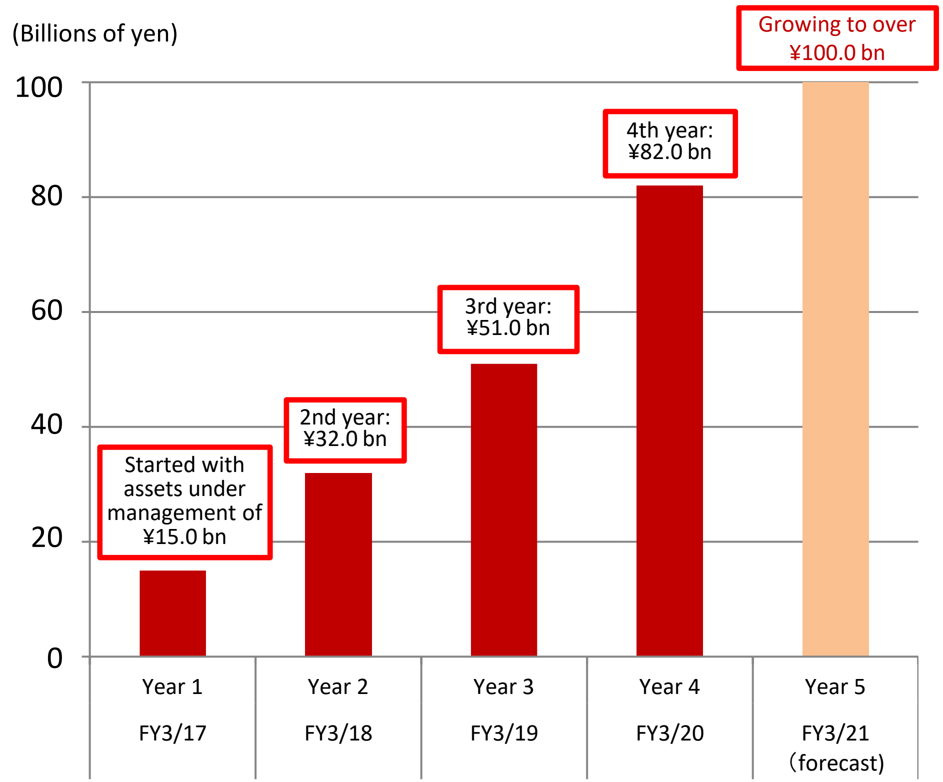
*Others: Restaurants, housing exhibition, memorial service facilities, etc.

Note: Based on monetary value as of March 31, 2020

4. Growth of JINUSHI REIT Assets

NCD has concluded a "sponsor support agreement" with JINUSHI Asset Management Co., Ltd. and JINUSHI REIT, under which NCD acts as a supporting company. In accordance with this agreement, we sold 17 properties classified as real estate for sale to JINUSHI REIT and the delivery of the properties was completed on January 10, 2020.
In its fourth year, thanks to the institutional investors with understanding in the investment policy of "JINUSHI REIT," we obtained more operating funds than the amount that we had to raise. The total assets reached approx. ¥82.0 billion, steadily growing toward a scale of over ¥100.0 billion in FY3/21.

Project name (Note 1)	Location	Site area (Note 2)	Selling price
Kura Zushi Nagoya Moriyama	Nagoya city, Aichi	1,902 ㎡	¥26,075 million
K's Denki Fujisawa	Fujisawa city, Kanagawa	7,497 ㎡	
Columbia Works Kyoto Kawaramachi	Kyoto city, Kyoto	235 ㎡	
Kohnan Kyoto Nishikujyo	Kyoto city, Kyoto	1,932 ㎡	
Kohnan Yokohama Shimonagaya	Yokohama city, Kanagawa	3,626 ㎡	
Sun Feste Kyoto-kita	Kyoto city, Kyoto	1,450 ㎡	
Sekichu Koshigaya	Koshigaya city, Saitama	4,076 ㎡	
Direx Saitama Higashiiwatsuki	Saitama city, Saitama	4,792 ㎡	
Daiwa Royal Hamamatsu	Hamamatsu city, Shizuoka	3,566 ㎡	
Tokai Seims Higashiosaka	Higashiosaka city, Osaka	1,886 ㎡	
Toyota Usec Chiba Mihama	Chiba city, Chiba	16,912 ㎡	
Nextage Hirakata	Hirakata city, Osaka	2,134 ㎡	
Valor Toyohashi Muro	Toyohashi city, Aichi	21,391 ㎡	
Bigmotor Tachikawa	Tachikawa city, Tokyo	1,520 ㎡	
Life Kyoto Nishioji Hanayacho	Kyoto city, Kyoto	2,881 ㎡	
Life Nishinomiya Shukugawa	Nishinomiya city, Hyogo	3,070 ㎡	
Renaissance Sendai	Sendai city, Miyagi	3,316 ㎡	

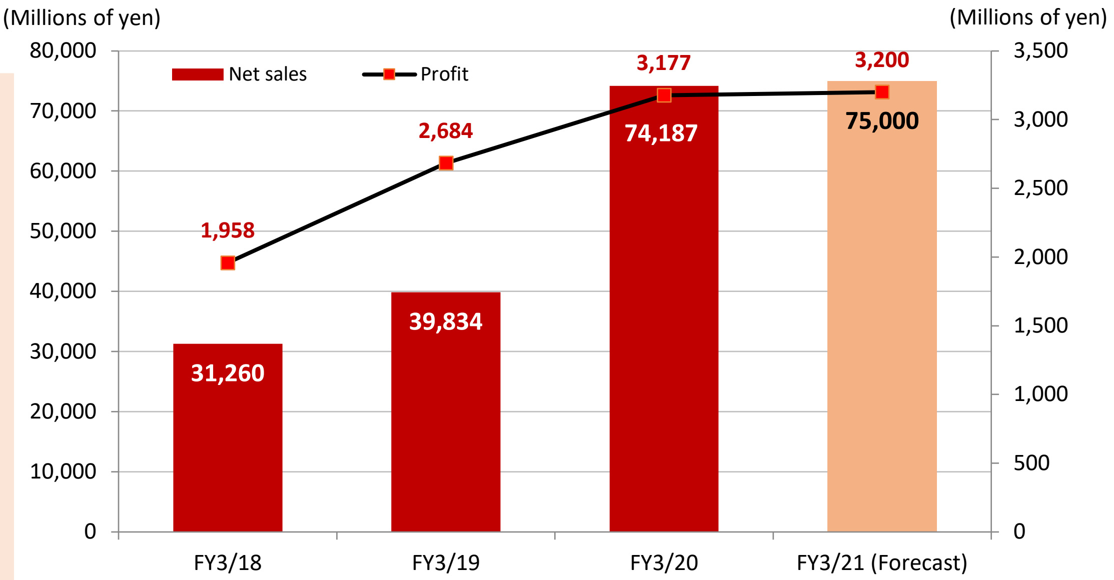


Notes: 1. Project names may differ from the names of stores and facilities constructed at these locations.
2. Fractions of the site area are rounded down.

5. FY3/21 Consolidated Forecast

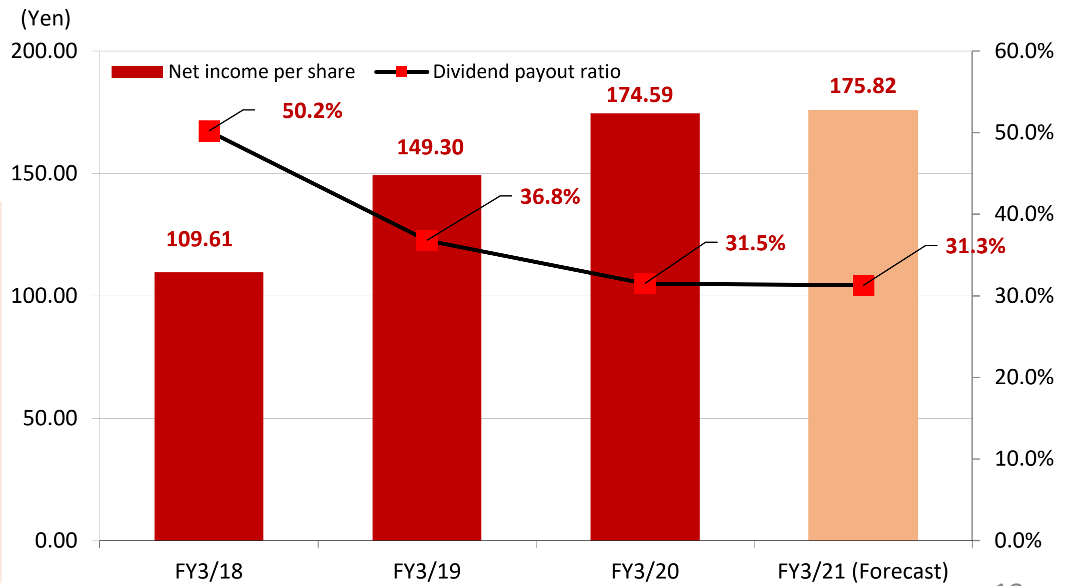
(1) Planning growth in both sales and profits

- While paying close attention to changes in the financial and capital markets affected by the spread of COVID-19 infection, we will proceed with the sale of real estate for sale by making the most of the characteristics of JINUSHI Business, which is a stable method of making investment in real estate.
- We will select and purchase properties that are highly convertible and are occupied by the tenants who handle daily necessities with high social needs.
- We will strive to increase sales and profits, including the properties that purchase in the current fiscal year and sell in the current fiscal year.



(2) Continue a stable dividend of ¥55 per share

- Our basic policy is to continue paying a stable dividend in order to distribute earnings to shareholders while increasing retained earnings as needed to establish a stronger base that is consistent for a long-term.
- We also place importance on paying a dividend that reflects the earning trend in each fiscal year.



The Impact of the Coronavirus Crisis on NCD (1)

Even though we have experienced the financial crisis triggered by the collapse of Lehman Brothers, the Great East Japan Earthquake, and other events which caused serious impact on the economy since NCD was founded in 2000, our “JINUSHI Business” has maintained relatively stable profit volatility.

This is because "JINUSHI Business" is based on a business model that minimizes risk. Even the impact of the current economic fluctuations, or “the coronavirus crisis,” on the business is limited.

■ Characteristics of investment products specialized in land with leasehold interest through JINUSHI Business

	Positive factor	Negative factor
Asset characteristics	Vacant lot will be returned after a contract expires. Land is an asset recognized for its permanency and is not easily destructed.	
Cash flow	Land rent is downwardly rigid with low downside risk and small range of fluctuation.	It is difficult to expect an upside potential for land rent during the period of economy recovery.
	There is no additional cost, and the only expenses to incur are property tax and city planning tax. The cash flow is very stable.	
	Maintenance is easy because they own no building.	Interesting part of management cannot be expected.
Yield	Since they do not construct/own building, there are no depreciation and dividend yield is high. (Improving NOI yield)	
Liquidity	When the fixed-term commercial land lease expires, the site is returned to its original state. There is a sense of security because it consists only of a land with high conversion.	
	The number of cases of J-REIT acquiring land with leasehold interest has increased about 6 times from 2010.	

The Impact of the Coronavirus Crisis on NCD (2)

Q1.
What is the impact on the real estate market?
A1.
We believe that due to the cooling investment mindset and stricter attitude toward lending, the adjustment phase will continue until the COVID-19 crisis subsides. However, 80% of the real estate for sale held by NCD as of March 31, 2020 belong to the industry sectors that handle daily necessities such as supermarkets, drug stores, and home improvement stores, and so the current performance is favorable thanks to the "cocooning" consumer behavior.
As in the time of the financial crisis triggered by the collapse of Lehman Brothers, we believe that investors will once again recognize the fact that, unlike other asset types, our products are characterized by being stable and having low volatility.

Q2.
What actions will you take when the real estate market deteriorates?
A2.
Currently, the market for land with leasehold interest has already been established in the real estate market in Japan. We believe that we can sell our products that are robust against natural disasters and market volatility and that can generate stable profits over the long term.
In anticipation of changes in the real estate market in the summer of last year, we sold about ¥22 billion worth of real estate for sale at an early stage in addition to the initial plan to enhance our financial strength. Furthermore, we have increased the liquidity on hand with cash and deposits of ¥21.8 billion as of March 31, 2020. As for borrowings, we have long-term borrowings with maturities of 5 to over 30 years without financial covenants. Therefore, even if we cannot sell properties at all, we can survive for at least 5 years.

Q3.
What is the impact on your purchasing approach going forward?
A3.
We will continue to be selective when exploring and purchasing properties while restricting the tenants to those who handle daily necessities, which have high social needs.
As we are in an adjustment phase, we are able to purchase properties at a price cheaper by 0.5% to 1% in terms of the investment yield. We also believe that the number of properties brought in will increase due to some companies seeking sale of their properties to secure gain before the fiscal closing date or to meet their cash flow requirements.

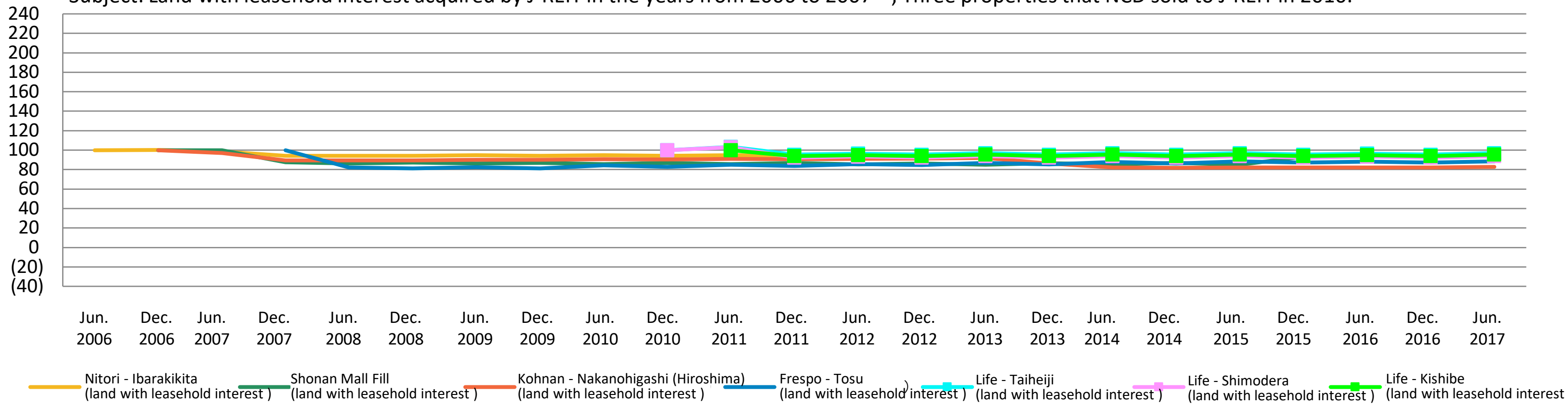
Comparison of NOI Volatility between Land with Leasehold Interest and Office Buildings (Based on Properties Acquired by J-REIT)

We extracted the land with leasehold interest and office buildings acquired by J-REIT in the years from 2006 to 2007, which was a period before the financial crisis triggered by the collapse of Lehman Brothers, and studied the trend of volatility in each term based on the NOI at the time of acquisition.

Changes in NOI of the land with leasehold interest are generally flat within the range of around 80 to 100 while those of office buildings fluctuate within the range of about minus 40 to 220, implying that their volatility is substantially higher than that of the land.

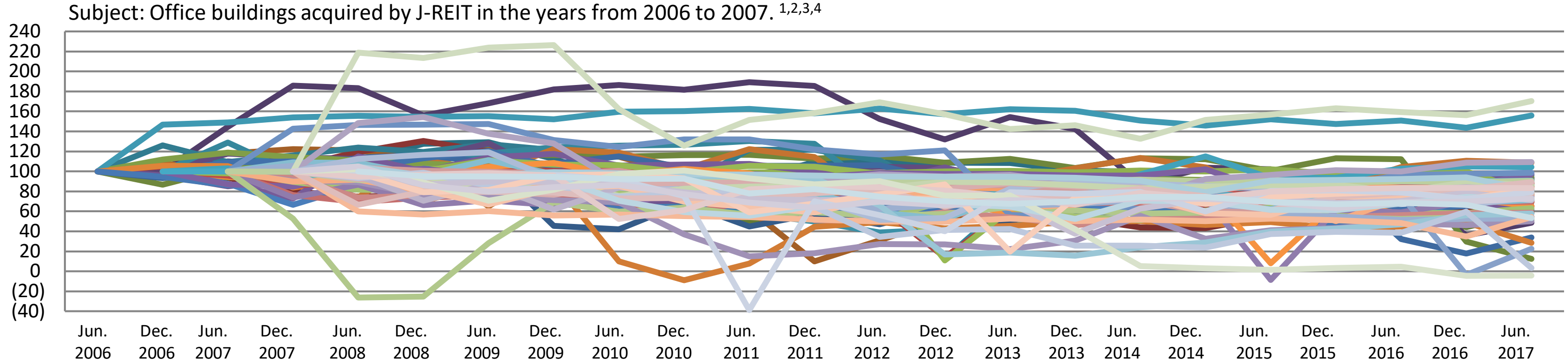
Change in NOI of land with leasehold interest (100 at the time of acquisition)

Subject: Land with leasehold interest acquired by J-REIT in the years from 2006 to 2007[1,2]; Three properties that NCD sold to J-REIT in 2010. [2]



Change in NOI of office buildings (100 at the time of acquisition)

Subject: Office buildings acquired by J-REIT in the years from 2006 to 2007. [1,2,3,4]



Notes:

1. Properties that were additionally acquired for their share or partially or wholly sold after acquired by J-REIT were excluded from the properties subject to this study.
2. The NOI of each property was extracted from J-REIT DB, and the volatility was calculated with the number at the time of data was first published being 100.
3. Due to the large number of items, we do not list the names of individual properties.
4. Regarding the profit of office building on the statement of income, it is necessary to keep in mind that depreciations are deducted from NOI also.
5. Possible factors are occupancy rate, tenant replacement, increase and decrease in rent, repair costs, capital expenditure, and variable costs such as utility costs and PM costs.

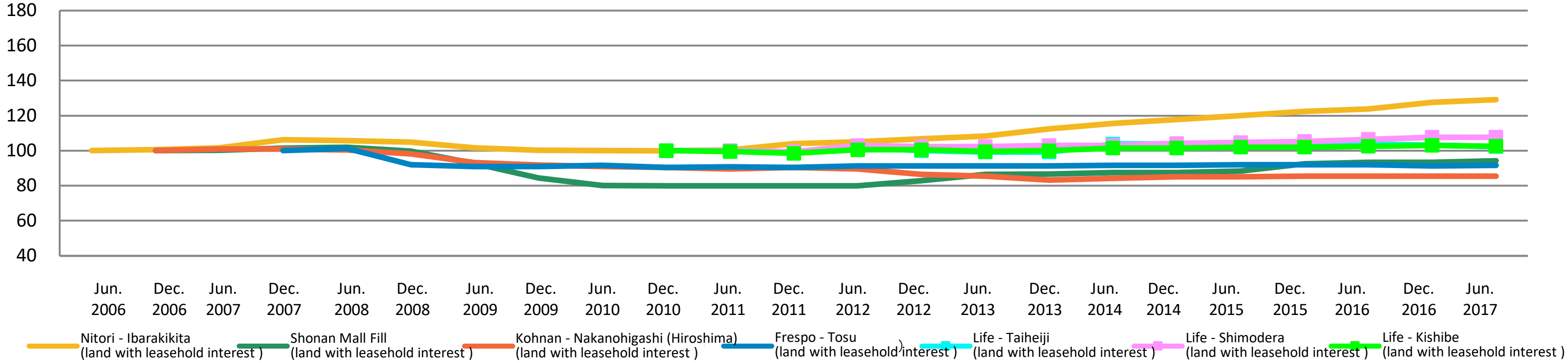
Comparison of Appraised Value Volatility between Land with Leasehold Interest and Office Buildings (Based on Properties Acquired by J-REIT)

We extracted the land with leasehold interest and office buildings acquired by J-REIT in the years from 2006 to 2007, which is a period before the financial crisis triggered by the collapse of Lehman Brothers, and studied the trend of volatility in each term based on the appraised value at the time of acquisition.

Changes in values of the land with leasehold interest are within the range of around 80 to 130 (in particular, there are almost no changes of values in three properties for LIFE developed by us) while changes in values of office buildings fluctuate within the range of about 50 to 160, implying that the amount of the fluctuation is significantly larger than that of the land.

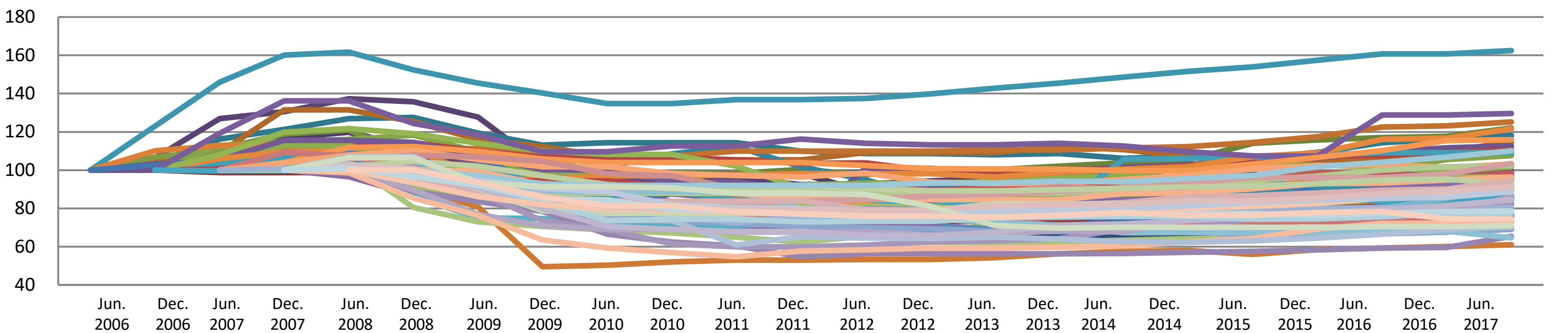
Change in appraised value[4] of land with leasehold interest (100 at the time of acquisition)

Subject: Land with leasehold interest acquired by J-REIT in the years from 2006 to 2007[1,2]; Three properties for LIFE[2] that NCD sold to J-REIT in 2010.



Change in appraised value[4] of office buildings (100 at the time of acquisition)

Subject: Office buildings acquired by J-REIT in the years from 2006 to 2007. [1,2,3]



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1.Properties that were additionally acquired for their share or partially or wholly sold after acquired by J-REIT were excluded from the properties subject to this study.

2.The appraised value of each property was extracted from J-REIT DB, and the volatility was calculated with the number at the time the data was first published being 100.

3.Due to the large number of items, we do not list the names of individual properties.

4.It is necessary to keep in mind that continuous appraisal tends to be affected by the previous valuation.

地主

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Business

日本商業開発株式会社
Nippon Commercial Development Co., Ltd.

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