Invincible Investment Corporation

[For Information Purpose Only.
The Japanese language press release should be referred to as the original.]

May 17, 2019

To All Concerned Parties

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Invincible Investment Corporation
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(Securities code:8963)

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Notice concerning Revision of Forecast of Financial Results for the 32nd Fiscal Period Ending June 2019

As a result of the sale of Spacia Ebisu with the expected gain on sale, Invincible Investment Corporation ("INV") is announcing the updated forecasts of financial results for the fiscal period ending June 2019 (32nd Fiscal Period).

1. Revision of forecasts of financial results for the fiscal period ending June 2019 (from January 1, 2019 to June 30, 2019)

	Operating Revenues	Operating Income	Ordinary Income	Net Income	Total Distribution Amount
Previous forecast (A) (announced on February 21, 2019)	JPY million 14,923	JPY million 9,804	JPY million 8,890	JPY million 8,889	JPY million 8,964
Revised forecast (B)	JPY million 21,514	JPY million 16,233	JPY million 15,318	JPY million 15,318	JPY million 8,964
Amount of variance (B) – (A)	JPY million 6,591	JPY million 6,428	JPY million 6,428	JPY million 6,428	JPY million -
Rate of variance ((B) – (A)) / (A)	% 44.2	% 65.6	% 72.3	% 72.3	% -

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	Earnings per Unit (Note 1)	Distribution per Unit (Excluding Excess Profit Distribution per Unit) (Note 1)	Excess Profit Distribution per Unit (Note 1)	Distribution per Unit (Including Excess Profit Distribution per Unit) (Note 1)
Previous forecast (A) (announced on February 21, 2019)	JPY 1,568	JPY 1,568	JPY 14	JPY 1,582
Revised forecast (B)	JPY 2,703	JPY 1,582	JPY -	JPY 1,582
Amount of variance (B) – (A)	JPY 1,135	JPY 14	JPY (14)	JPY -
Rate of variance ((B) – (A)) / (A)	% 72.4	% 0.9	% (100.0)	% -

(Note 1) The number of investment units issued and outstanding at the end of the fiscal period: 5,666,840 units.

(Reference)

Assumptions underlying the forecast of financial results and distributions for the fiscal period ending June 2019 are provided in Appendix 1.

2. Reasons for the revision and disclosure of forecast of financial results

INV is revising its forecasts of the financial results for the fiscal period ending June 2019, as the operating revenue and net income for the fiscal period ending June 2019 are expected to increase by 10% and 30% or more, respectively, from the previous forecasts announced in "Financial Summary for the December 2018 Fiscal Period (from July 1, 2018 to December 31, 2018)" dated February 21, 2019 due to an expected gain on sale[1] of 5.6 billion JPY as a result of the sale of Spacia Ebisu (the "Property") as announced in the press release "Notice concerning Sale of Domestic Trust Beneficiary Interest" dated today. INV plans to retain substantially all of the sale proceeds in order to acquire future additional assets. The closing of sale of the Property is expected to occur on June 19, 2019. INV plans to pay out dividends as if the Property was held through June 30, 2019.

In addition, INV is incorporating the effect of the investment structure change (the "Structure Change") with regard to the two Cayman hotels as announced in the press release "Notice concerning Change of Investment Structure regarding Overseas Assets" dated May 9, 2019. The effect of the Structure Change is that instead of INV earning net income on a 3-month delayed basis (which was recognized after the closing of fiscal periods of the Cayman SPC), INV earns the income in real time. As this change happened during the fiscal period ending June 2019, from an accounting perspective, INV expects to recognize an extra three months of net income from these properties, or JPY 826 million. INV does not plan to pay out this extra income given that it is a one-time accounting occurrence and instead plans to pay out dividends based on the net income

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that was expected under the structure in place prior to the Structure Change.

Due to the fact that the gain on sale of the Property discussed above will be retained by INV for future asset acquisitions and the fact that the increased net income from the Structure Change discussed above will not be paid out as dividends, INV does not make any changes to the forecast of DPU from the previous forecasts announced in "Financial Summary for the December 2018 Fiscal Period (from July 1, 2018 to December 31, 2018)" dated February 21, 2019.

Finally, mainly due to the fact that the gain from sale of the Property will be retained by INV, the distribution payout ratio will not be large enough to fulfill the tax conduit requirement[2] of paying out at least 90% of net distributable income as dividends. However, INV has tax-loss carry forwards in the amount of JPY 22.6 billion (mainly arising out of disposition of the assets in December 2010 fiscal period) which is more than enough to fully offset the expected taxable income. As a result, INV does not expect to be required to pay any income taxes for the fiscal period ending June 2019.

(Note 1) Expected gain on sale is calculated by deducting the estimated transfer related cost and is an estimate as of today, and is subject to change.

(Note 2) Investment corporations under the J-REIT system can deduct the amount of cash distributions in calculating its taxable income as long as they satisfy certain conditions (conduit requirements), in order to prevent double taxation between J-REIT and unitholders.

Website of INV: http://www.invincible-inv.co.jp/eng/

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(Appendix 1)

<Assumptions Underlying the Forecast of Financial Results and Distribution for the June 2019 Fiscal Period>

Item	Assumptions
Fiscal period	The June 2019 fiscal period: from January 1, 2019 to June 30, 2019 (181 days)
Assets under management	Based on the properties held as of the date of this document (131 properties and a preferred equity interest in one TMK), INV assumes the transfer of Spacia Ebisu on June 19, 2019 and that there will be no other changes through the end of the fiscal period ending June 30, 2019.
Units outstanding	As of the end of the June 2019 fiscal period: 5,666,840 units INV assumes that there will be no change to the 5,666,840 units issued and outstanding as of today through the end of the fiscal period ending June 30, 2019.
Interest-bearing liabilities	Balance as of the end of the fiscal period ending June 30, 2019: JPY 229,873 million (borrowing: JPY 225,873 million, investment corporation bonds: JPY 4,000 million) INV assumes that out of the debt balance of JPY 229,873 million as of today, regarding other loans maturing during the June 2019 fiscal period, INV intends to refinance at a similar condition. INV assumes no other new loan or prepayment of loan through the end of the June 2019 fiscal period.

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Item	Assumptions
Operating revenues	INV expects to record operating revenues as follows: June 2019 Fiscal Period ・Rental revenues: JPY 12,234 million (of these, hotel rents): (JPY 8,497 million) (fixed hotel rents): (JPY 4,168 million) (variable hotel rents): (JPY 4,329 million) ・Management contract revenue: JPY 550 million ・TMK Dividend amount: JPY 892 million ・TK Dividend amount: JPY 2,215 million ・Gain on sale: JPY 5,622 million Total operating revenues: JPY 21,514 million We estimate the amount of dividends on the preferred equity interests (TMK dividend) based on the performance of the underlying asset and the assumed amount of expenses incurred by the TMK. Due to the Structure Change, INV receives revenue from the Cayman Hotels as TK dividend until May 9, 2019 and recognizes management contract revenue from the Cayman Hotels on and after May 10, 2019. The forecasts of TK dividend and management contract revenue are based on estimated performance of the underlying assets and the assumed amount of expenses incurred by the TK operator or the hotel management company. TK dividend and management contract revenue have been calculated based on the exchange rate of 1 USD = 110.00 JPY, as the exchange rate is fixed based on the currency put/call options. Rental revenues are calculated based on estimates as of the date of this document. In addition, INV assumes there will be no delinquencies or non-payment of rent by tenants.

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Item	Assumptions

Operating expenses	INV expects to incur property related expenses and management contract expenses out of operating expenses as follows:
	
	  — June 2019 Fiscal Period
	・Facility management fees — JPY 652 million
	(of these, repair costs) — (JPY 27 million)
	・Taxes and other public charges (Note) — JPY 550 million
	・Insurance expenses — JPY 51 million
	・Depreciation expenses — JPY 3,297 million
	・Other expenses — JPY 205 million
	Total property related expenses and management contract expenses — JPY 4,756 million
	
	(Note) Property taxes and city planning taxes on the assets acquired in 2018 are calculated on a pro-rata basis with the previous owners and settled at the time of acquisition, and are not recorded for the fiscal period ended December 31, 2018 and will be recorded from the fiscal period ending June 30, 2019 as the amount equivalent to such settlement is included in the acquisition cost.
	
	INV expects to incur other operating expenses other than the property related expenses or management contract expenses as follows:
	
	  — June 2019 Fiscal Period
	・Other operating expenses — JPY 525 million
	(of these, asset management fees) — (JPY 300 million)

NOI	INV expects to record net operating income as follows: — June 2019 Fiscal Period ・NOI — JPY 14,433 million (of these, domestic hotel NOI) — (JPY 8,057 million) (of these, overseas hotel NOI) — (JPY 512 million) (of these, residential NOI) — (JPY 2,571 million) (of these, TMK dividend amount) — (JPY 892 million) (of these, TK dividend amount) — (JPY 2,215 million) NOI calculation method in the above table is as follows (up to May 9, 2019) ・NOI＝ Rental Revenues - Property Related Expenses + Depreciation Expenses + Dividend on the preferred equity interest (TMK dividend) + Dividend on TK interest (TK dividend) (on and after May 10, 2019) ・NOI＝ Rental Revenues - Property Related Expenses + Depreciation Expenses + Dividend on the preferred equity interest (TMK dividend) + (Management Contract Revenue - Management Contract Expense)

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Non-operating expenses	INV expects to incur non-operating expenses as follows: June 2019 Fiscal Period ・Interest expense: JPY 600 million ・Finance related costs: JPY 298 million ・Interest for investment corporation bonds: JPY 11 million ・Depreciation of investment corporation bonds issuance expenses: JPY 3 million Total non-operating expenses: JPY 914 million
Distribution per unit	The distribution per unit is calculated in accordance with the cash distribution policy as set forth in INV's Articles of Incorporation. With respect to the distribution for the fiscal period ending June 30, 2019, INV expects to distribute an aggregate amount of JPY 8,964 million (distribution per unit: JPY 1,582), after reserving JPY 6,353 million, a portion of the increase in net income due to the Stricture Change and the sale of Spacia Ebisu, from the net income for the fiscal period ending June 30, 2019 in the amount of JPY 15,318 million). For the fiscal period ending June 30, 2019, INV expects to record deferred gain on hedge of the interest rate swap and the currency option as the valuation and conversion adjustments, etc. of JPY 108 million, which is equal to the amount for the fiscal period ended December 31, 2018. The distribution per unit is calculated based on the assumption that fluctuation of the market value of the interest rate swap does not affect the distribution per unit. Distribution per unit may vary due to various factors, including changes of the assets under management, fluctuation of rent income associated with reasons such as change of tenants and occurrences of unexpected repairs.

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Excess profit distribution per unit	INV believes maintaining the stability of cash distributions over the medium term is one of the most important factors in determining the amount of distribution for a given fiscal period, and therefore, INV has adopted the policy to make distributions in excess of profits in order to stabilize distributions, in cases where dilution of investment units or significant expenses are to be recorded in connection with, among other things, the acquisition of assets or the raising of capital, leading to a temporary decrease in distribution per unit, taking into consideration the level of distribution per unit assuming such acquisition of assets or capital raising had contributed for a full fiscal period. INV may also consider making distributions in excess of profits for the purpose of decreasing the impact from corporate tax increase arising from different rules in tax and accounting practices, such as treatment on depreciation of fixed term land lease or asset retirement obligation. INV will not make distribution in excess of profits for the fiscal period ending June 30, 2019, as INV intends to retain a certain amount of the net income. June 2019 Fiscal Period Excess profit distribution per unit: -
Other	INV assumes there will be no amendments to applicable laws and regulations, the taxation system, accounting standards and other regulations. On April 1, 2019, an amended Act on Special Measures Concerning Taxation was enacted in Japan that amends the requirement that “a J-REIT must not hold 50% or more of the shares or investment in another corporation” by expanding the regulation to include investments in anonymous associations (tokumei kumiai or TK). By implementing the Structure Change, INV expects to comply with the tax conduit requirement in the fiscal period ending December 2019, which commences after the effective date of the amended Act on Special Measures Concerning Taxation and the new regulation is applicable. In addition, INV assumes there will be no unforeseen material changes in general economic trends, real estate market conditions and other trends and conditions.

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