

ITOCHU Advance Logistics Investment Corporation
Summary of Financial Results (Unaudited)
For the Second Fiscal Period Ended July 31, 2019
(For the Reporting Period from February 1, 2019 to July 31, 2019)
(Translated from the Japanese original)

Corporate Information

Code: 3493 Listing: Tokyo Stock Exchange

(URL: <https://www.ial-reit.com/en/>)

Representative: Junichi Shoji, Executive Director

Asset management company: ITOCHU REIT Management Co., Ltd.

Representative: Junichi Shoji, Representative Director, President & CEO

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Scheduled date to file securities report: October 30, 2019

Scheduled date to commence payment of distributions: October 23, 2019

Preparation of supplementary material on financial results: Yes

Financial report presentation meeting: Yes (for institutional investors and analysts)

(Amounts rounded to the nearest million yen)

1. Financial Results for the Fiscal Period Ended July 2019 (from February 1, 2019 to July 31, 2019)

(1) Operating conditions

(Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal period ended July 2019	1,718	32.1	810	9.9	733	40.6	732	40.8
Fiscal period ended January 2019	1,300	—	736	—	521	—	520	—

	Net income per unit	Return on unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
	(Yen)	%	%	%
Fiscal period ended July 2019	2,050	2.0	1.2	42.7
Fiscal period ended January 2019	2,708	1.5	0.9	40.1

(Note 1) Fiscal periods of ITOCHU Advance Logistics Investment Corporation ("IAL") are from February 1 to July 31 and from August 1 to January 31. The fiscal period ended January 2019, however, commenced on May 1, 2018, the date of IAL's establishment, and ended on January 31, 2019. The effective operating period for the fiscal period ended January 2019 was from September 7, 2018, the actual start date of asset management, to January 31, 2019 (147 days).

(Note 2) As for the fiscal period ended January 2019, percentage changes from the previous period have not been stated as it was the first fiscal period.

(Note 3) Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period. For the fiscal period ended January 2019, net income per unit calculated based on the day-weighted average number of investment units (i.e., 357,143 units), assuming that the fiscal period commenced on September 7, 2018, the actual start date of asset management, is 1,456 yen.

(Note 4) Return on unitholders' equity and ratio of ordinary income to total assets for the fiscal period ended January 2019 were calculated using average amount of unitholders' equity and total assets, respectively, as of September 7, 2018, the actual start date of asset management, and as of January 31, 2019.

(2) Distributions

	Distributions per unit (excluding surplus cash distribution (SCD))	Total distributions (excluding SCD)	SCD per unit	Total SCD	Distributions per unit (including SCD)	Payout ratio	Distributions to-net assets ratio
	(Yen)	(Millions of yen)	(Yen)	(Millions of yen)	(Yen)	%	%
Fiscal period ended July 2019	2,050	732	261	93	2,311	100.0	2.0
Fiscal period ended January 2019	1,456	520	273	97	1,729	100.0	1.5

(Note 1) Payout ratio = Distributions per unit (excluding SCD) ÷ Net income per unit × 100

For the fiscal period ended January 2019, the payout ratio was calculated using the following formula, as there was change in the number of investment units during the period due to the issuance of new investment units:

Payout ratio = Total distributions (excluding SCD) ÷ Net income × 100

(Note 2) The ratio of distributions to net assets was calculated using the following formula:

Distributions per unit (excluding SCD) \div [(Net assets per unit at the beginning of the period + Net assets per unit at the end of the period) \div 2] \times 100

(Note 3) The entire amount of SCD for the fiscal period ended January 2019 and the fiscal period ended July 2019 is considered to be a refund of investment, which, for tax purposes, falls under a category of distribution as a reduction in unitholders' capital.

(Note 4) The ratio of (i) reduced retained earnings to (ii) net asset value as of the end of the immediately preceding fiscal period, as a result of SCD (a refund of investment which, for tax purposes, falls under the category of distribution as a reduction in the unitholders' capital), is 0.003 each for the fiscal period ended January 2019 and for the fiscal period ended July 2019. The ratio was calculated in accordance with Article 23, Paragraph 1, Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965, as amended).

(3) Financial position

	Total assets	Net assets	Unitholders' equity ratio	Net assets per unit
	(Millions of yen)	(Millions of yen)	%	(Yen)
Fiscal period ended July 2019	62,220	36,133	58.1	101,174
Fiscal period ended January 2019	59,378	36,018	60.7	100,852

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal period ended July 2019	3,739	(5,071)	1,974	2,389
Fiscal period ended January 2019	(1,481)	(54,207)	57,436	1,747

2. Forecast of Financial Results for the Fiscal Period Ending January 31, 2020 and the Fiscal Period Ending July 31, 2020

(Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income		Distributions per unit (excluding SCD)	SCD per unit	Distributions per unit (including SCD)
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)	(Yen)	(Yen)
Fiscal period ending January 2020	1,764	2.7	822	1.5	744	1.6	743	1.6	2,082	284	2,366
Fiscal period ending July 2020	1,759	(0.3)	794	(3.4)	716	(3.8)	715	(3.8)	2,002	308	2,310

(Reference) Expected net income per unit (Forecast net income \div Expected number of investment units at end of period) is 2,082 yen for the fiscal period ending January 2020 and 2,002 yen for the fiscal period ending July 2020.

3. Other

(1) Changes in accounting policies, changes in accounting estimates, and retrospective statements

- (a) Changes in accounting policies associated with revision of accounting standards, etc.: None
- (b) Changes in accounting policies associated with other than (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements: None

(2) Total number of investment units issued and outstanding

- (a) Total number of investment units issued and outstanding at the end of the fiscal period (including treasury investment units)
- (b) Total number of treasury investment units at the end of the fiscal period

Fiscal period ended July 2019	357,143	Fiscal period ended January 2019	357,143
Fiscal period ended July 2019	0	Fiscal period ended January 2019	0

Audit status

This Summary of Financial Results is not subject to audit by certified public accountant or audit firm.

Other special instructions

(Note on forward-looking statements)

Forward-looking statements presented in this document are based on information currently available to IAL and on certain assumptions deemed by management to be reasonable. As such, actual operating and other results may differ materially from these forecasts as a consequence of various factors. The above forecast does not guarantee the amount of the distribution.

Assumptions Underlying the Forecast for the Fiscal Periods Ending January 2020 and July 2020

Item	Assumption																																	
Calculation period	<ul style="list-style-type: none">• The third fiscal period ending January 2020 (August 1, 2019 to January 31, 2020) (184 days)• The fourth fiscal period ending July 2020 (February 1, 2020 to July 31, 2020) (182 days)																																	
Investment assets	<ul style="list-style-type: none">• It is assumed that, as for the real estate trust beneficiary interests held by IAL as of July 31, 2019 (total of eight (8) properties) (“Currently Owned Assets”), there will be no changes (such as acquisition of new properties or disposition of existing properties) until the end of the fiscal period ending July2020.• Despite the assumption above, however, there may be changes to the assets under management due to acquisition of new properties or disposition of existing properties.																																	
Operating revenues	<ul style="list-style-type: none">• Forecasted leasing business revenues were calculated taking into consideration the content of lease agreements for the Currently Owned Assets effective as of July 31, 2019, as well as tenant and market trends, among other things.• It is assumed that no rent defaults or unpaid leases on the part of tenants will occur during the period of these forecasts.• These forecasts are based on the assumptions that there will be no profit or loss from the sale of real estate or other assets.																																	
Operating expenses	<div><div><div>• Main items included under operating expenses are as follows:</div><div>(Millions of yen)</div><table><tr><th></th><th>Fiscal period ending January 2020</th><th>Fiscal period ending July 2020</th></tr><tr><td>Expenses related to rent business</td><td></td><td></td></tr><tr><td>Facility management expenses</td><td>25</td><td>23</td></tr><tr><td>Property management contract expenses</td><td>10</td><td>10</td></tr><tr><td>Utility expenses</td><td>31</td><td>30</td></tr><tr><td>Repair expenses</td><td>6</td><td>6</td></tr><tr><td>Taxes and public dues</td><td>148</td><td>161</td></tr><tr><td>Depreciation costs</td><td>463</td><td>463</td></tr><tr><td>General and administrative expenses</td><td></td><td></td></tr><tr><td>Asset management fees</td><td>199</td><td>194</td></tr><tr><td>Sponsor support agreement expenses</td><td>5</td><td>11</td></tr></table></div><div><ul style="list-style-type: none">• With the exception of depreciation costs, the forecast of real estate leasing business expenses, which are to be IAL’s main operating expenses, were calculated taking into consideration variable factors of expenses based on historical data.• Although the amount of fixed property tax and city planning tax in a transaction of real estate, etc., is generally calculated on a pro-rata basis based on the relevant period, and settled at the time of acquisition with the current owner, IAL includes such amount in the cost of acquisition and does not recognize it as expense. Fixed property tax and city planning tax on assets acquired on April 1, 2019 will be recognized as expense from fiscal period ending July 2020. For such acquired assets, total amount of the fixed property tax and city planning tax to be added to the cost, is estimated at ¥20 million.• Forecast repair expenses for buildings were estimated based on medium- to long-term repair plans developed by IRM. Actual repair expenses, however, may substantially differ from the forecasted amount, due to property damage caused by factors that are difficult to predict, among other things. Furthermore, actual repair expenses may also differ due to the fact that they vary significantly from one fiscal year to another, and they are not incurred on a regular basis.• Forecast depreciation costs were calculated using the straight-line method, and include ancillary and other expenses.</div></div>		Fiscal period ending January 2020	Fiscal period ending July 2020	Expenses related to rent business			Facility management expenses	25	23	Property management contract expenses	10	10	Utility expenses	31	30	Repair expenses	6	6	Taxes and public dues	148	161	Depreciation costs	463	463	General and administrative expenses			Asset management fees	199	194	Sponsor support agreement expenses	5	11
	Fiscal period ending January 2020	Fiscal period ending July 2020																																
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Depreciation costs	463	463																																
General and administrative expenses																																		
Asset management fees	199	194																																
Sponsor support agreement expenses	5	11																																
Non-operating expenses	<ul style="list-style-type: none">• The forecast of non-operating expenses is ¥78 million in the fiscal period ending January 2020, and ¥78 million in the fiscal period ending July 2020.• It is expected that interest expenses and other borrowing related expenses will be ¥77 million for the fiscal period ending January 2020 and ¥77million for the fiscal period ending July 2020.																																	

Item	Assumption
Interest-bearing debt	<ul style="list-style-type: none"> It is assumed that total interest-bearing debt will amount to ¥23,940 million at the end of the fiscal period ending January 2020, and ¥23,940 million at the end of the fiscal period ending July 2020. For the fiscal period ending January 2020, interest-bearing debt was calculated assuming that, in that fiscal period, IAL will repay maturing borrowings of ¥1,880 million, and borrow ¥1,500 million, which is ¥380 million less than the original borrowings. In addition, as IAL expects to receive a refund of consumption taxes accumulated in the fiscal period ending January 2020, interest-bearing debt for that fiscal period is calculated assuming that IAL will use such refund and other funds to repay another portion of the loan of ¥260 million. The loan-to-value (LTV) ratio is expected to be around 38.1% at the end of the fiscal period ending January 2020, and 37.7% at the end of the fiscal period ending July 2020. The LTV ratio is calculated by the following formula: $\text{LTV} = \text{total interest-bearing debt} \div \text{total assets} \times 100$
Total number of investment units outstanding	<ul style="list-style-type: none"> It is assumed that the total number of investment units issued and outstanding as of the date hereof (i.e., 357,143 units) remains the same until the end of the period ending July 2020. Distributions per unit (excluding SCD) and SCD per unit were calculated based on the expected total number of investment units issued and outstanding at the end of the fiscal period ending January 2020 and at the end of the fiscal period ending July 2020 (i.e., 357,143 units).
Distributions per unit (excluding SCD)	<ul style="list-style-type: none"> The forecast distributions per unit (excluding SCD) was calculated according to IAL's distribution policy described in its Articles of Incorporation, assuming that the entire amount of profits will be distributed. Despite the above, actual distributions per unit (excluding SCD) may differ for a variety of reasons, such as changes in assets under management, fluctuations in leasing business revenues due to tenant movements or other factors, or unforeseen events requiring repairs and maintenance.
SCD per unit	<ul style="list-style-type: none"> SCD per unit was calculated based on the policies stipulated in IAL's Articles of Incorporation and the asset management guidelines contained in the internal rules of IRM. Total SCD are estimated at ¥101 million in the fiscal period ending July 2020, and ¥110 million in the fiscal period ending July 2020. It is assumed that general economic conditions, trends in the real estate market in Japan, and IAL's financial position will not deteriorate substantially during the periods of these forecasts. In principle, IAL plans to pay SCD every fiscal period, and aims to set the total amount of distributions including SCD at an amount equivalent to 70% of funds from operations (FFO). SCD to be distributed in each fiscal period, however, shall be capped at an amount equivalent to 30% of depreciation costs in the applicable fiscal period. In addition to the payment of SCD, additional SCD may be paid to even out the amount of distributions per unit, if the amount of distributions per unit is expected to be temporarily reduced at a significant rate due to funds procurement through issuance of new investment units, or any other factors. IAL may decide against distributing cash in excess of distributable amount, if it deems it inappropriate to make such distributions in light of economic conditions, trends in Japan's real estate and leasing markets, or the status of its property portfolio and financial position. If appraised LTV (Note) is expected to exceed 60% after cash distribution, IAL does not distribute SCD in order to ensure stable finances. (Note) Appraised LTV = $A/B \times 100$ A = Total interest-bearing debt as of the closing date of the applicable fiscal period B = Total assets on the balance sheet as of the closing date of the applicable fiscal period – amount of book value of owned real estate after depreciation, as of the closing date of the applicable fiscal period + appraised value of owned real estate as of the closing date of the applicable fiscal period
Other	<ul style="list-style-type: none"> Financial calculations and operating forecasts are based on the assumption that there will be no changes in legislation, taxation, accounting standards, regulations applying to publicly listed companies, or rules or requirements imposed by the Investment Trusts Association, Japan, in any way that would impact the aforementioned forecasts. Financial calculations and operating forecasts are also based on the assumption that there will be no substantial changes in general economic trends or real estate market conditions in Japan.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	1st fiscal period (as of January 31, 2019)	2nd fiscal period (as of July 31, 2019)
Assets		
Current assets		
Cash and deposits	630,462	1,184,413
Cash and deposits in trust	1,972,127	2,134,580
Operating accounts receivable	76,664	68,946
Consumption taxes receivable	2,651,536	156,796
Prepaid expenses	30,382	38,765
Other	-	510
Total current assets	5,361,172	3,584,013
Non-current assets		
Property, plant and equipment		
Buildings in trust	31,794,600	34,908,809
Accumulated depreciation	(306,601)	(702,807)
Buildings in trust, net	31,487,999	34,206,002
Structures in trust	1,122,229	1,235,508
Accumulated depreciation	(24,790)	(56,736)
Structures in trust, net	1,097,438	1,178,772
Machinery and equipment in trust	921,887	1,005,404
Accumulated depreciation	(14,594)	(33,496)
Machinery and equipment in trust, net	907,292	971,907
Tools, furniture and fixtures in trust	-	1,751
Accumulated depreciation	-	(24)
Tools, furniture and fixtures in trust, net	-	1,726
Land in trust	20,396,914	22,128,070
Total property, plant and equipment	53,889,645	58,486,480
Intangible assets		
Software	5,333	4,776
Total intangible assets	5,333	4,776
Investments and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	112,127	135,236
Deferred tax assets	28	13
Total investments and other assets	122,156	145,250
Total non-current assets	54,017,135	58,636,506
Total assets	59,378,308	62,220,520
Liabilities		
Current liabilities		
Operating accounts payable	17,633	19,940
Short-term loans payable	4,570,000	2,140,000
Accounts payable - other	44,291	15,735
Accrued expenses	164,104	225,252
Income taxes payable	1,500	891
Advances received	286,500	313,375
Other	485	2,145
Total current liabilities	5,084,515	2,717,340

(Thousands of yen)

	1st fiscal period (as of January 31, 2019)	2nd fiscal period (as of July 31, 2019)
Non-current liabilities		
Long-term loans payable	17,420,000	22,440,000
Tenant leasehold and security deposits in trust	854,919	929,571
Total non-current liabilities	18,274,919	23,369,571
Total liabilities	23,359,435	26,086,911
Net assets		
Unitholders' equity		
Unitholders' capital	35,498,833	35,498,833
Deduction for unitholders' capital	-	(97,500)
Unitholders' capital, net	35,498,833	35,401,333
Surplus		
Unappropriated retained earnings (undisposed loss)	520,040	732,274
Total surplus	520,040	732,274
Total unitholders' equity	36,018,873	36,133,608
Total net assets	36,018,873	36,133,608
Total liabilities and net assets	59,378,308	62,220,520

(2) Consolidated Statement of Income

(Thousands of yen)

	1st fiscal period (from May 1, 2018 to January 31, 2019)	2nd fiscal period (from February 1, 2019 to July 31, 2019)
Operating revenues		
Leasing business revenues	1,268,143	1,681,133
Other leasing business revenues	31,939	36,924
Total operating revenues	1,300,083	1,718,058
Operating expenses		
Expenses related to rent business	408,700	676,237
Asset management fees	137,976	193,237
Asset custody fee and Administrative service fees	2,140	9,067
Directors' compensations	3,960	2,640
Other operating expenses	10,560	26,841
Total operating expenses	563,338	908,023
Operating income	736,744	810,034
Non-operating income		
Interest income	0	10
Interest on refund	-	5,346
Total non-operating income	0	5,357
Non-operating expenses		
Interest expenses	41,644	59,794
Organization expenses	74,701	-
Investment unit issuance expenses	12,017	-
Investment unit public offering expenses	40,710	-
Borrowing related expenses	38,419	22,210
Other	7,740	244
Total non-operating expenses	215,233	82,248
Ordinary income	521,511	733,142
Income before income taxes	521,511	733,142
Income taxes - current	1,500	893
Income taxes - deferred	(28)	14
Total income taxes	1,471	907
Net income	520,040	732,234
Retained earnings brought forward	-	40
Unappropriated retained earnings (undisposed loss)	520,040	732,274

(3) Consolidated Statement of Unitholders' Equity

First fiscal period (from May 1, 2018 to January 31, 2019)

(Thousands of yen)

	Unitholders' equity				Total net assets
	Unitholders' capital	Surplus		Unitholders' equity Total	
		Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	—	—	—	—	—
Changes of items during period					
Issuance of new investment units	35,498,833			35,498,833	35,498,833
Net income		520,040	520,040	520,040	520,040
Total changes of items during period	35,498,833	520,040	520,040	36,018,873	36,018,873
Balance at end of current period	35,498,833	520,040	520,040	36,018,873	36,018,873

Second fiscal period (from February 1, 2019 to July 31, 2019)

(Thousands of yen)

	Unitholders' equity						Total net assets
	Unitholders' capital			Surplus		Unitholders' equity Total	
	Unitholders' capital	Deduction for unitholders' capital	Unitholders' capital, net	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	35,498,833	-	35,498,833	520,040	520,040	36,018,873	36,018,873
Changes of items during period							
Surplus cash distribution	-	(97,500)	(97,500)	-	-	(97,500)	(97,500)
Distributions of retained earnings	-	-	-	(520,000)	(520,000)	(520,000)	(520,000)
Net income	-	-	-	732,234	732,234	732,234	732,234
Total changes of items during period	-	(97,500)	(97,500)	212,234	212,234	114,734	114,734
Balance at end of current period	35,498,833	(97,500)	35,401,333	732,274	732,274	36,133,608	36,133,608

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	1st fiscal period (from May 1, 2018 to January 31, 2019)	2nd fiscal period (from February 1, 2019 to July 31, 2019)
Cash flows from operating activities		
Profit before income taxes	521,511	733,142
Depreciation costs	346,225	447,635
Investment unit issuance expenses	12,017	-
Other offering costs associated with the issuance of investment units	40,710	-
Interest income	(0)	(10)
Interest expenses	41,644	59,794
Decrease (increase) in operating accounts receivable	(76,664)	7,717
Decrease (increase) in consumption taxes refund receivable	(2,651,536)	2,494,740
Decrease (increase) in prepaid expenses	(30,382)	(8,383)
Decrease (increase) in long-term prepaid expenses	(112,127)	(23,108)
Increase (decrease) in operating accounts payable	17,633	415
Increase (decrease) in accounts payable - other	432	1,282
Increase (decrease) in accrued expenses	157,025	61,726
Increase (decrease) in advances received	286,500	26,874
Other	485	(942)
Subtotal	(1,446,525)	3,800,885
Interest income received	0	10
Interest expenses paid	(34,564)	(60,373)
Income taxes paid	(0)	(1,501)
Net cash used in operating activities	(1,481,089)	3,739,021
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(54,191,772)	(5,071,860)
Purchase of intangible assets	(5,572)	-
Payments for leasehold and guarantee deposits	(10,000)	-
Net cash used in investing activities	(54,207,345)	(5,071,860)
Cash flows from financing activities		
Increase in short-term loans payable	4,570,000	260,000
Repayments of short-term loans payable	-	(2,690,000)
Proceeds from long-term loans payable	17,420,000	5,020,000
Proceeds from issuance of investment units	35,446,105	-
Payment of distributions	-	(615,408)
Net cash provided by financing activities	57,436,105	1,974,591
Net increase (decrease) in cash and cash equivalents	1,747,670	641,751
Cash and cash equivalents at beginning of period	-	1,747,670
Cash and cash equivalents at end of period	1,747,670	2,389,422