



JINUSHI  
Business

# Results of Operations for the First Half of the Fiscal Year Ending March 31, 2020

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

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

December 4, 2019

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

### ■ Explanation of Results of Operations

The Nippon Commercial Development (NCD) Group is focusing on efforts to generate its future earnings by purchasing real estate for sale across a broader geographical area with the aims to further expand the market for “JINUSHI business” and cater for institutional investors’ needs for real estate asset management. Consequently, the balance of real estate for sale at the end of the first half amounted to ¥75,453 million, up ¥5,937 million from the end of FY3/19, reflecting a steady increase in the purchase of properties for future projects.

The Group reported net sales of ¥16,039 million (down 14.3% year on year), operating profit of ¥917 million (down 42.3%), ordinary profit of ¥559 million (down 67.6%), and profit attributable to owners of parent of ¥496 million (down 60.9%).

(Millions of yen)	1H FY3/19 (Previous fiscal year)	1H FY3/20 (Current fiscal year)	FY3/19 (Previous fiscal year)
Net sales	18,705	16,039	39,834
Operating profit	1,590	917	4,446
Ordinary profit	1,728	559	4,327
Profit	1,271	496	2,684
Total assets	76,395	102,931	99,597
of which real estate for sale	50,751	75,453	69,516
Total liabilities	56,212	81,700	77,985
Net assets	20,183	21,230	21,611
Net income per share (Yen)	70.84	27.42	149.30
Diluted net income per share (Yen)	70.27	27.39	148.35
Equity ratio (%)	26.4	20.6	21.7
Cash flows from operating activities	(11,213)	(6,013)	(28,020)
Cash flows from investing activities	19	1,315	(7)
Cash flows from financing activities	10,817	4,180	32,511
Cash and cash equivalents at end of period	14,031	18,294	18,856

## 1. (2) 1H of FY3/20 Results of Operations by Segment

(Millions of yen)	1H FY3/19 (Previous fiscal year)		1H FY3/20 (Current fiscal year)		YoY change	
	Amount	Composition	Amount	Composition	Amount	%
Net sales	18,705	100.0%	16,039	100.0%	(2,666)	(14.3)%
Real Estate Investment Business	18,093	96.7%	15,804	98.5%	(2,289)	(12.7)%
Subleasing, Leasing and Fund Fee Business	217	1.1%	234	1.5%	17	7.9%
Planning and Brokerage Business	183	1.0%	0	0.0%	(182)	(99.8)%
Other Businesses	239	1.2%	-	-	(239)	(100.0)%
Adjustments (Inter-segment sales)	(28)	-	-	-	28	-
	Amount	% to sales	Amount	% to sales	Amount	%
Operating profit	1,590	8.5%	917	5.7%	(673)	(42.3)%
Real Estate Investment Business	2,814	15.6%	2,406	15.2%	(407)	(14.5)%
Subleasing, Leasing and Fund Fee Business	90	41.5%	116	49.8%	26	29.7%
Planning and Brokerage Business	183	100.0%	0	99.6%	(182)	(99.8)%
Other Businesses	189	79.0%	(0)	-	(189)	-
Adjustments (SG&A expenses)	(1,685)	-	(1,604)	-	80	

## 1. (3) 1H of FY3/20 Explanation of Financial Position

### 1) Steady growth of real estate acquisitions, a key source of future earnings

During 1H FY3/20, real estate for sale, a major source of future earnings, increased approx. ¥6 billion due to the sale of several properties and the **steady increase in property acquisitions**. Real estate for sale, including preferential negotiating rights, at the end of 1H FY3/20 amounted to approx. ¥96 billion compared with approx. ¥78 billion at the end of 1H FY3/19. The number of properties increased from 53 to 69.

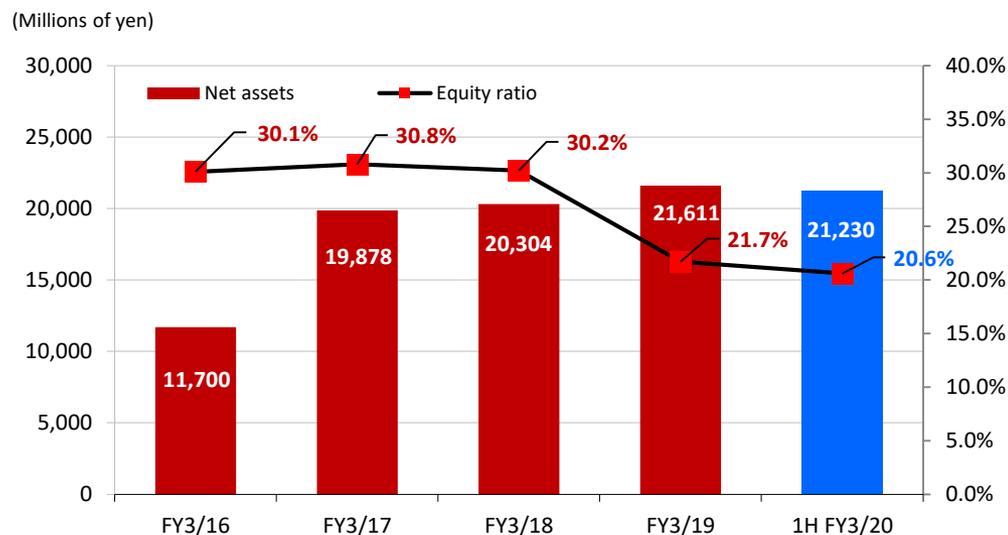
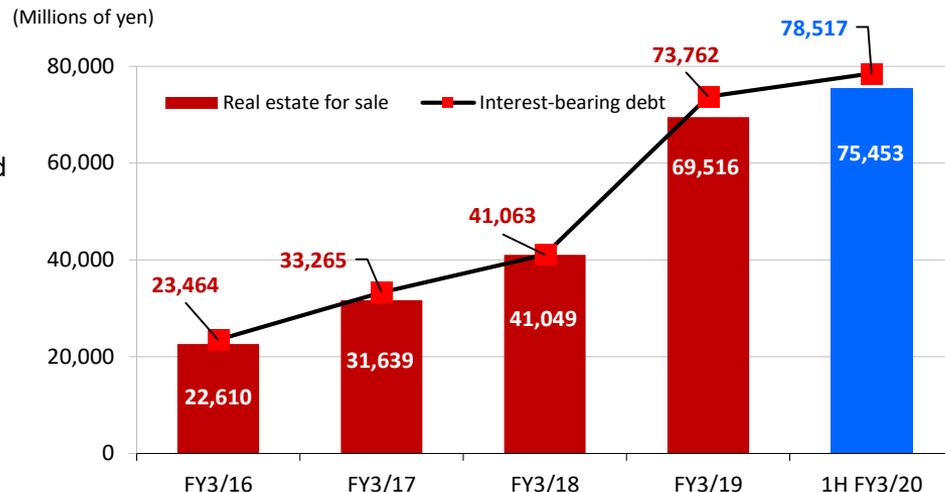
### 2) Stability and safety of the JINUSHI Business scheme

Real estate for sale consists of **high-quality leased assets** using the JINUSHI business scheme. All properties have fixed-term commercial land lease contracts (forward agreements) with tenants. Lease payments begin at all properties when tenants start construction or, if a tenant is unable to start construction for any reason, on the designated deadline for beginning payments.

Although interest-bearing debt is increasing, debt is long-term loans that have no financial covenants or other restrictions and there is periodic and consistent leasing income from real estate for sale. Consequently, NCD's cash flows and financial position are stable.

### 3) Flexible and stable procurement of funds

NCD has commitment line agreements with three financial institutions for the total of ¥6.7 billion. NCD also has a ¥22 billion credit line agreement, which includes a **¥20 billion syndicated loan** arranged by Sumitomo Mitsui Banking Corporation (SMBC). This is SMBC's first financing scheme of this type in the real estate industry and allows NCD to use this large credit line to take out many loans as needed.



## 2. (1) 1Q of FY3/20 Major Real Estate Purchases



Tenant	Automobile dealer (sales of used cars)
Location	Nishiki-cho, Tachikawa city, Tokyo
Site area	1,520.72m <sup>2</sup> (460.01 tsubo)



Tenant	Home improvement store
Location	Sengendai-nishi, Koshigaya city, Saitama
Site area	4,076.36m <sup>2</sup> (1,233.09 tsubo)



Tenant	Home improvement store
Location	Hosho-cho, Minami-ku, Nagoya city, Aichi
Site area	3,283.20m <sup>2</sup> (993.16 tsubo)

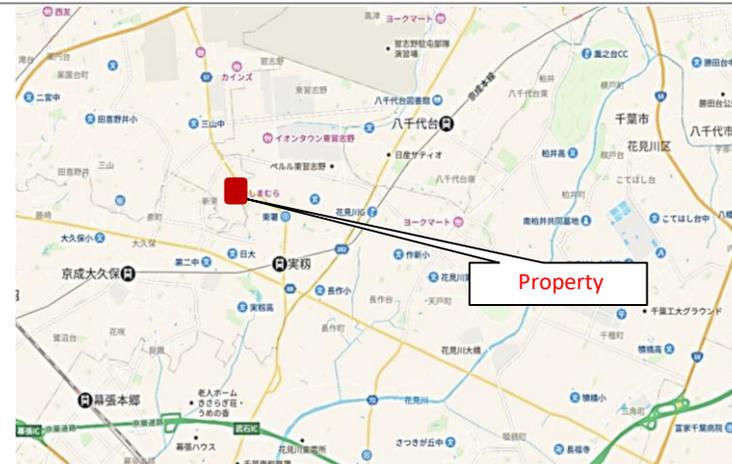


Tenant	Home improvement store
Location	Higashihara, Zama city, Kanagawa
Site area	4,305.00m <sup>2</sup> (1,302.26 tsubo)

## 2. (1) 2Q of FY3/20 Major Real Estate Purchases



Tenant	Large electronics store
Location	Hitotsuya 3 cho-me, Adachi-ku, Tokyo
Site area	4,874.61m <sup>2</sup> (1,474.56 tsubo)



Tenant	Supermarket
Location	Miyama 9 cho-me, Funabashi city, Chiba
Site area	9,084.15m <sup>2</sup> (2,747.96 tsubo)



Tenant	Large electronics store
Location	Usa-minami 1 cho-me, Gifu city
Site area	10,757.08m <sup>2</sup> (3,254.02 tsubo)



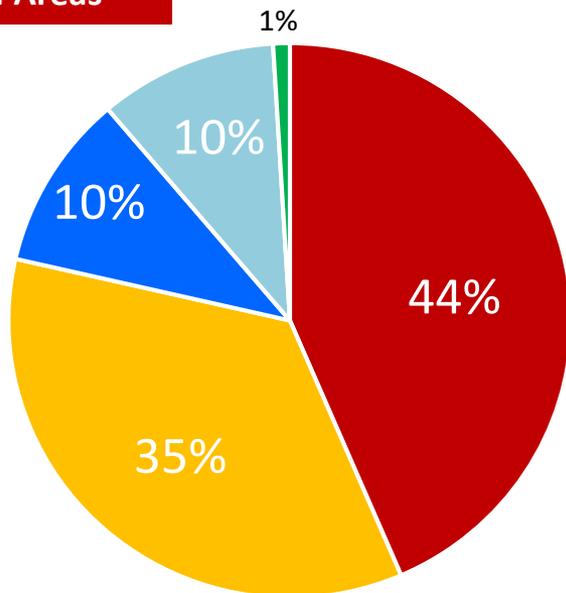
Tenant	Large electronics store
Location	Tsujidokandai 2 cho-me, Fujisawa city, Kanagawa
Site area	7,497.26m <sup>2</sup> (2,267.92 tsubo)

## 2. (2) Real Estate for Sale as of September 30, 2019 —Diversification of Areas and Use

The JINUSHI Business is growing in the Tokyo area.

44% of real estate for sale is in the Tokyo area and property acquisitions in this area in climbing steadily.

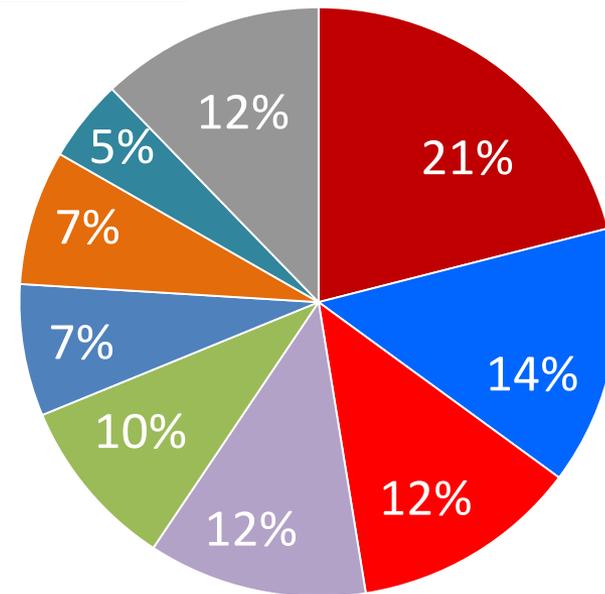
**Diversification of Areas**



■ Tokyo area ■ Osaka area ■ Nagoya area ■ Others ■ Overseas (North America)

Region	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
Others	Government-designed municipalities, core regional cities and nearby areas (excluding Tokyo area, Osaka area and Nagoya area)

**Diversification of Use**



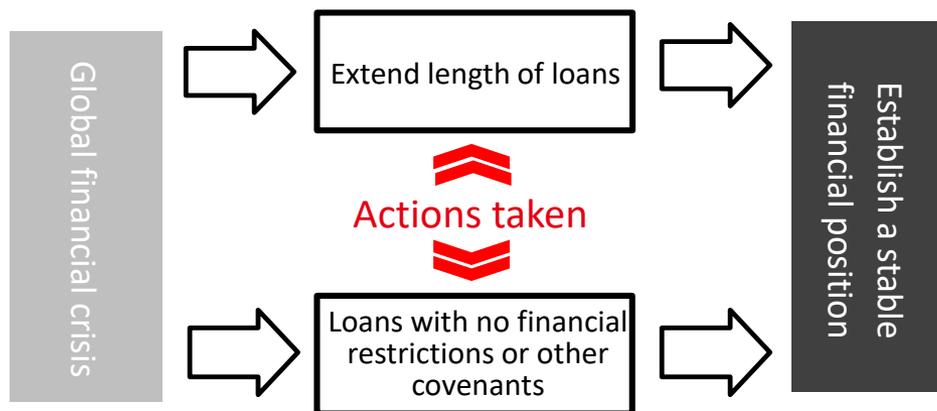
■ Supermarkets ■ Hotels  
 ■ Home improvement stores ■ Automobile dealers  
 ■ Large electronics stores ■ Factories, distribution warehouses  
 ■ Drug stores ■ Medical centers  
 ■ Others

\*Others: Restaurants, fitness clubs, memorial service facilities, etc.

Note: Based on monetary value as of September 30, 2019 (including properties with preferential negotiation rights)

## 3. (1) Financial Strategy (More Loans, Switch to More Favorable Borrowing Terms, etc.) 9

## Building an even stronger financial position



Even if there is another global financial crisis that makes procuring funds more difficult, we can receive loans for new properties with no demands from financial institutions for the early repayment of loans.

◇ Commitment line agreements  
Total amount of loan commitment    ¥6,700 million

◇ Credit line agreement  
Total amount of credit line    ¥22,000 million

(1) Obtain financing from more financial institutions

(2) Extend length of loans (5 to 30 years)

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

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

### 3. (2) Actions to Strengthen Financial Soundness (Announced on October 11) <sup>10</sup>



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#### Measure to further increase financial soundness

NCD plans to sell approx. ¥20 billion of real estate for sale and use the proceeds to reduce interest-bearing debt. These property sales will be in addition to the initial outlook for sales of ¥50 billion in the FY3/20 business plan. Reducing debt is expected to further increase financial soundness by (1) improving the ROA and other financial indicators, (2) enabling NCD to procure more new funds, and (3) receiving earnings from development projects faster and increase equity.

Improve the ROA and other financial indicators

Enable NCD to procure more new funds

Receive earnings from development projects faster and increase equity

The core elements of NCD's financial strategy is extending the length of loans and eliminating financial covenants and other restrictions in loan contracts. This strategy gives NCD a stable and strong financial position. As a result, NCD has significantly increased the number of financial institution relationships, obtained a large credit facility and taken other steps to enhance financial soundness.

Due to recent changes in the financial climate, NCD made the decision to switch to a structure with a faster total asset turnover in order to aim for even more rapid growth. Shortening the time between real estate purchases and sales is a major goal. Selling a portion of real estate for sale is expected to reduce interest-bearing debt, increase the equity ratio and improve other financial indicators. NCD expects to be able to procure even more new funds, receive earnings from development projects faster and increase equity.



More growth of the JINUSHI Business

### 3. (3) Setting of Comprehensive Facility for Trading (Announced on November 12) <sup>11</sup>

The NCD Board of Directors resolved at the meeting held on November 12, 2019 that the comprehensive facility for trading (hereinafter, “the facility for trading”) of real estate for sale (including trust beneficiary rights; hereinafter collectively, “the real estate”) would be set under the agreement between SMFL MIRAI Partners Co., Ltd. (hereinafter, “SMFL MIRAI”), NCD, and JINUSHI Asset Management Co., Ltd. (hereinafter, “JINUSHI AM”)—NCD’s wholly owned subsidiary.

#### 1. Overview of the facility for trading

SMFL MIRAI will set the facility for trading to acquire the real estate owned by NCD as follows:

(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 Private REIT Investment Corporation) has a preferential negotiating right for the acquisition.

#### 2. Purpose of setting the facility for trading

By utilizing the facility for trading, NCD will be able to improve financial indicators including the equity ratio and the total asset turnover (reduction in the time period from property purchase until its sale), expand a new fund-raising capacity by decreasing interest-bearing debt, and further strengthen our financial foundation so as to realize gains at an earlier stage of development. Under this arrangement, we will also aim to drive the growth of JINUSHI Private REIT Investment Corporation and expand the scale of its assets.

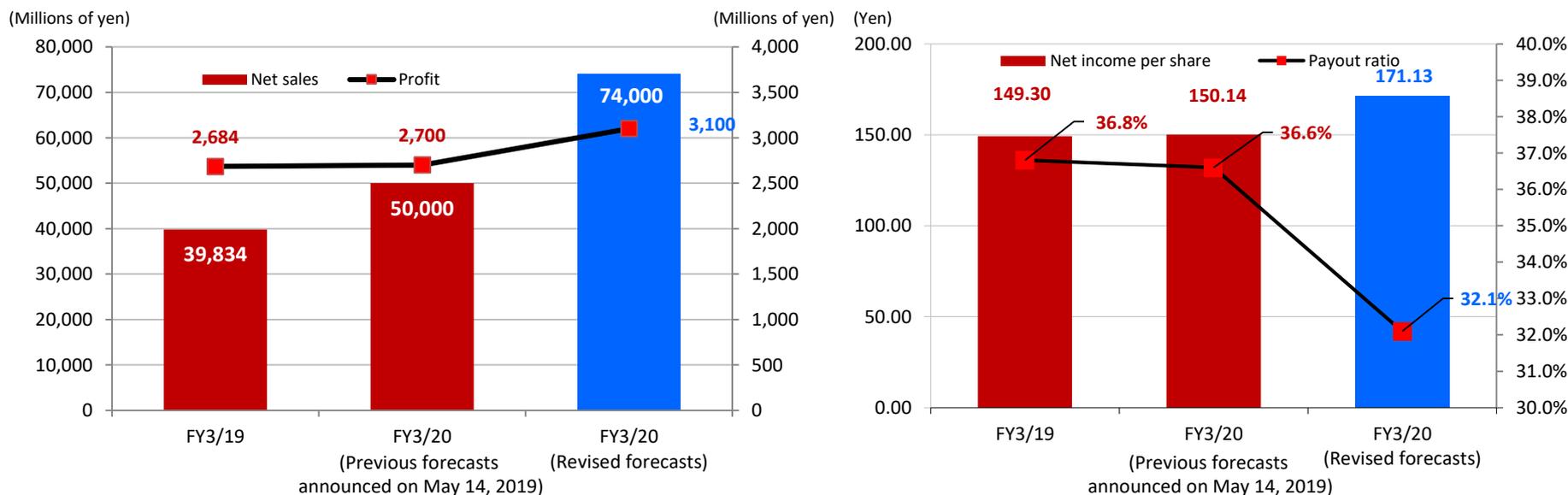
## 4. (1) Revision to FY3/20 Consolidated Forecast (Announced on November 12) <sup>12</sup>

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecasts (A)	50,000	5,000	4,000	2,700	150.14
Revised forecasts (B)	74,000	5,100	4,400	3,100	171.13
Change (B-A)	24,000	100	400	400	
Change (%)	48.0	2.0	10.0	14.8	
Reference: FY3/19 results	39,834	4,446	4,327	2,684	149.30

NCD has revised the FY3/20 forecast for consolidated sales and earnings, which was announced on May 14, 2019, as shown in this table to reflect results of operations in the fiscal year's first half and other factors.

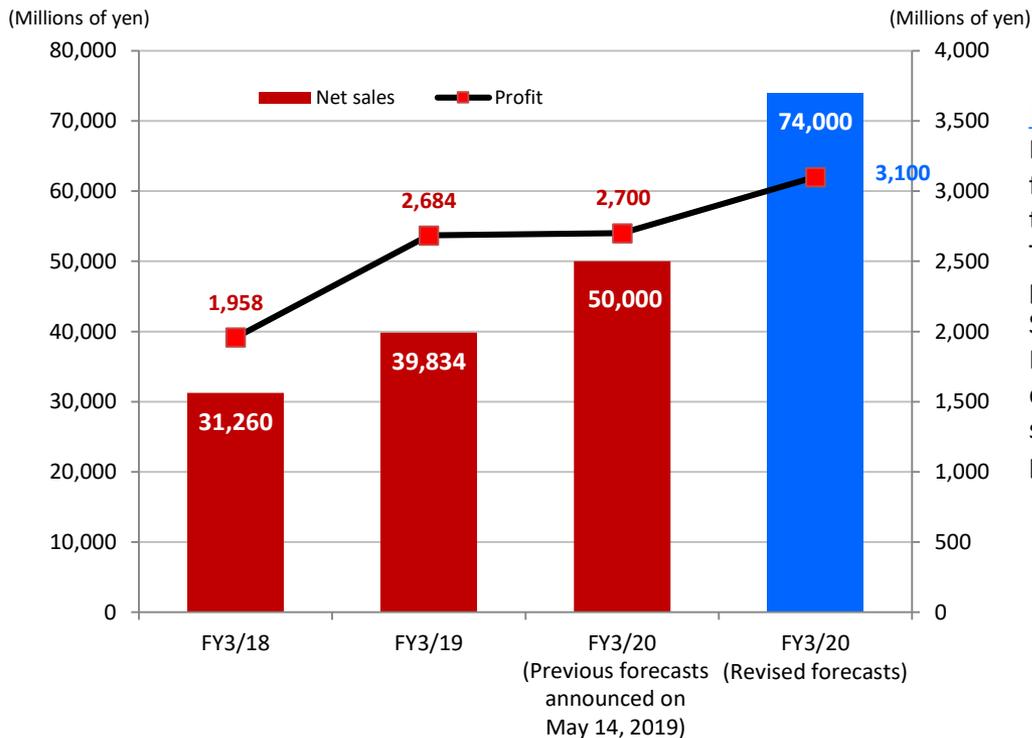
As was announced in the November 12, 2019 press release (timely disclosure) titled "Notice of Comprehensive Facility for Trading with SMFL MIRAI Partners," the NCD Group concluded a basic agreement with SMFL MIRAI, and this company set the facility for trading to acquire real estate for sale owned by NCD.

NCD plans to use this facility for trading in order to sell several properties during the remainder of this fiscal year. This forecast revision was announced in accordance with the timely disclosure standards because the planned property sales are expected to generate sales equivalent to more than 10% of the previous sales forecast of ¥50,000 million.



4. (2) Revision to FY3/20 Consolidated Forecast (Announced on November 12)<sup>13</sup>

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecasts (A)	50,000	5,000	4,000	2,700	150.14
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#### Reason for the higher sales forecast

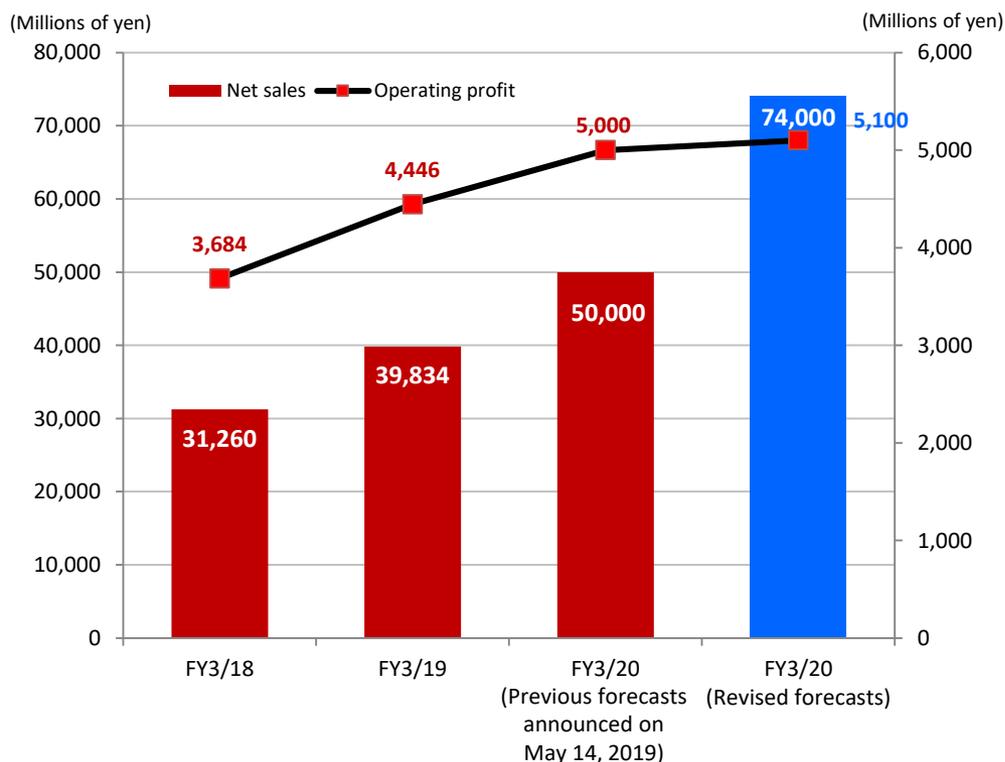
NCD plans to quickly sell several properties classified as real estate for sale to SMFL MIRAI and other buyers. These sales are expected to significantly increase FY3/20 sales.

The reason for these sales is explained in the October 11, 2019 press release (timely disclosure) titled "Notice of Actions to Strengthen Financial Soundness."

Most of the properties to be sold are NCD real estate developments where these sales are expected to produce a suitable amount of earnings. NCD believes that every sale will be profitable and foresees no losses from these sales.

## 4. (3) Revision to FY3/20 Consolidated Forecast (Announced on November 12) <sup>14</sup>

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecasts (A)	50,000	5,000	4,000	2,700	150.14
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Reference: FY3/19 results	39,834	4,446	4,327	2,684	149.30



### Reason for ¥100 million increase in operating profit forecast despite ¥24,000 million increase in sales forecast

First, earnings expected at two development projects included in the FY3/20 initial forecast will instead be recorded in FY3/21 due mainly to delays in work at these projects by tenants.

Second, earnings at one project will be lower than expected, but still positive, due to the outlook for selling this property at a price much lower than planned. These were the major factors which negatively affected operating profit.

Consequently, the net result of these negative factors and the expected earnings from the early sale of real estate for sale is an increase of only ¥100 million in the operating profit forecast.

### Reason for forecasting a decrease in the gross profit margin in FY3/20

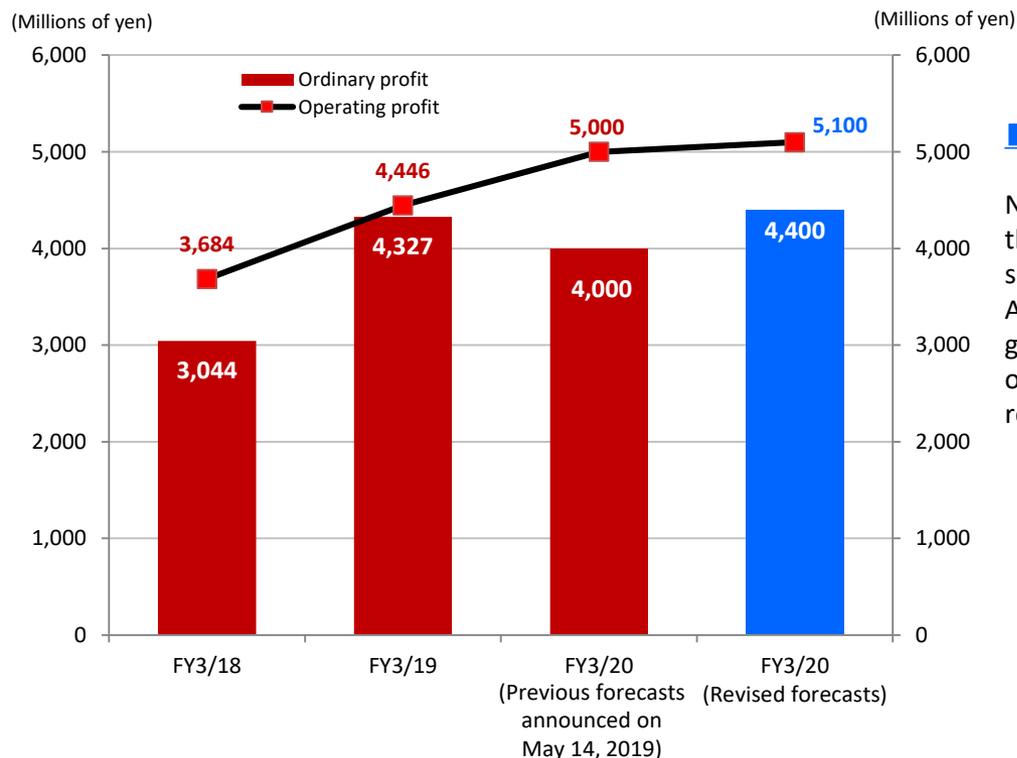
Progress with recognition of the JINUSHI Business and its reputation in the real estate market has lowered the return on investments in this business and the cost of buying land for this business is increasing. As a result, the gross profit margin is expected to decrease.

In addition, although current JINUSHI investments are producing leasing income while these properties are owned by NCD, the profit margin on the sale of these properties is lower than for development projects conducted by NCD.

Measures to increase the assets of JINUSHI Private REIT Investment Corporation include the purchase of high-quality existing properties. NCD's purchases of these properties raise this REIT's assets but reduce NCD's gross profit margin.

4. (4) Revision to FY3/20 Consolidated Forecast (Announced on November 12) <sup>15</sup>

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecasts (A)	50,000	5,000	4,000	2,700	150.14
Revised forecasts (B)	74,000	5,100	4,400	3,100	171.13
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Reference: FY3/19 results	39,834	4,446	4,327	2,684	149.30



**Reason for forecasting a ¥300 million increase in ordinary profit despite an increase of only ¥100 million in operating profit**

NCD had completely written off loans by a subsidiary to a company that owns land to be used for a solar power project. A tenant has signed a lease contract for this land and is paying the leasing fees. As the tenant now expects to be able to start selling electricity generated by this project, this subsidiary has reviewed the valuation of the land for use as a solar power project and, as a result, plans to record a gain on a reversal of the allowance for doubtful accounts.

## 5. (1) 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, the NCD board of directors approved a resolution on November 27, 2019 to sell 17 properties classified as real estate for sale to JINUSHI REIT.

Date of property sale contract: December 3, 2019

Closing date: January 10, 2020 (tentative)

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

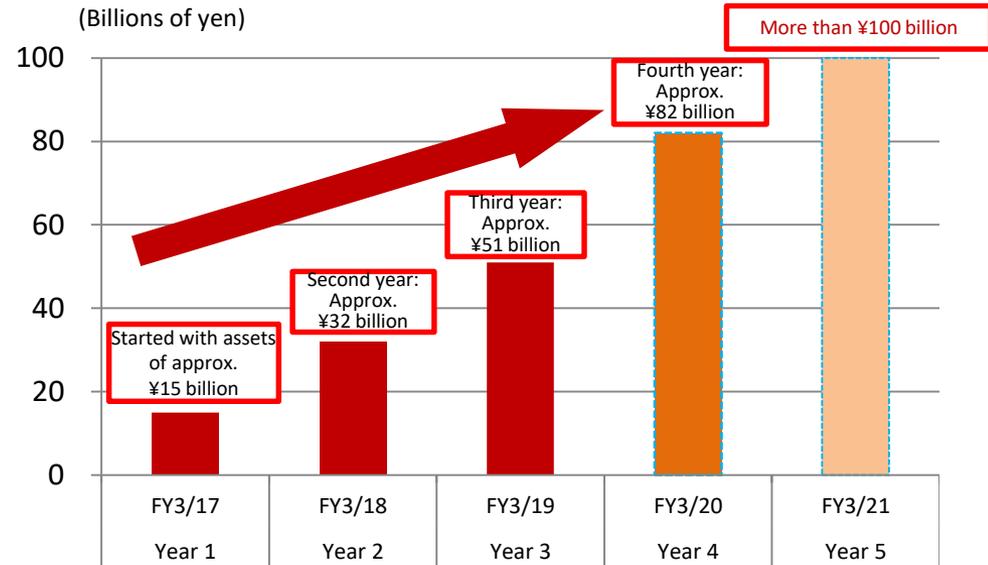
Notes: 1. Project names may differ from the names of stores and facilities constructed at these locations.

2. Fractions of the site area are rounded down.

## 5. (2) Growth of JINUSHI REIT Assets

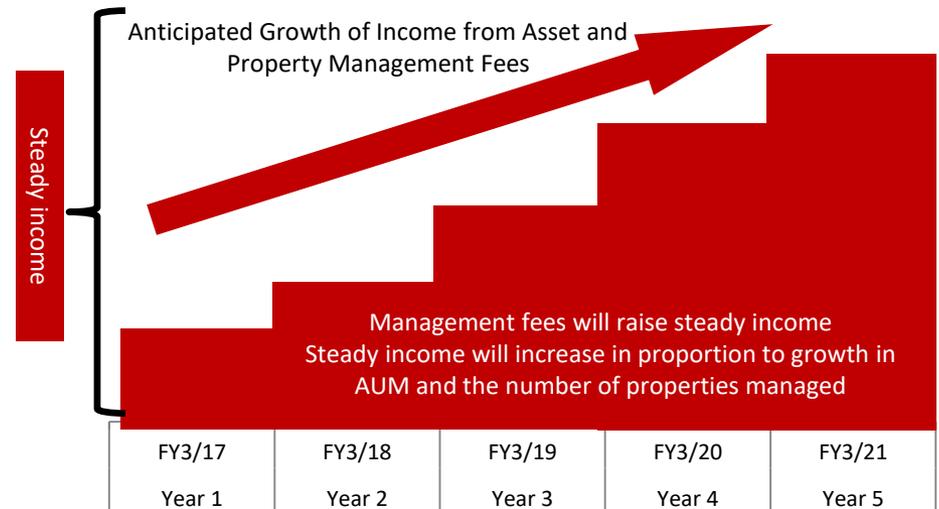
### 1) Assets expected to surpass ¥100 billion in FY3/21

Based on the sponsor support agreement, NCD is consistently increasing the assets of JINUSHI REIT and expects assets to surpass ¥100 billion only five years after this REIT started operating.



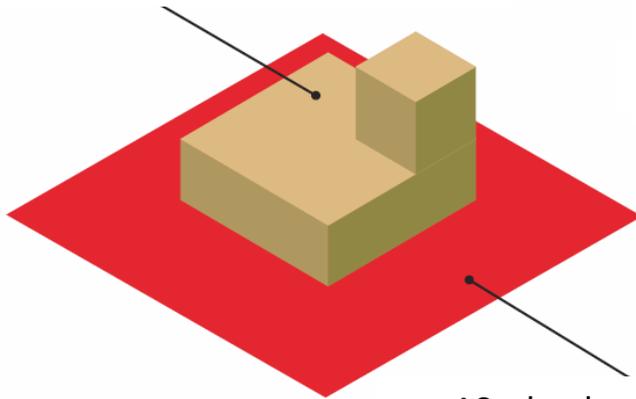
### 2) Growth of the NCD Group's steady income

Asset management and property management fee income is increasing as assets under management and the number of properties managed climb along with the assets of JINUSHI REIT. This results in growth of steady income.



## The JINUSHI Business

The tenant pays for the constructing and ownership of building.



AS a landowner,  
NCD owns only land.

Purchase land.  
Lease land.  
Sell the land being leased.

||



**JINUSHI  
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We call this **the JINUSHI Business** because our role is solely as the landowner.

We purchase and lease land and sell leased land, **but do not construct buildings.**

We purchase land and then **lease the property to a tenant** using a fixed-term commercial land leases. Our tenants are mainly involved in lifestyle convenience business such as supermarkets and drugstores, and business categories of tenants have been expanding into hotels, educational corporations and other social infrastructure businesses. **This business model enables us to sell safe real estate investment products with stable long-term leasing income.**

# JINUSHI Business Flowchart

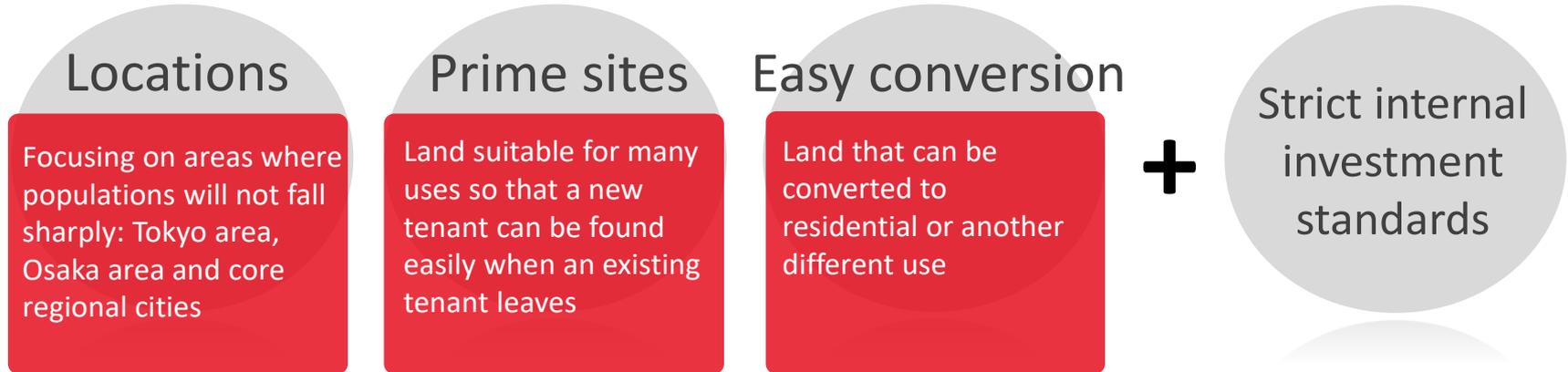


\* The fixed-term land lease is a system created to protect the rights of landowners. The JINUSHI Business is a real estate investment scheme that is based on this land lease system.

## Conventional commercial real estate development project



## Key Elements of the JINUSHI Business



## Examples of JINUSHI Business Tenants



Supermarket



Drug store



Hotel



Home improvement store

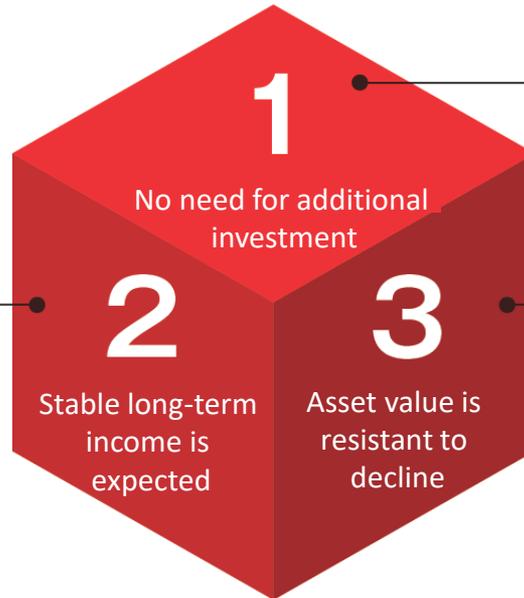
We only purchase **land in outstanding locations** that can satisfy our strict standards for new investments.

## Three Strengths of the JINUSHI Business



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During the long-term contract period of 20 to 30 years, tenants invest in buildings on the property. **This reduces the risk of the property being vacated and creates expectations for stable long-term income.**



Since tenants pay for construction and ownership of buildings, there is **no need for additional investment such as maintenance, repair, renovation, etc.**

After the period of the fixed-term leasing contract expires, **the land is returned as a vacant lot. This ensures that assets are returned at their maximum value.**

## Why JINUSHI Business x Private REIT?

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### Real estate needs of institutional investors



**JINUSHI  
Business**

× Private REIT

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 fixed-term commercial land lease contract.
- 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.
- Investment is 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 aim 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.



#### ■ Disclaimer

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This presentation includes forward-looking statements about the financial condition, results of operations, businesses and other items of the Nippon Commercial Development Group. These statements incorporate risks and other uncertainties because events that may occur in the future could affect the group's performance. Consequently, the group's actual financial condition, results of operations, business activities and other aspects of operations may differ significantly from these forward-looking statements.

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