

# Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2019

Our goal is to be the real estate company that customers love and choose over any other worldwide.

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August 8, 2018



**SUN FRONTIER**

Stock Code: 8934

# Highlights of the First Quarter



## Summary for the First Quarter of the Fiscal Year Ending March 31, 2019

Sales and income reached new record highs in the First Quarter

(¥ Million, except for per share figures.)

	Results	Profit margin	YoY change	Rate of Change	Full-year forecast	Progress
Sales	18,211	—	+9,302	+104.4%	58,000	31.4%
Operating income	4,839	26.6%	+2,738	+130.4%	12,300	39.3%
Ordinary income	4,747	26.1%	+2,731	+135.5%	11,800	40.2%
Net income*	3,258	17.9%	+1,890	+138.1%	8,200	39.7%

\* Quarterly net income attributable to owners of parent

## Highlights

### 1) The replanning business is driving business performance

- Thanks to sales of multiple mid-sized buildings, **sales and income both more than doubled** in the replanning business.
- **The segment profit margin in the replanning business (including hotel development) this quarter remained high at 30.5%** (vs. 27.6% in the FY ended March 2017 and 29.7% in the FY ended March 2018).

### 2) Steady progress on procuring properties to sell

- Progress is underway on procuring properties to sell in the next period.
- **Procurement of ¥8.6 billion was completed in Q1. In addition to this procurements concluded and contracted stood at ¥6.1 billion at the end of July.**
- The stock of buildings associated with the replanning business stood at 53 buildings at the end of this quarter. The balance of inventory assets stood at ¥45.1 billion (not including hotel development), compared to 43 buildings and ¥36.4 billion at the end of June 2017.

### 3) The operation business showed steady growth.

- Further growth in Hotel Sky Court contributed to business performance in the hotel management business.
- Tabino Hotel Hida-Takayama and Tabino Hotel Sado opened in May and July, respectively. The openings **increased the number of hotels managed to 10 hotels with 1,191 total rooms.**
- **The space rental business grew to a total of 13 sites.** The Tamachi location completed its expansion in July.

# Revenue/Profit Summary



(¥ million)

	FY Ended March, 2018 April-June	FY Ended March, 2019 April-June		FY Ended March, 2018 April-June	FY Ended March, 2019 April-June
<b>Sales</b>	<b>8,909</b>	<b>18,211</b>	<b>Operating income</b>	<b>2,100</b>	<b>4,839</b>
Real Estate Revitalization Business	7,308	16,394	Non-operating income	3	19
Replanning Business (including Hotel Development)	6,780	15,636	Non-operating expenses	88	111
Rental Building, Sublease	527	757	<b>Ordinary income</b>	<b>2,016</b>	<b>4,747</b>
Real Estate Service Business	848	788	Extraordinary loss/income	-	-
Operation Business	657	903	Corporate income tax, etc.	652	1,489
Other Business	225	303	Profit or loss of Non-controlling interest	(4)	(0)
Adjustment	(131)	(177)	<b>Net income</b>	<b>1,368</b>	<b>3,258</b>
<b>Gross Profit</b>	<b>3,200</b>	<b>6,221</b>			
Real Estate Revitalization Business	2,430	5,424			
Replanning Business (including Hotel Development)	2,202	5,047			
Rental Building, Sublease	227	376			
Real Estate Service Business	556	463			
Operation Business	115	144			
Other Business	171	199			
Adjustment	(73)	(7)			
<b>Selling and general administrative expenses</b>	<b>1,099</b>	<b>1,382</b>			

- The replanning business saw growth of 2.3-fold in both sales and gross profit.
- The gross profit margin was 32.3%, exceeding last year's full-year profit margin of 31.9%.

- In the stock businesses, the Rental Building and Operation Businesses are expanding smoothly.
- Total sales for both businesses grew 1.4-fold year on year. Gross profit increased 1.5-fold year on year.

# Consolidated Balance Sheet

## -Assets-



(¥ million)

	FY Ended March, 2017	FY Ended March, 2018	End of June, 2018	Increase/Decrease (Compared to the end of Mar. 2018)
<b>Current assets</b>	<b>55,195</b>	<b>80,174</b>	<b>79,632</b>	<b>(541)</b>
Cash and deposits	16,246	23,892	22,854	(1,038)
Inventory assets	36,186	54,593	55,439	+846
Breakdown) RP	26,039	45,525	45,149	(375)
Hotel	7,254	5,291	6,747	+1,455
Overseas, etc.	2,892	3,775	3,542	(234)
Other current assets	2,762	1,687	1,337	(350)
<b>Noncurrent assets</b>	<b>8,458</b>	<b>11,587</b>	<b>11,864</b>	<b>+277</b>
Property, plant, and equipment	7,288	8,565	8,942	+376
Intangible assets	562	474	450	(24)
Investments and other assets	608	2,546	2,471	(75)
<b>Total assets</b>	<b>63,654</b>	<b>91,761</b>	<b>91,496</b>	<b>(264)</b>

Despite sales of multiple mid-sized buildings in the replanning business in Q1, the balance of inventory assets fell by a mere ¥300 million, due to progress in procuring properties to sell. Since one hotel was acquired, the hotel inventory assets of the hotel business grew by ¥1.4 billion.

# Consolidated Balance Sheet

## -Liabilities/Equity-



(¥ million)

	FY Ended March, 2017	FY Ended March, 2018	End of June, 2018	Increase/Decrease (Compared to the end of Mar. 2018)
<b>Current liabilities</b>	8,281	10,155	8,975	(1,180)
Short-term loans payable, etc.	3,438	2,716	2,657	(58)
Income taxes payable, etc.	802	3,178	1,400	(1,778)
Other current liabilities	4,040	4,260	4,916	+656
<b>Noncurrent liabilities</b>	19,686	32,756	32,300	(456)
Long-term loans and bonds payable	18,626	30,865	30,342	(522)
Other noncurrent liabilities	1,059	1,890	1,957	+66
<b>Total liabilities</b>	27,968	42,912	41,275	(1,636)
Shareholders' equity	35,528	48,750	50,375	+1,625
Others	157	99	(154)	(253)
<b>Total net assets</b>	35,686	48,849	50,221	+1,371
<b>Total liabilities and capital</b>	63,654	91,761	91,496	(264)

### Transition of Equity Ratio

End of Mar. 2017	End of Mar. 2018	End of Jun. 2018
56.0%	53.2%	<b>54.9%</b>

Due to progress on sales of properties in the replanning business, loans payable fell by ¥500 million compared to the end of the previous FY. The balance of interest-bearing debt at the end of June stood at ¥33 billion.

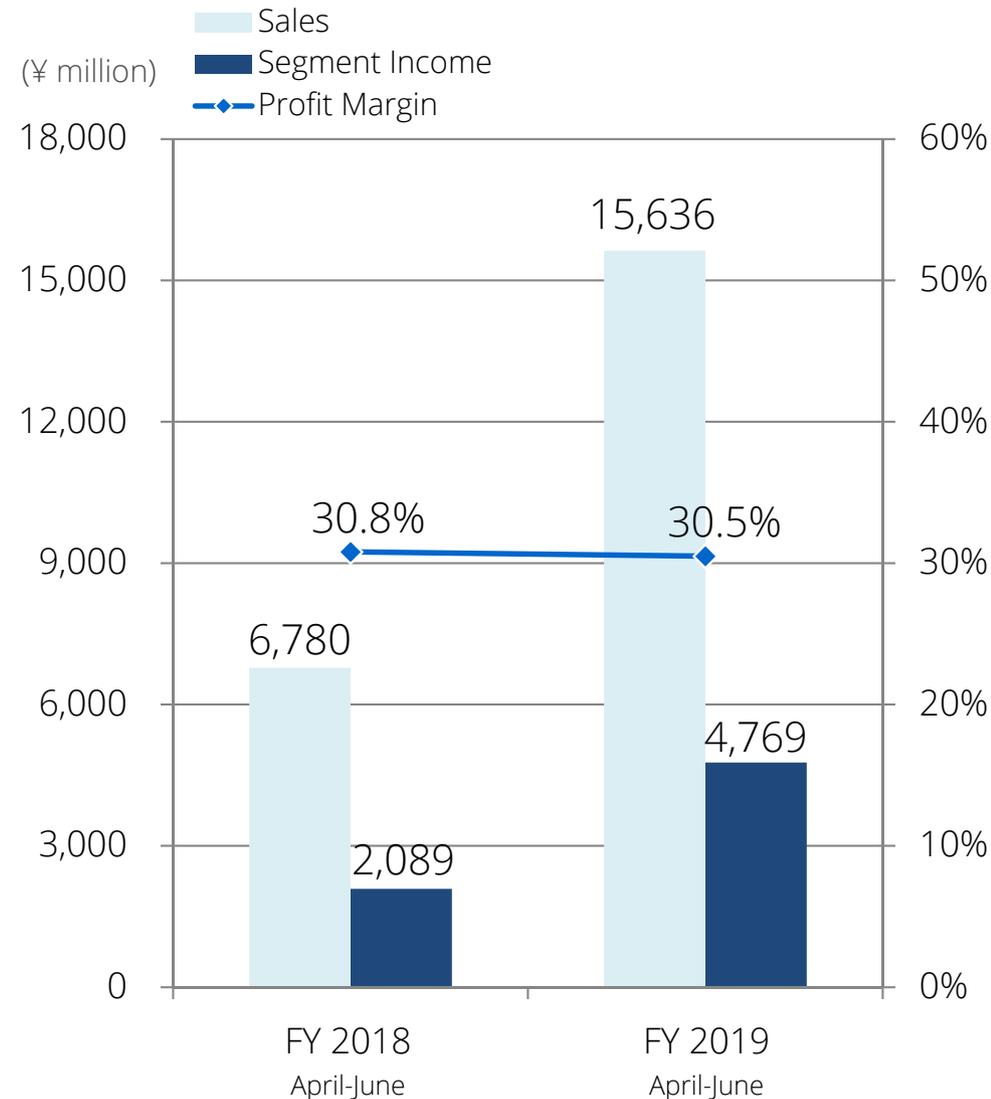
Retained earnings, equivalent to the difference between quarterly net income (up ¥3.2 billion) and dividend payment of the previous (negative ¥1.6 billion), rose by ¥1.6 billion.

# Replanning Business

(Replanning (RP)/ Hotel Development)



(¥ million)	FY 2018 April-June	FY 2019 April-June	Increase/ decrease
Sales	6,780	15,636	+130.6%
Segment income (Note1)	2,089	4,769	+128.2%
Profit margin	30.8%	30.5%	(0.3%pt)
No. of procured properties	16	13	(3)
No. of sold properties	6	8	+2
No. of properties in stock as of the end Mar.	49(Note2)	58(Note2)	+9



- Sales and profit both grew substantially.
- Thanks to repeated creative commercialization efforts, increased direct sales to our customers, and other factors, segment margins remained quite high, above 30%.
- The average business period is 351 days.
- Procurement progressed steadily. The number of properties in inventory at the end of the period was 58 (¥51.8 billion).

(Breakdown) Replanning business: 53 properties (¥45.1 billion)

Hotel business: 5 properties (¥6.7 billion)

\* Overseas business is excluded.

\* We have also procured or contracted **nine replanning properties through the end of July worth ¥6.1 billion** In addition to the above mentioned.

(Note1) "Segment income" is calculated by subtracting various expenses of respective businesses from gross profit on sales. Various expenses include interest paid, sales commission and goodwill amortization, etc.

(Note2) Land procurement and development cases are also included in the inventory of replanning business.

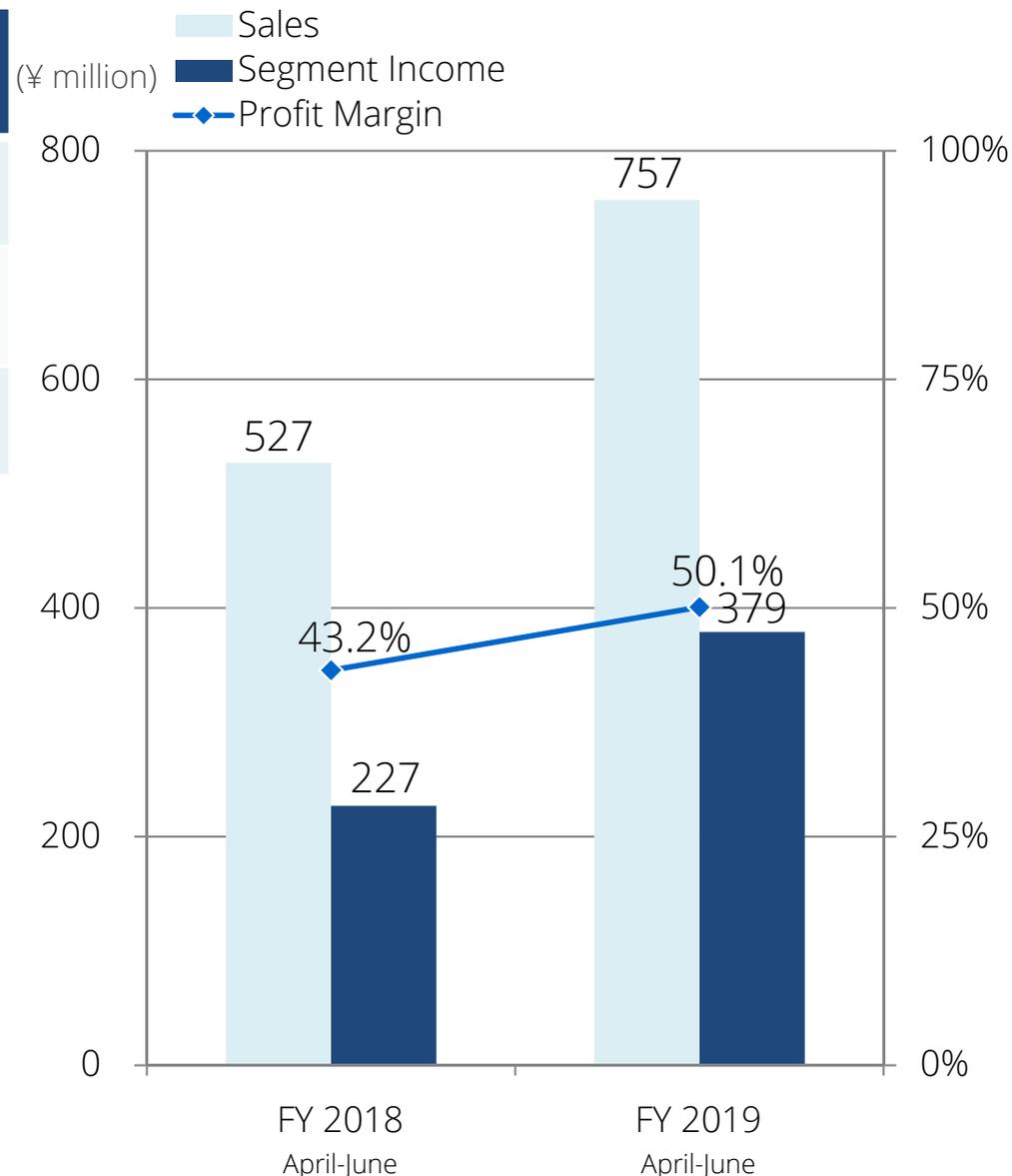
# Rental Building Business

(Rental Building / Sublease)



(¥ million)	FY 2018 April-June	FY 2019 April-June	Increase/ decrease
Sales	527	757	+43.5%
Segment income	227	379	+66.6%
Profit margin	43.2%	50.1%	+7.0%pt

- In the replanning business, we pursued high margin and minimized the number of selling the properties, and, **built up replanning businesses for which commercialization is complete increased both sales and income thanks to growth in income from rents.**
- Income from rents in the hotel business also contributed to growth in sales and income.

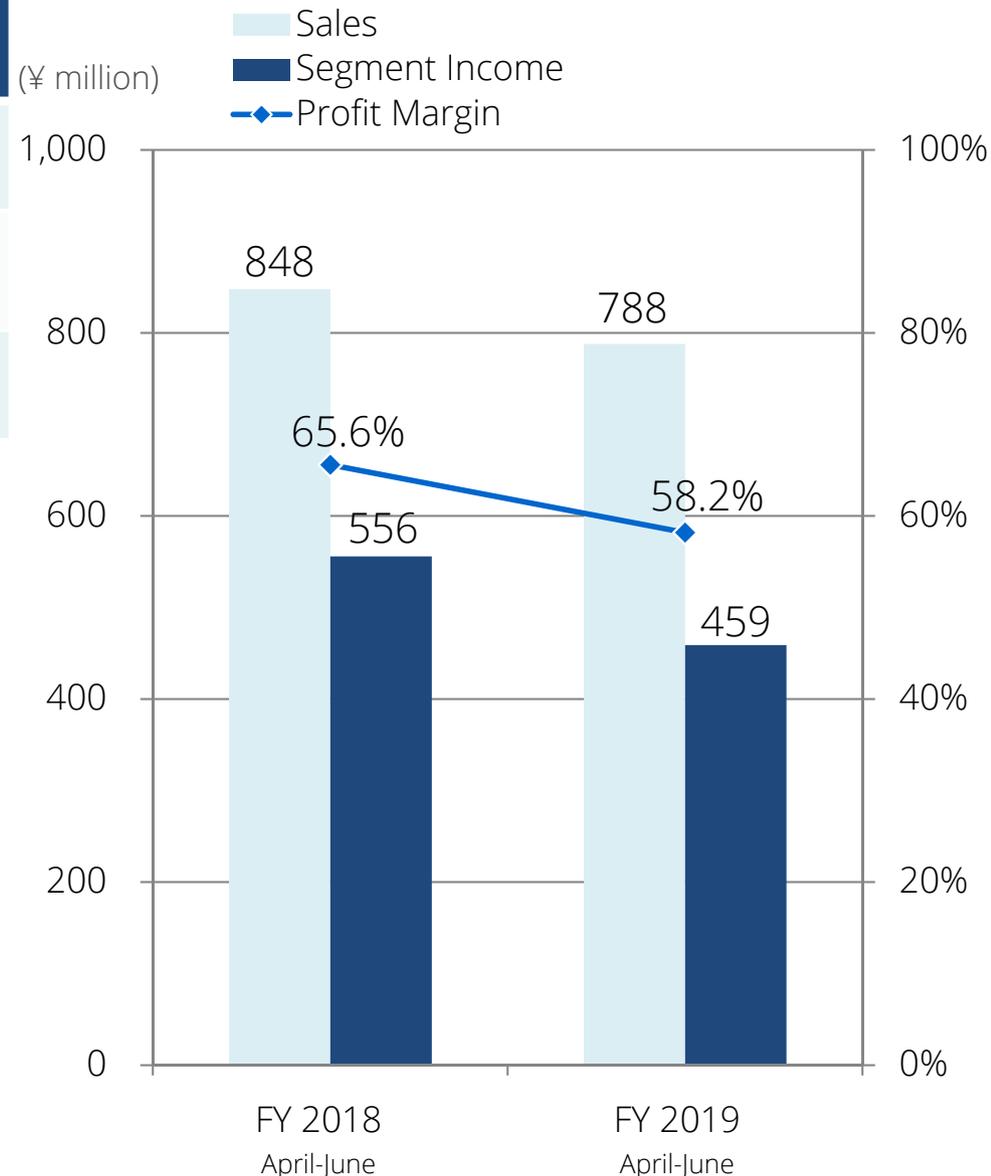


# Real Estate Service Business



(Property Management(PM) / Building Maintenance(BM) / Sales Brokerage / Rental Brokerage)

(¥ million)	FY 2018 April-June	FY 2019 April-June	Increase/ decrease
Sales	848	788	(7.1%)
Segment income	556	459	(17.5%)
Profit margin	65.6%	58.2%	(7.3%pt)



<PM Business/BM Business>

- We offer high-value-added services by **delivering meticulous tenant management and solving customer issues**. We improve revenue by modifying conditions to achieve fair rents. This approach **has helped expand the customer base and the business base** for the entire group.

【Variations in the number of managing properties buildings for PM and occupancy rate】

	No. of managing properties	Occupancy rate
End of June 2016	345	95.3%
End of June 2017	369	95.9%
End of June 2018	381	95.9%

<Sales Brokerage Business/Rental Brokerage Business >

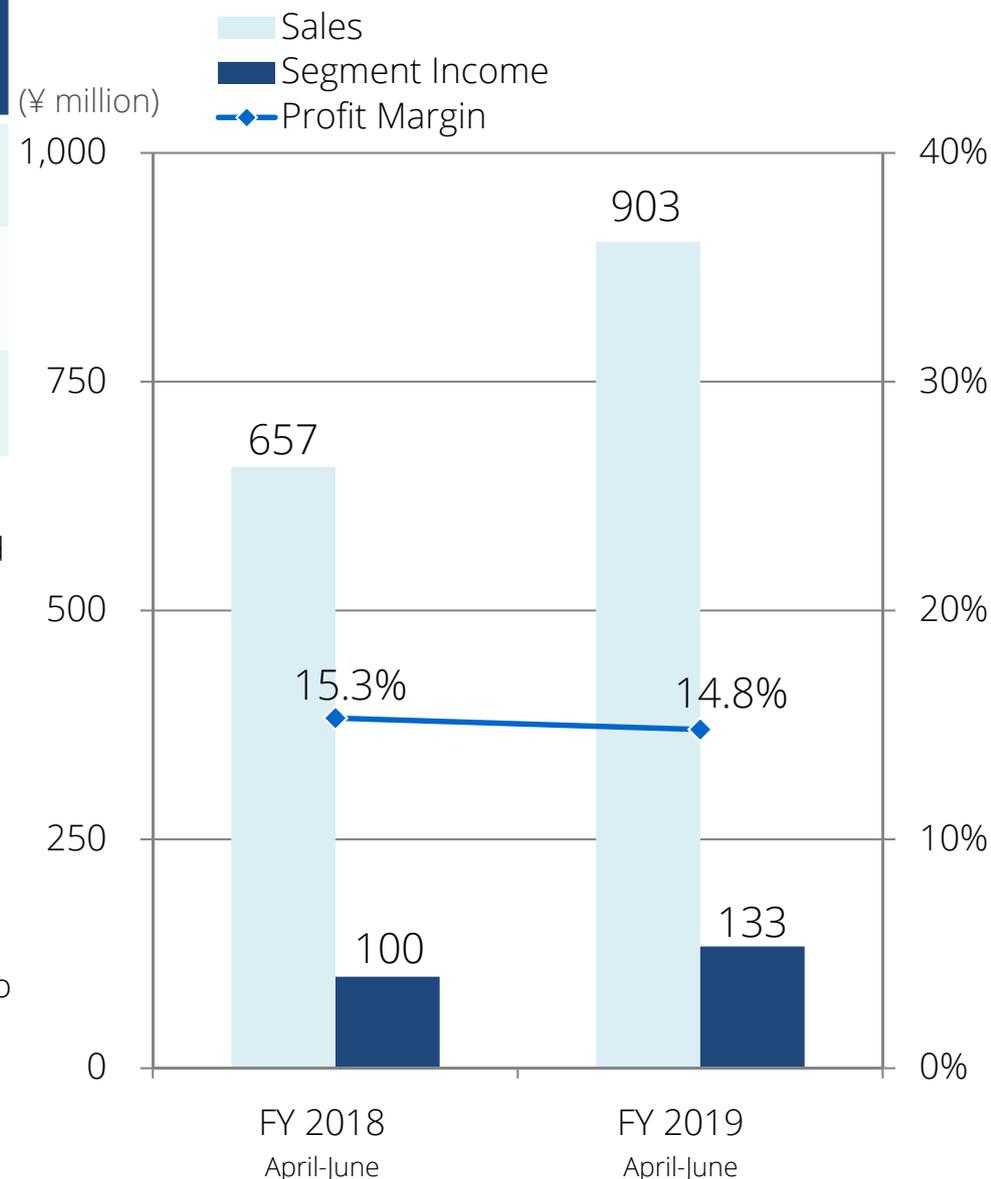
- While sales and profits in the brokerage business itself declined, the brokerage business **helps create high added value from the customer viewpoint** in the procurement, commercialization, and sale of RP real estate. The brokerage business also contributes to the revenue of the entire corporate group.

# Performance of Operation Business



(Hotel Management / Space Rental)

(¥ million)	FY 2018 April-June	FY 2019 April-June	Increase/ decrease
Sales	657	903	+37.4%
Segment income	100	133	+32.7%
Profit margin	15.3%	14.8%	(0.5%pt)



## <Hotel Management Business>

- Hotel Sky Court's business grew further. Strong occupancy rates and average daily rates per room at Hiyori Hotel Maihama and SPRINGSUNNY Hotel **increased both sales and income.**
- Tabino Hotel opened in Hida-Takayama in May and Sado Island in July. As of the end of July 2018, the **number of hotels managed rose to 10 locations.**

(April-June in FY ending March 2019: total sales of ¥683 million, segment income of ¥55 million)

## <Space Rental (Rental Conference Room) Business>

- As of the end of July 2018, **we operate a total of 13 facilities** (eight rental conference room facilities, three rental office facilities, and two coworking space facilities).
- Vision Center Tamachi completed an expansion of its floor space on July 23.

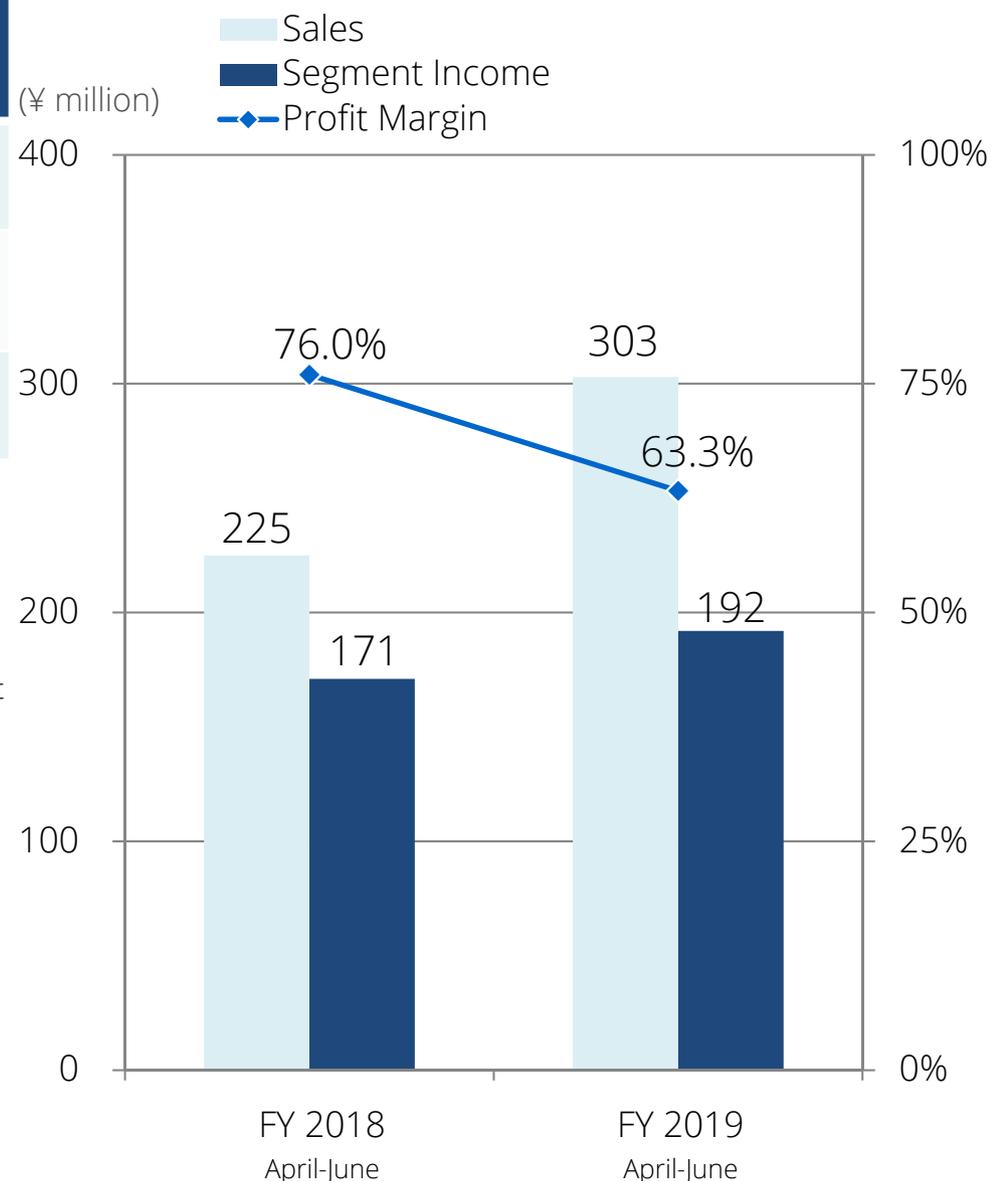
(April-June in FY ending March 2019: total sales of ¥219 million, segment income of ¥77 million)

# Performance of Other Business



(Rent Guarantee / Overseas Business, etc.)

(¥ million)	FY 2018 April-June	FY 2019 April-June	Increase/ decrease
Sales	225	303	+34.5%
Segment income	171	192	+12.0%
Profit margin	76.0%	63.3%	(12.7%pt)



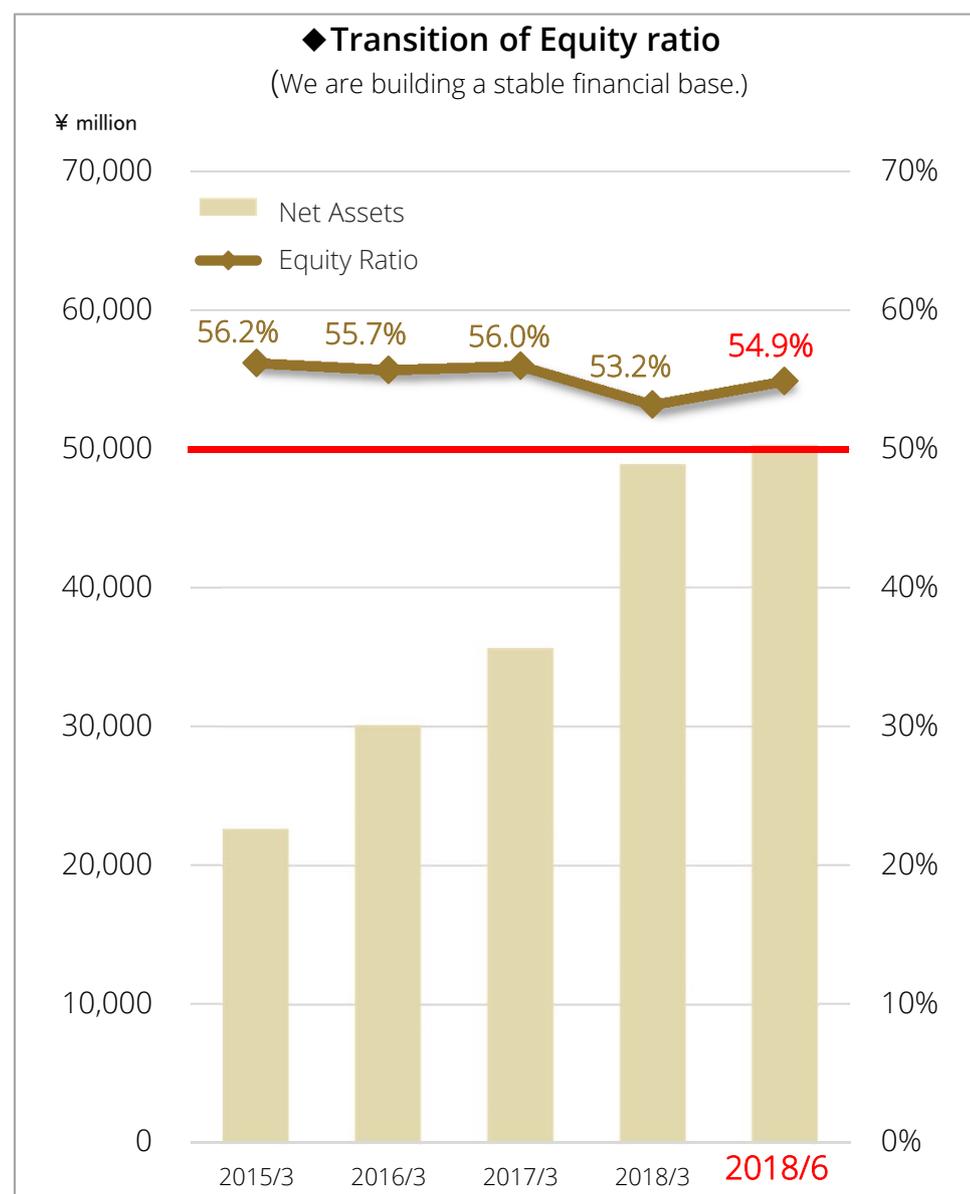
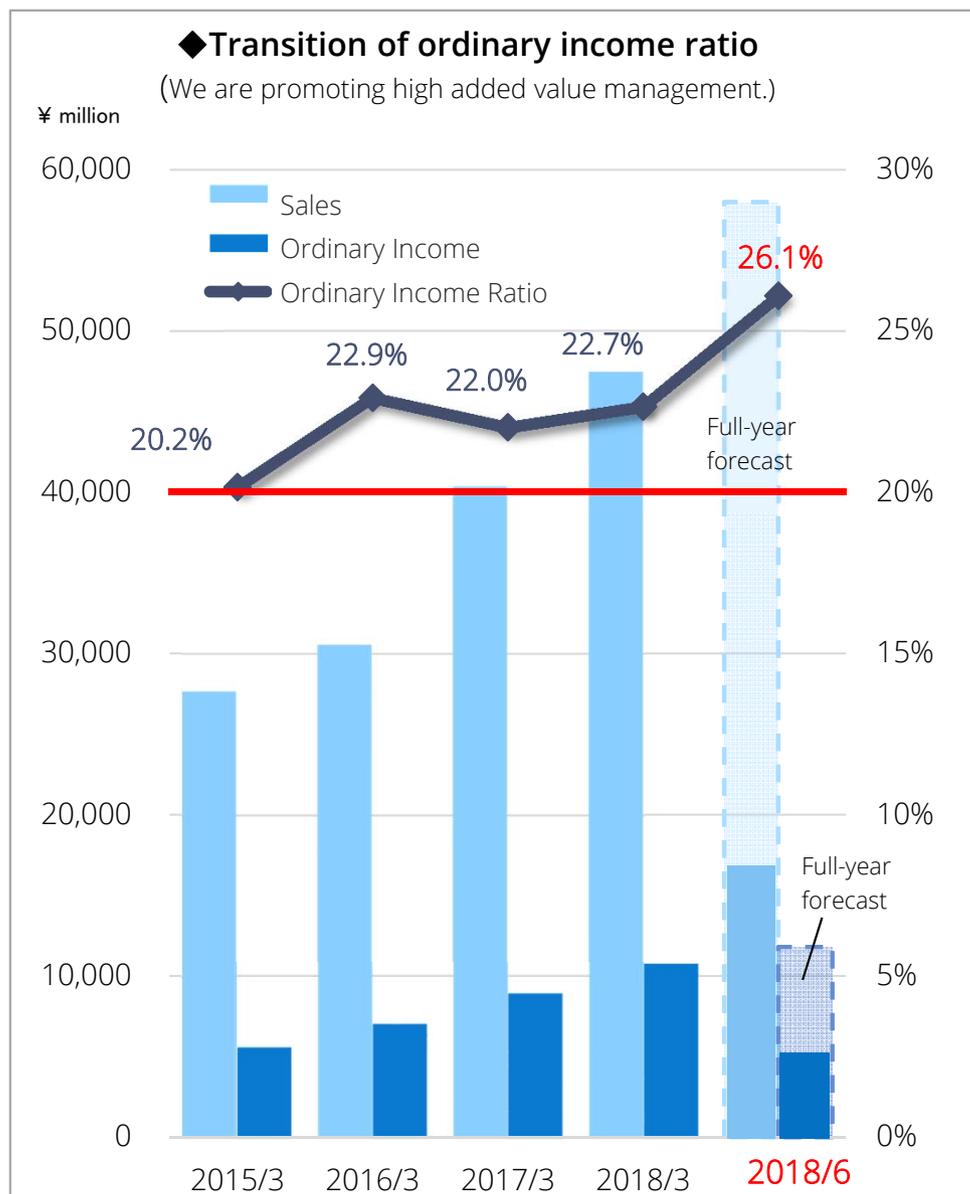
## <Rent guarantee business>

- We **achieved steady growth in numbers of new and renewed guarantees** through efforts to increase name recognition for our guarantee system among building owners and partner companies, which increased both sales and income.
- The most significant and comprehensive revision of the claims-related provisions in the Civil Code since its enactment in 1896 is set to enter into effect in 2020. This is expected to strengthen demand for the guarantee business. In response, we plan to expand seminar activities targeting building owners and undertake other such efforts.

## <Overseas Business>

- Accelerating business development in Southeast Asia, which continues to grow
  - 1) Danang, the Biggest City in Central Vietnam
    - Owning and operating our first overseas hotel "The Blossom City"
    - **Construction of HIYORI Garden Tower, a high-rise urban apartment house of 28 floors (306 units)** began in June 2017 and remains underway today.
  - 2) Jakarta, Capital of Indonesia
    - Promotion of construction of urban condominiums
    - Owning and operating Serviced Apartment "Kyo Serviced Apartment"

# Variation of Key Performance Indicators



## 2) Business Environment

1. The global economy has recently proceed in a pattern of recovery. Growth of 3.9%, up 0.1 percentage points from the previous year, is projected for 2018.

- ◆ According to the IMF, economic growth accelerated broadly around the world in 2017. Similar growth is also projected for 2018.
- ◆ Nevertheless, a cautious approach is advisable for future developments. The US interest rate increased in June, and the pace of such increases is expected to accelerate in the future.
- ◆ Another concern is the potential for slowing economic growth due to the rise of protectionism worldwide and intensification of trade frictions between the US and China.

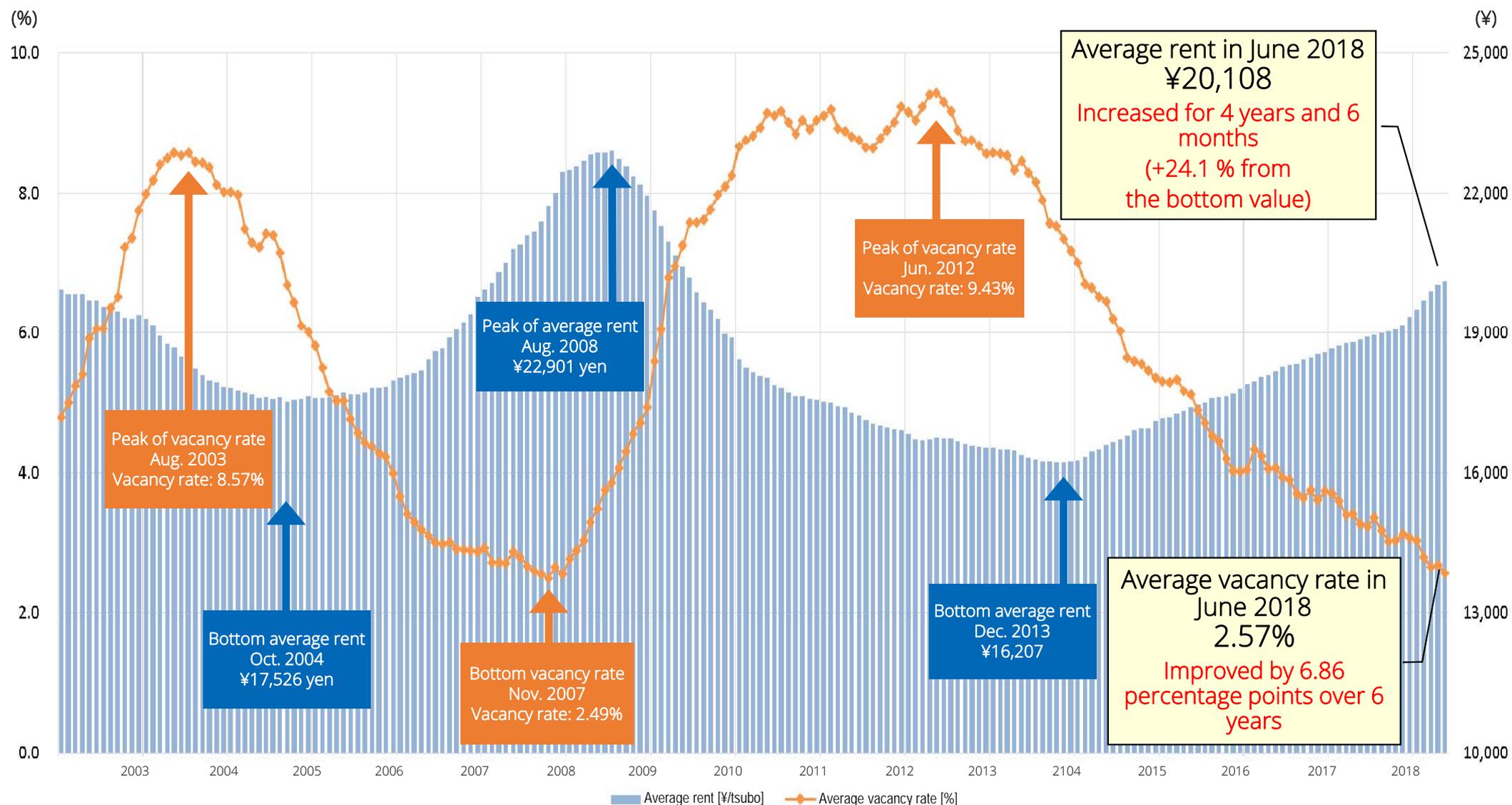
2. As employment and income environment continue to improve, the Japanese economy is projected to experience gentle recovery.

- ◆ The real rate of growth in the Japanese economy remains in a growth trend, underpinned by strong capital investment and foreign demand.
- ◆ At ¥1 trillion 123.3 billion yen, foreign visitors' to Japan consumption amount in April-June 2018 set a new record for a given quarter.
- ◆ Uncertainties in overseas economic environment, trends in financial and capital markets, and the rising trend in crude oil prices all suggest the need for caution.

3. The urban office building market is still thriving, because demand is healthy thanks to good corporate performance.

- ◆ Average rent is slightly rising. Vacancy rate remains low. Steady demand can be expected to continue.
- ◆ Vacancy rates are approaching their previous lows. Favorable conditions are expected to continue with regard to the balance between supply and demand.
- ◆ Despite an excess outflow of funds from investment trusts that pay monthly distributions, the performance of individual J-REITs remains generally strong.

# Changes in office rent and vacancy rate in 5 wards of central Tokyo



※Source: Created based on Miki Shoji's "Office Report." Graph reflects office buildings within the 5 wards of Tokyo of which have a standard floor area of 100 tsubo (roughly 331 square meters) or larger.

# 3) Results of Real Estate Revitalization (Replanning) Business

Small and mid-sized offices in the central Tokyo

Revitalization performance

**No.1**

Number of Revitalization projects

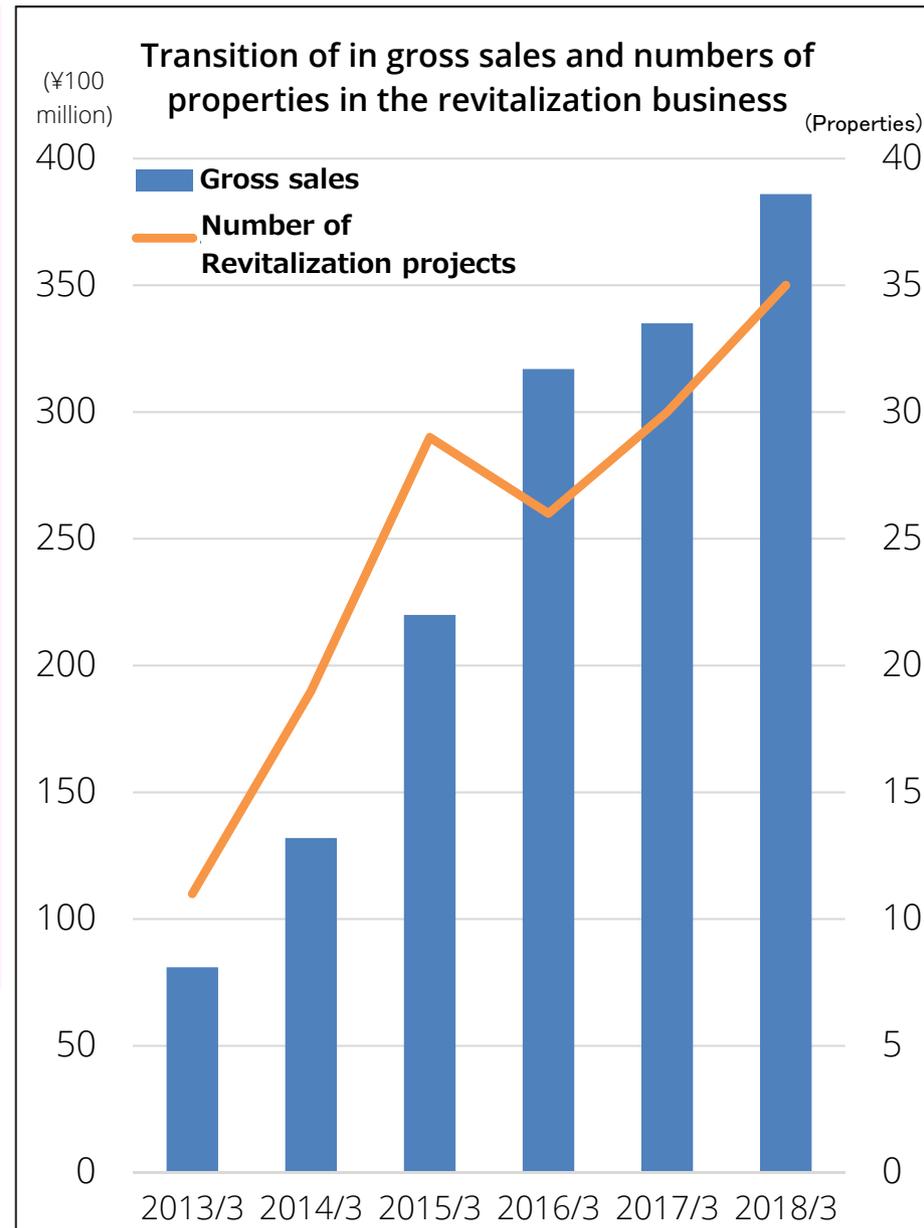
**334**

Gross sales

**¥320.4**  
**billion**

(based on our estimates)

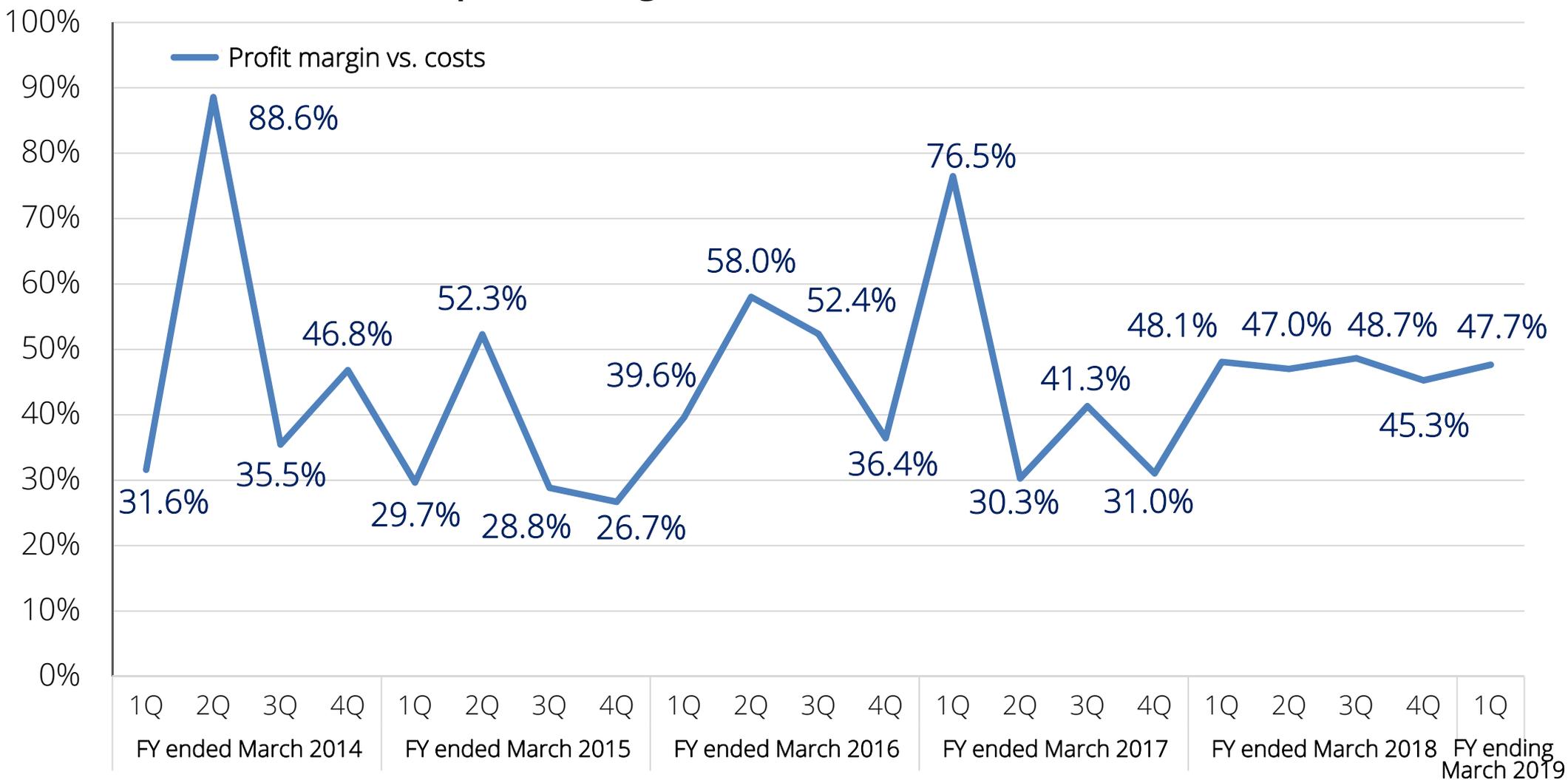
Active in the real estate revitalization business for 18 years



# Profit margins in the real estate revitalization business



## Transition of profit margins in the real estate revitalization business



\* Profit margin vs. costs: Calculated as (gross profit)÷(cost of sales) to indicate the level of profit margins vs. costs in the replanning business

\* The real estate revitalization business includes the real estate securitization business and the hotel development business in addition, to the replanning business

# 4) Growth Assets Supporting the Foundations of the Replanning Business

Four factors with which we demonstrate strengths in connection to the revitalization business



Rental brokerage

Number of business facilities

10 locations

Sales staff

81 persons

Property management

Number of buildings under management

381 buildings

Management staff

105 persons

Rent guarantee

Number of guarantee contracts (cumulative)

3,925 contracts

Vacating litigation rate\*

2.6%

Construction planning

Construction to maintain building function

Safety, peace of mind, and convenience after purchase

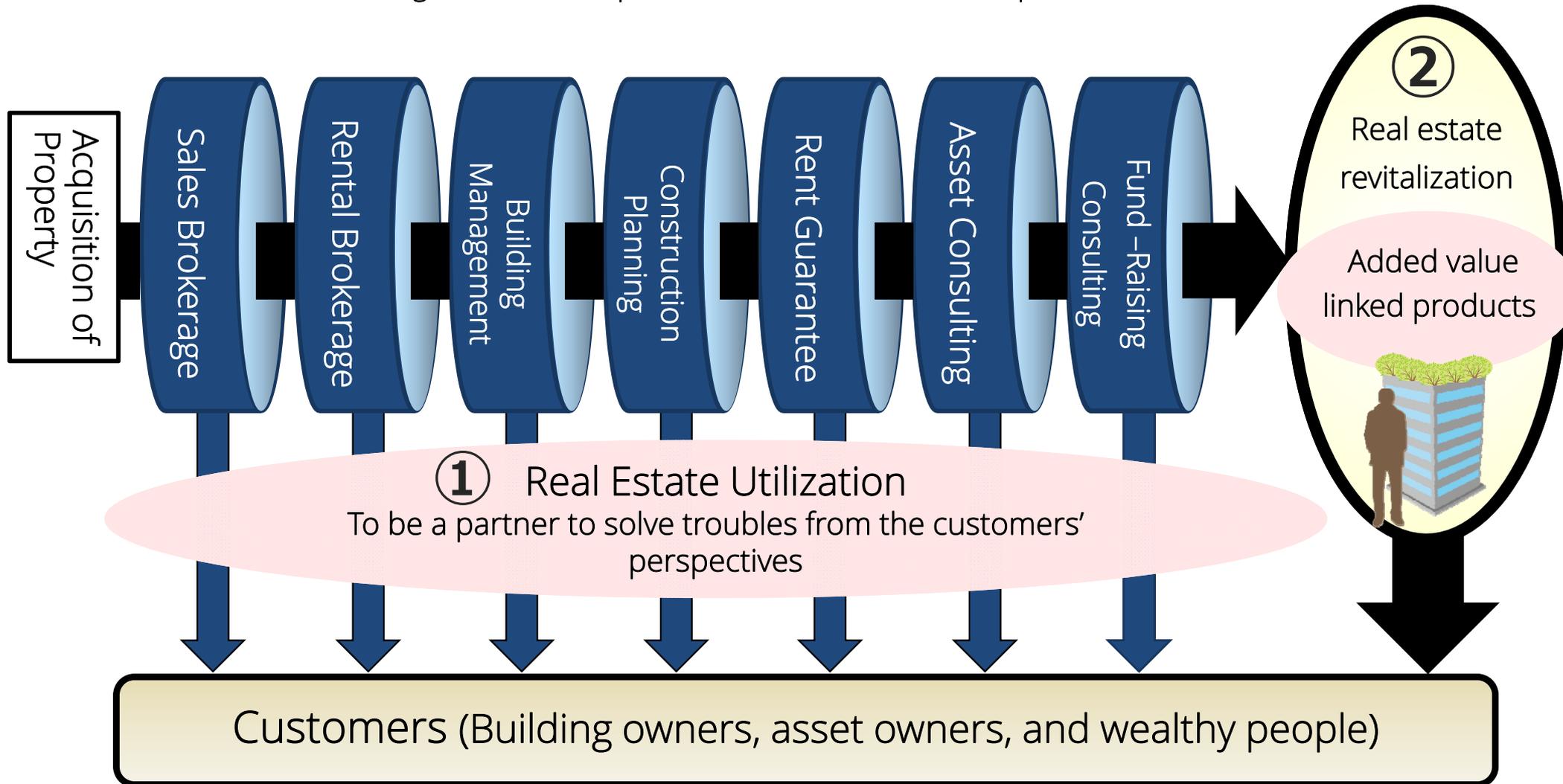
Construction intended to increase building value

Design planning with an eye toward future societal changes

\* Vacating litigation rate: (Number of cases of litigation upon vacating properties)÷(number of guarantee contracts)

# A Business Structure Based on Connecting and Integrating Individual Businesses for Use in Revitalization

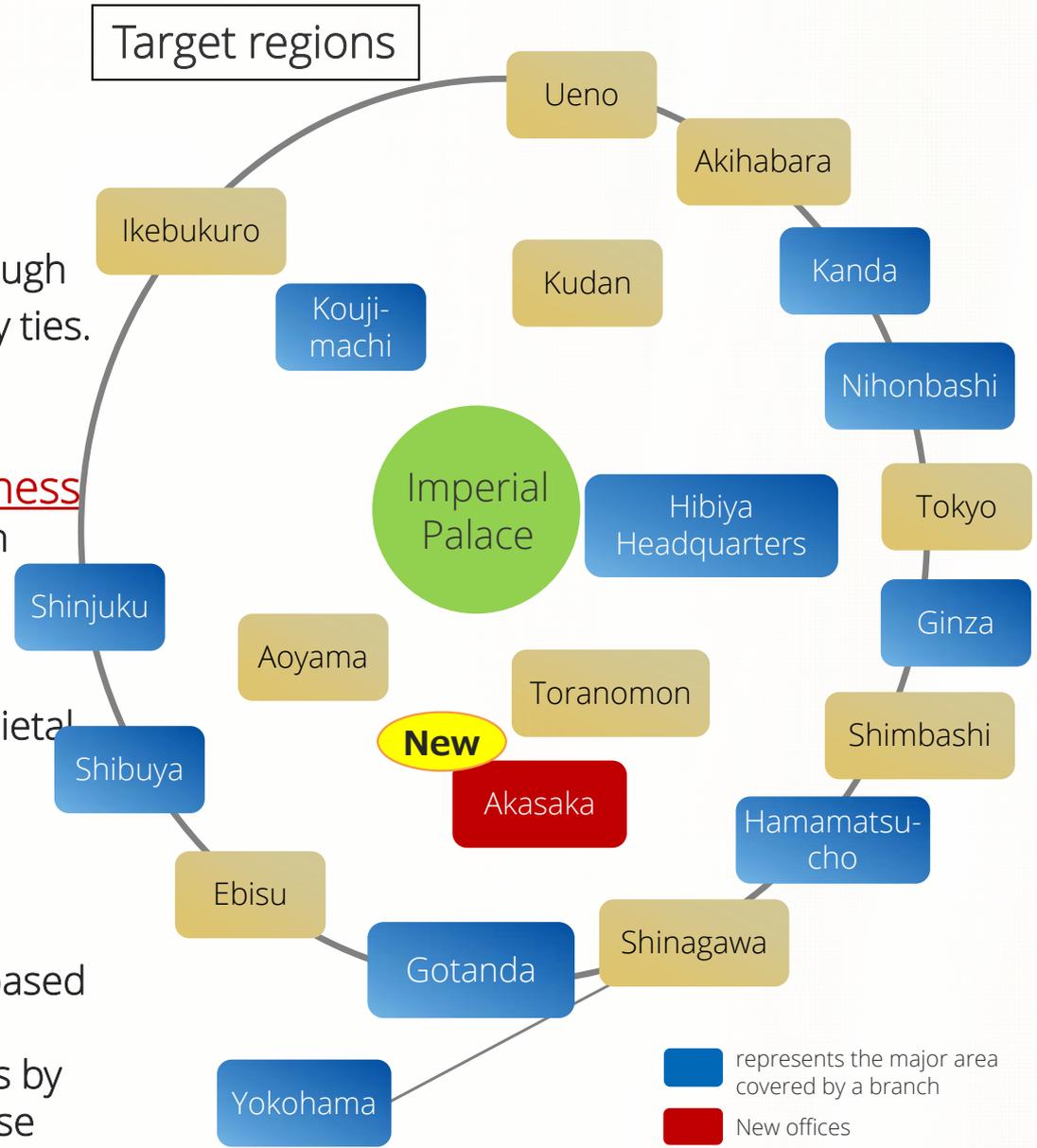
1. In vertical real estate utilization business, we survey and solve difficulties by listening to customers' concerns.
2. In horizontal real estate revitalization business, first, we put together the know-how and customer needs learned from the process above. Then we apply this knowledge to renovate used buildings we purchased and transform them into high value-added products. After this, we sell the products to customers.



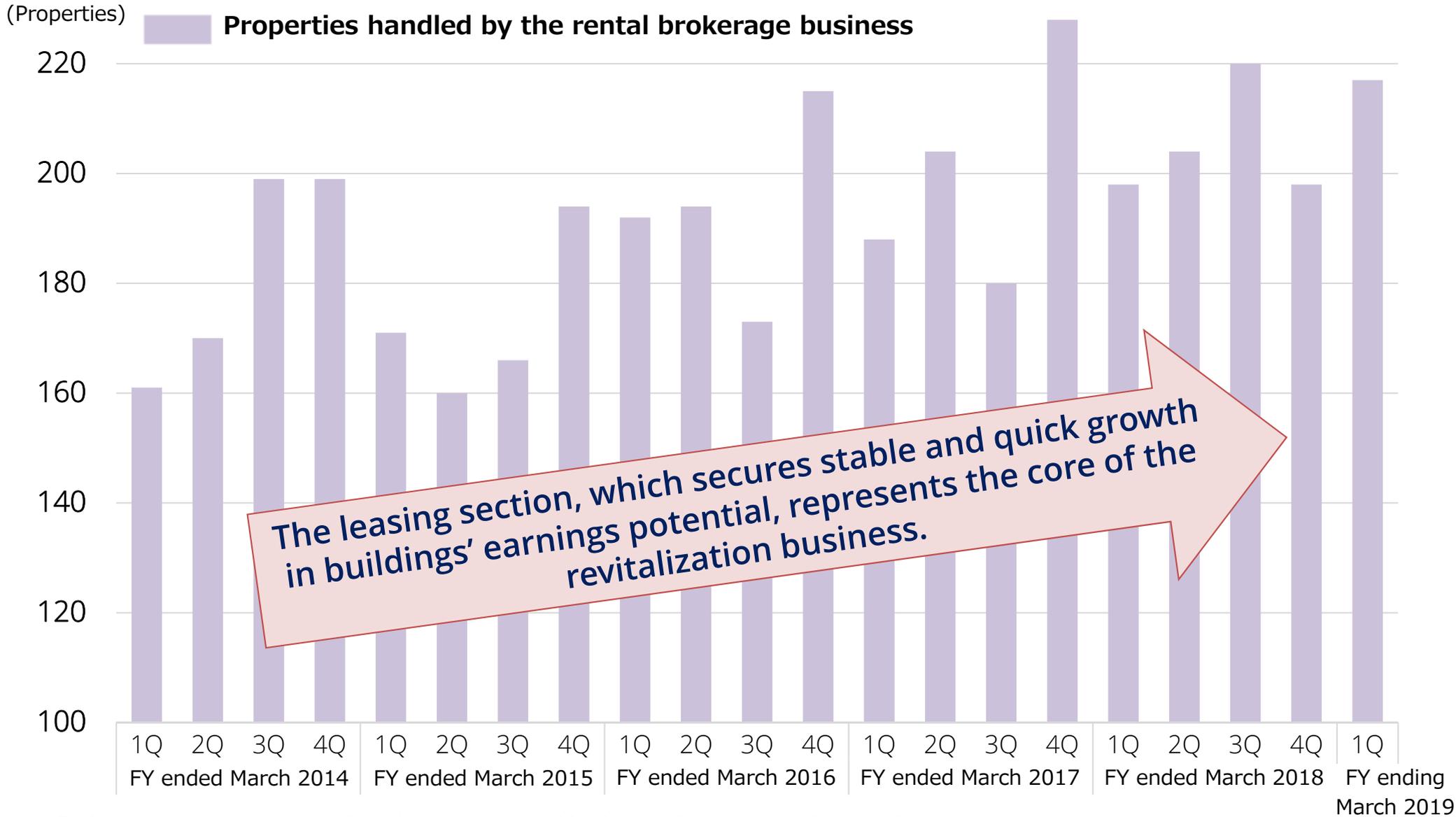
# An ability to find tenants using familiarity with local information and community ties



- To specialize in small to mid-sized office buildings located in the urban center  
 We operate 10 locations, with a focus on central Tokyo.  
 Their strengths are the ability to find tenants through a familiarity with local information and community ties.
- To contribute to high-added-value commercialization in the revitalization business  
 Drawing on our ability to find tenants, focusing on Tokyo's five central wards, we contribute to the commercialization of revitalized buildings.  
 We also contribute to rental product development by identifying tenant needs and societal changes.
- To procure real estate for Real Estate Revitalization Business  
 In certain cases, as a contact point for solutions based on the perspectives of building owners, **we buy buildings directly** when owners acquire properties by inheritance, their buildings deteriorate, or they lose interest in managing the buildings.

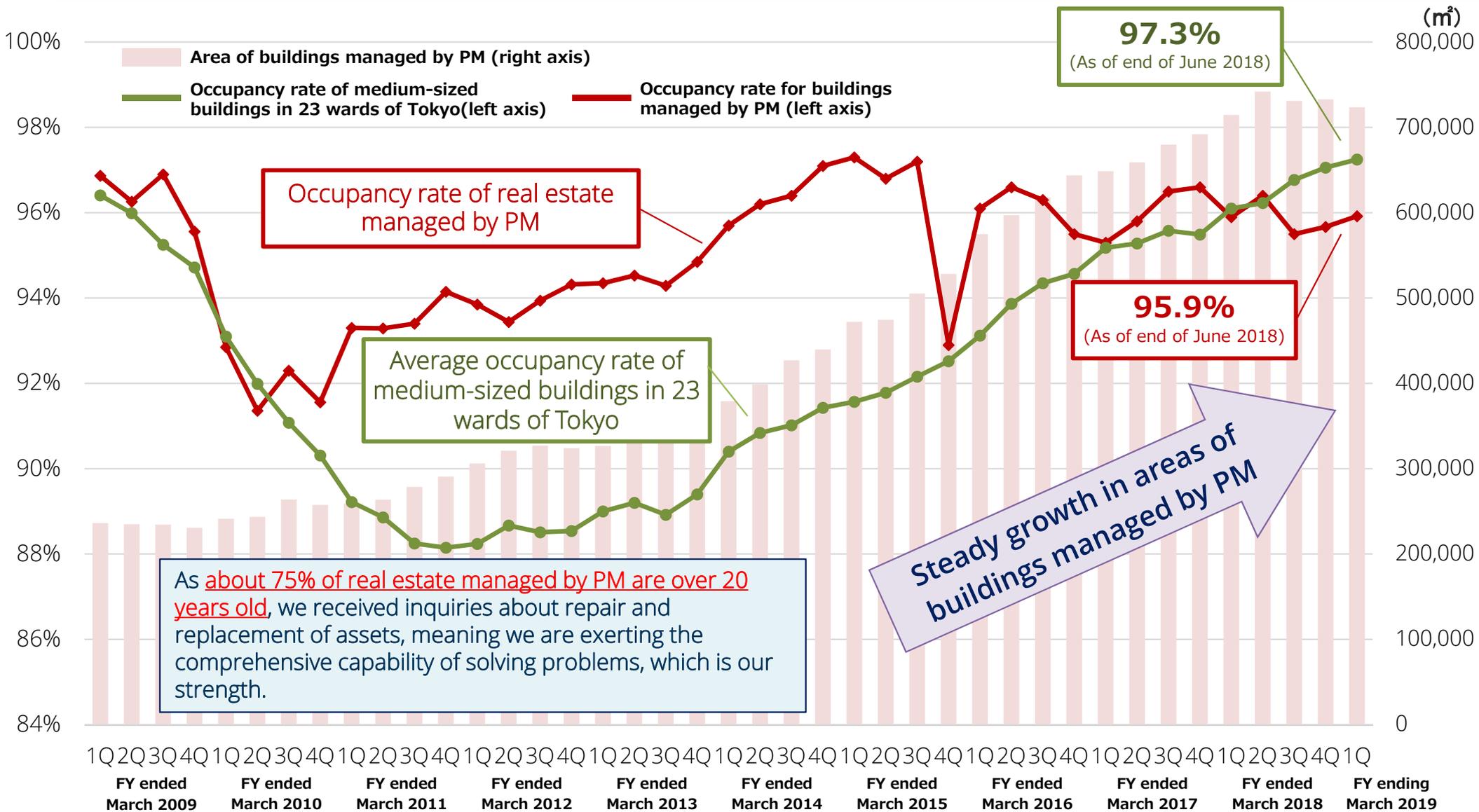


# Trends in numbers of properties handled by the rental brokerage business



\* Includes our own properties handled by the rental brokerage business, such as replanning properties.

# Real estate revitalization business Sources of added value – Property management – Area and occupancy rates of buildings managed by PM



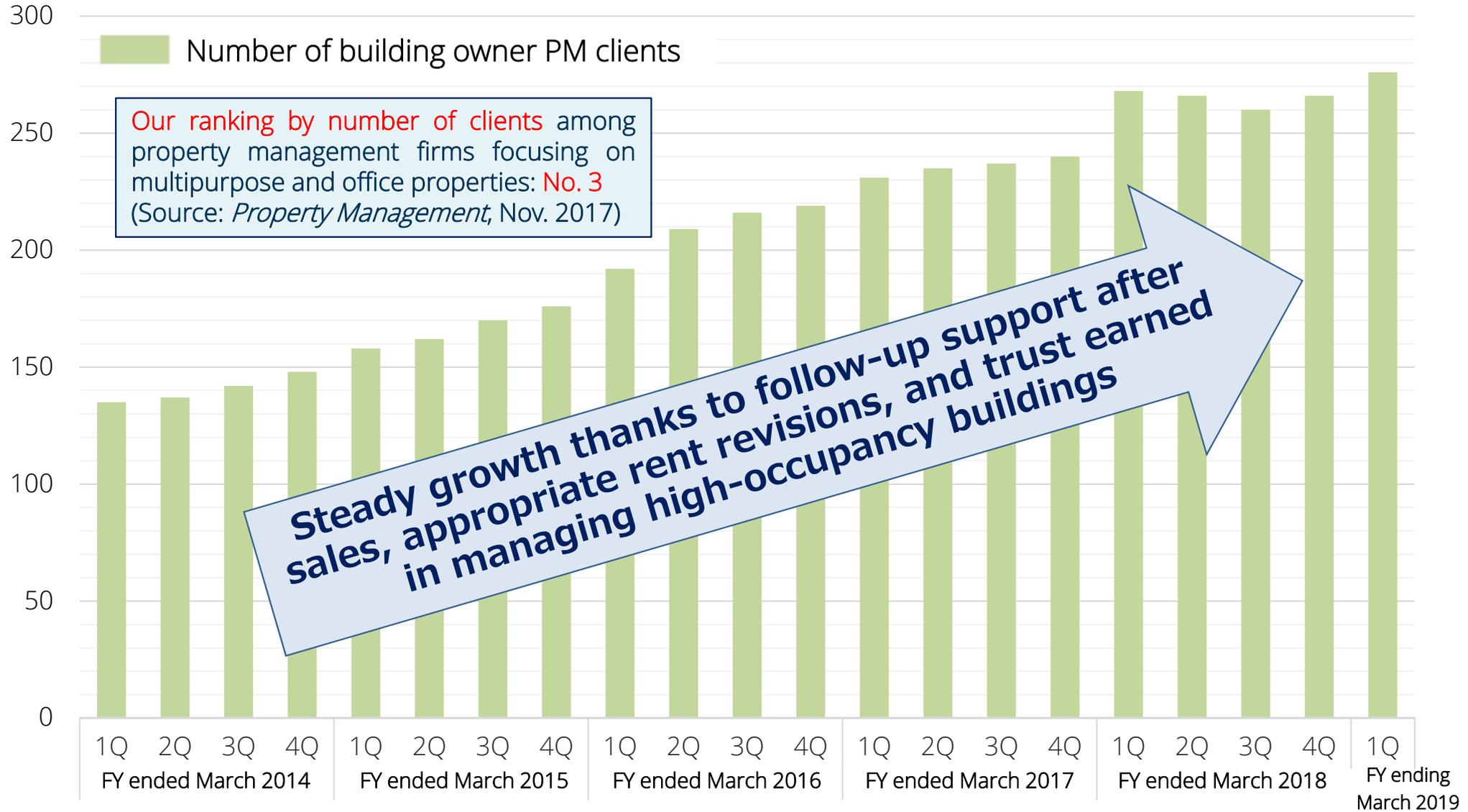
※Source: The average occupancy rate of medium-sized buildings in 23 wards of Tokyo was calculated by our company with reference to “Monthly Report on Office Market Surveys” by Sanko Estate.  
 ※Occupancy rate: Total Area Occupied / Total Area for Rental; Occupancy rate and managed area include those of real estate subject to our RP.

# Real estate revitalization business Sources of added value – Property management – Increase in numbers of building owner clients



## Transition in numbers of building owner PM clients

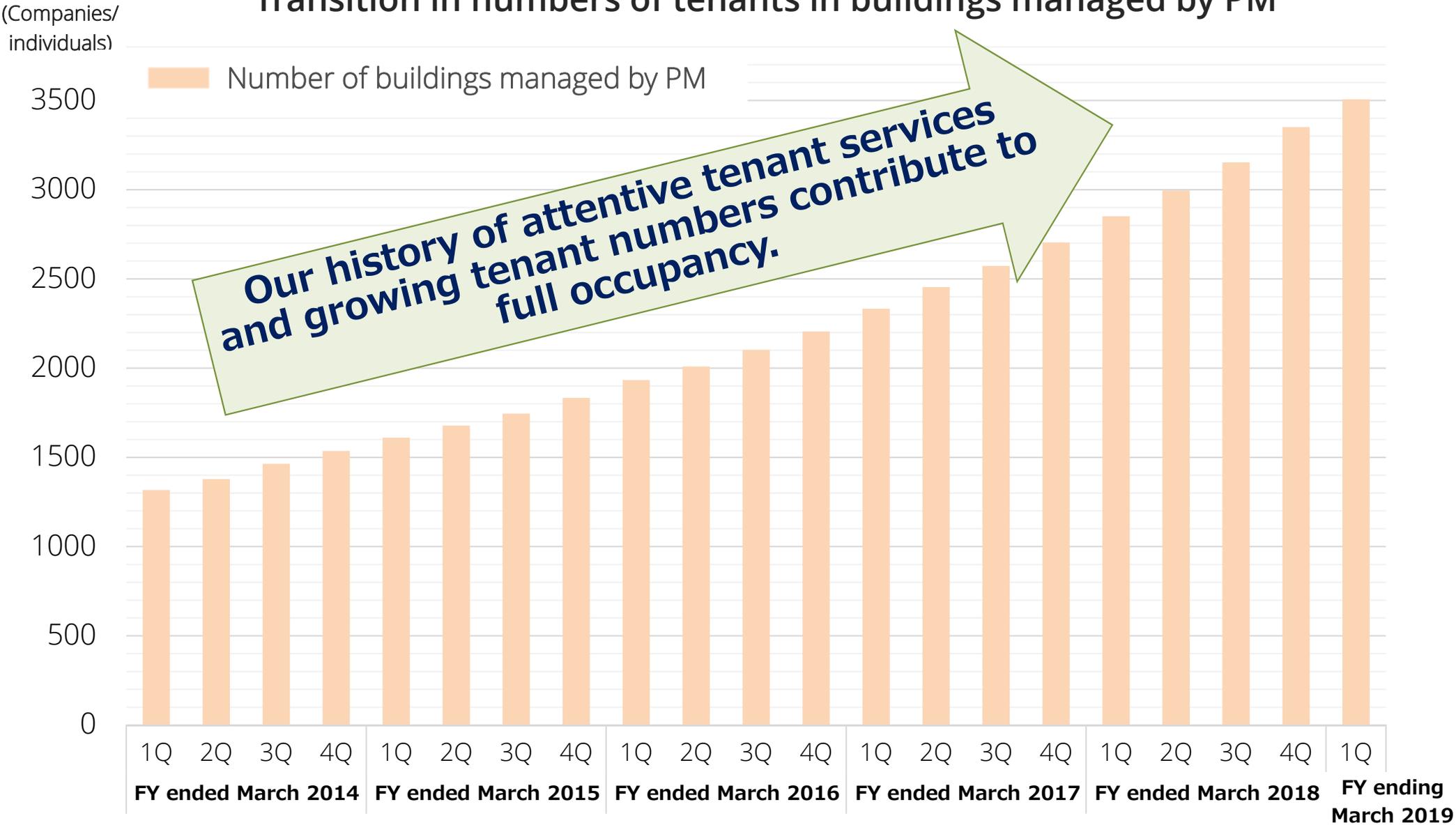
(Companies/  
individuals)





# Growing tenant numbers

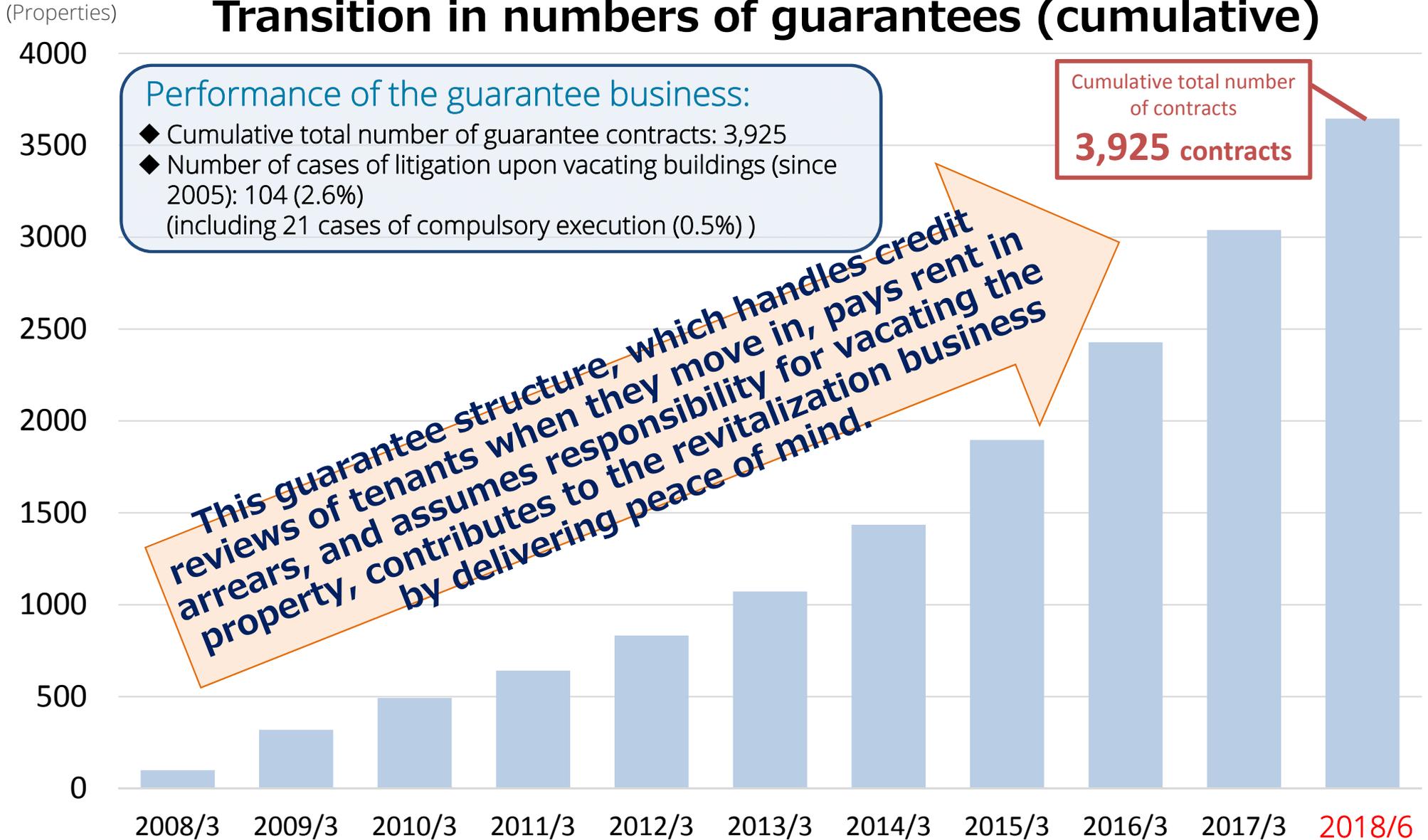
Transition in numbers of tenants in buildings managed by PM



# Number of rent guarantees



## Transition in numbers of guarantees (cumulative)



# The power to maximize a building's value



[Sun Frontier's construction]

1. Repair construction to maintain value (functionality)

→ (1) Exterior wall repairs (fixing leaks, beautification), (2) air-conditioning, (3) elevator renovations, etc.

These repairs eliminate the need for large-scale work for 5-10 years after the property purchase.

We repair any defects discovered within three months after the sale and handover, at our own expense, as part of our suite of after-sales services.

2. Renovation construction to improve value (functionality, comfort)

→ Full renovations include raising the ceilings in restrooms, elevator lounges, and offices, installing terrace gardens on rooftops, and renovating entrances and other facilities. We handle construction in areas not actively addressed by other companies due to cost.

⇒ This approach helps differentiate one property from another from the tenant perspective, contributes to stable occupancy rates and rapid leasing at rates above market rents, and sidesteps the disadvantages of price competition.

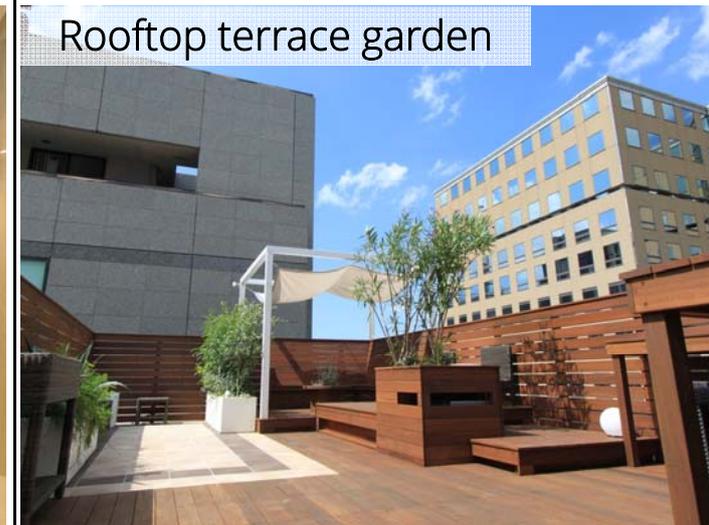
Facade



Elevator hall



Rooftop terrace garden

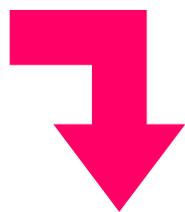


# Real estate revitalization business Sources of added value — Construction planning — Planning ability from the tenant's perspective based on SUN FRONTIER a keen identification of societal changes

## [Setup offices]

Drawing on community ties and constant study of tenant needs, we anticipate societal changes. The style and convenience we achieve in our building interiors based on the tenant perspective are decisive factors in leasing these offices.

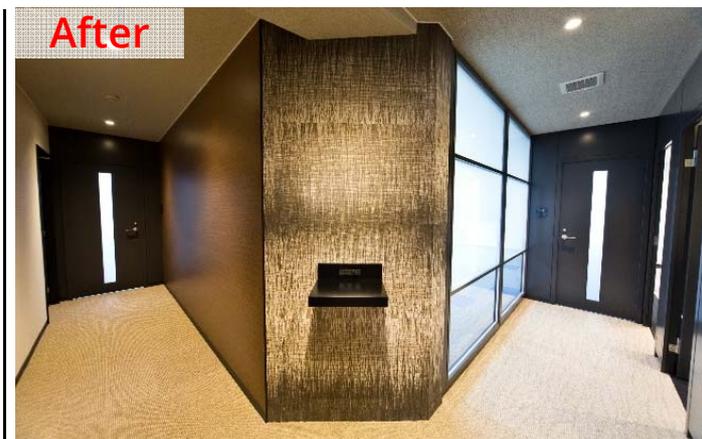
These flexible offices achieve earnings and high occupancy over the long term free of undue effects related to economic cycles.



We installed a meeting room with a reception desk and glass partitions based on an approach emphasizing both design and functionality.



We created an open office space, with the ceiling height of over 5m.



We achieve a design that reflects the Japanese outlook, incorporating luxurious touches all the way to the ceiling.

- Four types of value generated by setup offices:
- (1) Designs that combine style, functionality, and luxury
  - (2) Ease of use that minimizes moving costs
  - (3) Freedom from complexities such as the need to reconfigure interior construction
  - (4) Increased employee motivation and productivity

# Based on hidden growth assets



The real estate revitalization business generates strong sales profit. The real estate revitalization business is based on the accumulation of **hidden growth assets that do not necessarily appear on the balance sheet.**

## <Hidden growth assets>

- (1) Our ability to find tenants based on community ties
- (2) Peace of mind through track record of high occupancy rates
- (3) Customer base (numbers of tenants and building owners)
- (4) Problem-solving building management capabilities
- (5) Rent guarantees that deliver stability and peace of mind
- (6) Planning abilities based on the tenant perspective
- (7) A fund of expertise in making the most of a building's attributes

Our customer service represents the foundations of the revitalization business.

The hidden growth assets accumulated with our experience making the most of each property gives us the understanding needed to increase added value from a multifaceted approach.

# Revitalization achieved by taking full advantage of the spacious entrance facing Aoyama-dori



Exterior **After**



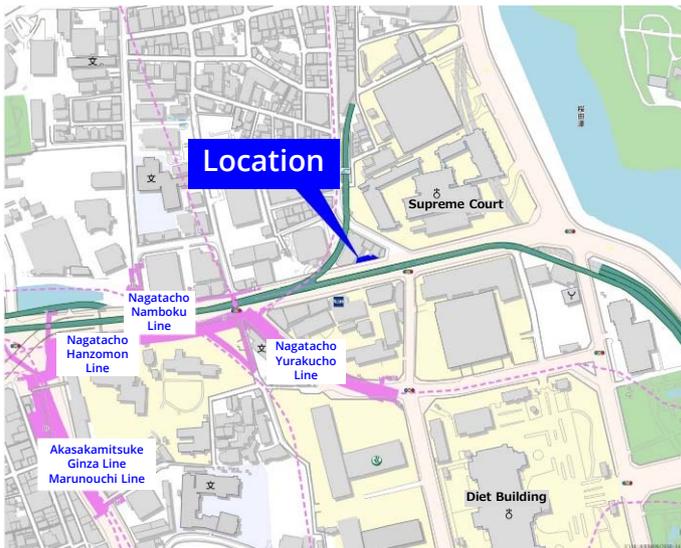
First floor interior **After**

Taking advantage of the location through use of the first floor as a showroom and the basement as offices



Rooftop **After**

Roof garden offers views of the city and landscaping



Location



B1 **After**

A maximum ceiling height of 7 m creates an open, airy space filled with natural light



Entrance **After**

Remodeled into an elegant space that delivers comfort and reliability



Entrance **Before**



[Property overview]

- Location: Hirakawacho, Chiyoda-ku, Tokyo
- Structure: Steel-frame, steel-reinforced concrete flat-roofed structure with one basement floor and eight aboveground floors
- Completed: 1982(36 years)

- Use: Office
- Site area: 266.79 sq m (80.70 tsubo)
- Total floor area: 1,915.68 sq m (579.49 tsubo)

# Revitalized into a relaxing building that connects people to the canal



Exterior **After**



Seismic strengthening to create peace of mind

Exterior **Before**



First floor **After**



Parking lot converted to restaurant

First floor **Before**



Rear of building **After**



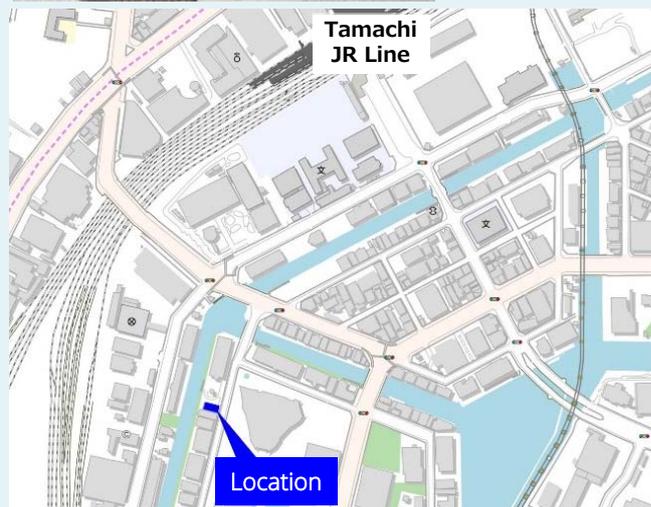
New stepped benches installed along canalside waterway

Rear of building **Before**



[Property overview]

- Location: Shibaura, Minato-ku, Tokyo
- Structure: Steel-frame, steel-reinforced concrete flat-roofed structure with seven floors
- Completed: 1976(42 years)
- Use: Office, residential, retail
- Site area: 306.55 sq m (92.73 tsubo)
- Total floor area: 1339.99 sq m (405.34 tsubo)



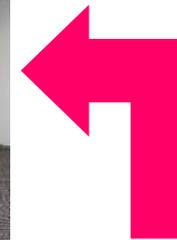
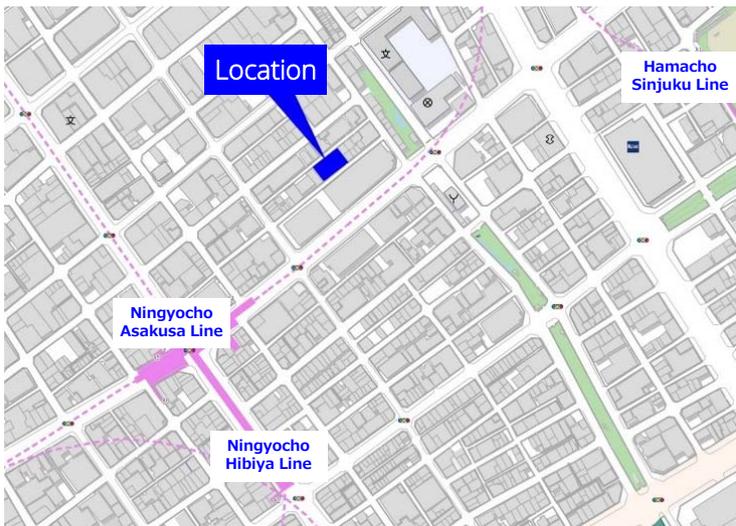
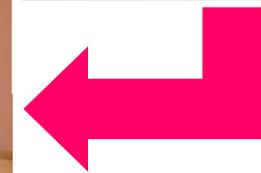
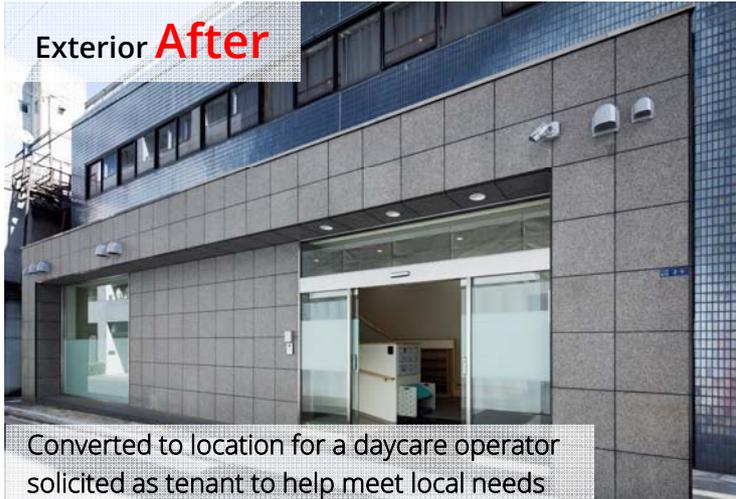
Rear of building **After**



Creating a relaxing space that connects people in the neighborhood to the canal

# Real estate revitalization business case study (3)

## Conversion to a daycare center which is socially significant



### [Property overview]

- Location: Nihonbashi-Tomizawacho, Chuo-ku, Tokyo
- Structure: Steel-reinforced concrete, one basement floor, four aboveground floors
- Completed: 1986(31 years)
- Use: Office, garage, warehouse
- Site area: 306.94 sq m (92.84 tsubo)
- Total floor area: 852.46 sq m (257.86 tsubo)

# 5) Introduction to Newly Developed Hotels

The first hotel in our Tabino Hotel brand

# Grand opening of Tabino Hotel Hida-Takayama



The grand opening of Tabino Hotel Hida-Takayama, the **first hotel in Hiyori Hotels & Resorts' casual Tabino Hotel brand**, was held on May 2, 2018. The remarkably convenient location will serve as a base for access to a wide range of sightseeing and recreational outdoor activities.

Envisioned as a hotel with warm hearted staffs, surrounded by natural wood, it incorporates a wide range of specifications throughout that stress the perspective of its guests. Amenities include a free breakfast buffet and a large bath fed by a natural hot spring.

## Tabino Hotel Hida-Takayama, the first hotel in the Tabino Hotel brand



May 2nd, 2018  
GRAND OPEN

The hotel exterior: A hotel with warm hearted staffs, surrounded by natural wood



A Japanese-style entrance welcomes guests



Twin room



Spotless, spacious bathrooms

Breakfast buffet made with local ingredients



The traditional Japanese-style entrance evokes the ancient capital.



Open-air bath