

# Consolidated Financial Statements for the Third Quarter of the Fiscal Year ending March 2020

We are aiming to be the real estate company of the world's most loved, trusted and selected by clients.

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February 6, 2020



**SUN FRONTIER**

Stock Code: 8934

# Performance Summary of 3Q of FY ending March 2020



## Full-year Performance and Expected Dividends are Revised Upward

Results		Profit Margin	From the Same Period of the Previous FY	Growth Rate	Full-year Forecast (Announced on May 9, 2019)	Revised Forecast	Progression Rate	
Net Sales	54,631 million yen	-	+ 9,435 million yen	+ 20.9%	70,000 million yen	72,500 million yen	+ 3.6%	
Operating Income	13,560 million yen	24.8%	+ 1,397 million yen	+ 11.5%	14,500 million yen	15,900 million yen	+ 9.7%	
Ordinary Income	13,297 million yen	24.3%	+ 1,550 million yen	+ 13.2%	14,000 million yen	15,500 million yen	+ 10.7%	
Net Income *	8,976 million yen	16.4%	+ 1,012 million yen	+ 12.7%	9,500 million yen	10,200 million yen	+ 7.4%	
					Dividend per share	39.5 yen	42.0 yen	+ 6.3%

\*"Net Income" represents net income attributable to shareholders of the parent company.

### Performance Highlights

#### 1) Significant increase of Net Sales and Incomes of RP Business \*

- In RP Business, sales of buildings significantly increased to 33 buildings (7 more than those in the same period of the previous year), and **the segment income ratio was further improved** (from 32.8% in the same period of the previous year to **33.3%**). Net Sales and Incomes renewed the all-time high.
- Our company's unique business model to maximize the attractiveness of buildings is deepened by bringing together the expertise of each division of the company through all processes, including purchase, commercialization and sales, and **by repeatedly using our ingenuity which has captured the sources of added values from the clients' point of view.**

\*"RP Business" represents Replanning Business.

#### 2) Steady growth in Operation Business

- In Hotel Operation Business, newly opened hotels contributed to earnings and Net Sales rose as much as 45% year-on-year. HIYORI Hotel Tokyo Ginza EAST officially opened and **14 hotels with 1,953 rooms are in operation in Japan** as of the end of December. A hotel (with 155 rooms) will open in Kurashiki in February while another (with 194 rooms) will open in Kashima in April.
- In Conference Room Rental Business, Vison Center Hibiya newly opened in December. The number of sites has increased to **19 (with 7,000 seats in total)** as of December. We are aiming to expand the business further by strengthening our internal system.

# Consolidated Income Statement



(Unit: 1 million yen)

	FY ended March 2019 Q3 (Apr. to Dec.)	FY ending March 2020 Q3 (Apr. to Dec.)
<b>Net Sales</b>	<b>45,196</b>	<b>54,631</b>
Real Estate Revitalization Business	39,572	45,131
Replanning Business (including Hotel Development)	37,361	42,299
Rental Buildings and Sublease	2,210	2,832
Real Estate Service Business	2,483	2,566
Operation Business	2,967	4,335
Other Business	772	3,574
Adjustment	▲599	▲976
<b>Gross Profit</b>	<b>16,515</b>	<b>19,132</b>
Real Estate Revitalization Business	14,073	16,223
Replanning Business (including hotel development)	13,070	15,086
Rental Buildings and Sublease	1,002	1,136
Real Estate Service Business	1,528	1,646
Operation Business	419	310
Other Business	546	1,066
Adjustment	▲53	▲113
<b>Selling, general and administrative expenses</b>	<b>4,352</b>	<b>5,572</b>

	FY ended March 2019 Q3 (Apr. to Dec.)	FY ending March 2020 Q3 (Apr. to Dec.)
<b>Operating Income</b>	<b>12,162</b>	<b>13,560</b>
Non-operating Income	36	231
Non-operating Expenses	452	494
<b>Ordinary Income</b>	<b>11,746</b>	<b>13,297</b>
Extraordinary Gains (losses)	0	3
Corporate Income Taxes	3,782	4,329
Non-controlling gain or loss	▲0	▲4
<b>Net Income</b>	<b>7,963</b>	<b>8,976</b>

• RP Business has a gross profit margin of 35.7%, a higher level than the same period of the last FY's 35.0%.

• Steady growth was made in new business areas, such as Operation Business and other business, etc. Total Net Sales reported a year-on-year increase by 111.5% to ¥7.9 billion. On the other hand, Gross Profit made an increase by 42.5% to ¥1.37 billion due to an increase in costs associated with the opening of new hotels and unrealized losses on a part of Inventory Assets in Overseas Business.

# Consolidated Balance Sheet - Assets -

(Unit: 1 million yen)

	FY Ended March 2018	FY Ended March 2019	FY Ending March 2020 As of End of Dec. 2019	Increase/Decrease (Compared to End of March 2019)
<b>Current Assets</b>	<b>80,174</b>	<b>97,149</b>	<b>107,013</b>	<b>+ 9,864</b>
Cash and deposits	23,892	20,257	17,949	▲2,307
Inventory Assets	54,593	74,329	86,022	+ 11,693
Breakdown) RP	45,525	62,143	70,216	+ 8,073
Hotel	5,291	7,552	12,004	+ 4,452
Overseas, etc.	3,775	4,634	3,802	▲ 832
Other Current Assets	1,687	2,562	3,040	+ 478
<b>Noncurrent Assets</b>	<b>11,587</b>	<b>13,749</b>	<b>17,782</b>	<b>+ 4,032</b>
Property, Plant and Equipment	8,565	9,339	11,893	+ 2,554
Intangible Assets	474	863	771	▲91
Investments and other Assets	2,546	3,546	5,117	+ 1,570
<b>Total Assets</b>	<b>91,761</b>	<b>110,898</b>	<b>124,795</b>	<b>+ 13,897</b>

Inventory Assets increased by 11.7 billion yen in total due to the purchase of RP properties and others.  
Among them ¥8 billion increased in RP Business projects while ¥4.4 billion increased in Hotel Business projects.

Property, Plant and Equipment increased about ¥2.5 billion due to progress in construction work related to hotel development.

Cash and deposits decreased by ¥2.3 billion, reflecting steady purchase in RP Business projects for the next FY.

# Consolidated Balance Sheet – Liabilities/Equity –



	FY Ended March 2018	FY Ended March 2019	FY Ended March 2019 As of End of Dec. 2019	(Unit: 1 million yen) Increase/Decrease (Compared to End of March 2019)
<b>Current Liabilities</b>	<b>10,155</b>	<b>12,859</b>	<b>14,633</b>	<b>+ 1,774</b>
Short-term Loans Payable, etc.	2,716	2,248	3,702	+ 1,454
Income Taxes Payable, etc.	3,178	2,661	2,216	▲ 445
Other Current Liabilities	4,260	7,949	8,714	+ 765
<b>Noncurrent Liabilities</b>	<b>32,756</b>	<b>42,179</b>	<b>47,052</b>	<b>+ 4,873</b>
Long-term Loans Bonds Payable	30,865	39,751	44,466	+ 4,715
Other Noncurrent Liabilities	1,890	2,428	2,585	+ 157
<b>Total Liabilities</b>	<b>42,912</b>	<b>55,038</b>	<b>61,686</b>	<b>+ 6,647</b>
Shareholders' Equity	48,750	55,900	62,999	+ 7,099
Others	99	▲ 40	110	+ 150
<b>Total Net Assets</b>	<b>48,849</b>	<b>55,860</b>	<b>63,109</b>	<b>+ 7,249</b>
<b>Total Liabilities and Capital</b>	<b>91,761</b>	<b>110,898</b>	<b>124,795</b>	<b>+ 13,897</b>

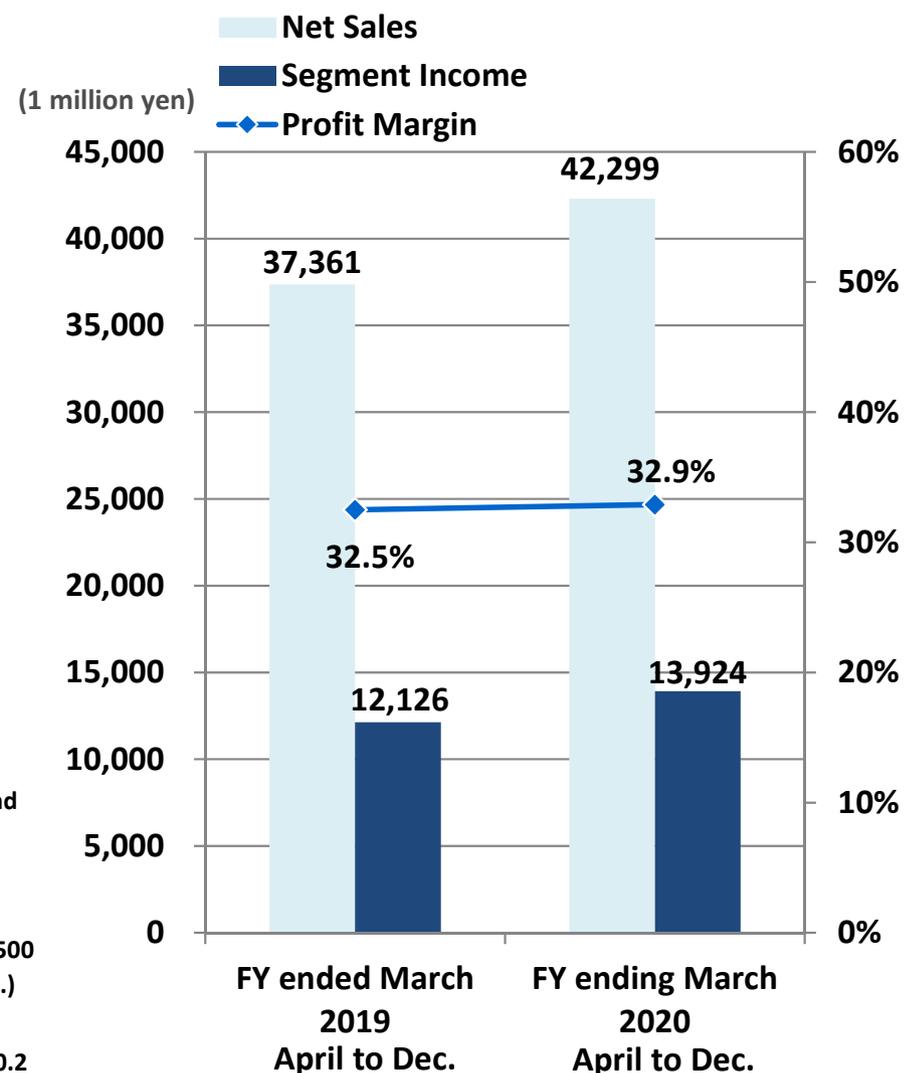
Transition of Equity Ratio		
End of March 2018	End of March 2019	End of Dec. 2019
53.2%	50.3%	<b>50.4%</b>

As purchases of RP properties progressed, borrowings increased by approximately 6.1 billion yen from the end of the previous FY, and the balance of interest-bearing debt was 48.1 billion yen.

Retained Earnings increased by 7.1 billion yen as a difference between current Net Income (+ ¥8.97 billion) and year-end dividend payment (▲ 1.87 billion yen).

# Replanning Business (Replanning (RP) / Hotel Development)

(Unit: 1 million yen)	FY ended March 2019 Apr. to Dec.	FY ending March 2020 Apr. to Dec.	Increase/ Decrease
Net Sales	37,361	42,299	+ 13.2%
Segment Income (Note 1)	12,126	13,924	+ 14.8%
Profit Margin	32.5%	32.9%	+ 0.5% pt
Number of items purchased	37 cases	32 cases	▲ 5 cases
Number of properties sold	26 cases	33 cases	+ 7 cases
Number of stocks at the end of Q2	69 cases	72 cases (Note 2)	+ 3 cases



- Both Net Sales and Income surged. The attractiveness of buildings was maximized by identifying sources for added values through each process of purchase, commercialization and sales, and by repeatedly using our ingenuity to increase them. **The segment profit margin remained at a high level of 32.9%.**
- The average business period was 400 days (+ 49 days from the previous year). The average business period was prolonged because we extended the period of commercialization (over 500 days) in order to create higher added values in some cases (4 cases out of the properties sold.)
- Purchase progressed favorably, with 72 properties in term-end inventory (62 RP Business-related properties and 10 Hotel Business-related properties). **¥82.2 billion in inventories** (¥70.2 billion for RP Business-related and ¥12 billion for Hotel Business-related).

\*Excluding those related to Overseas Business

\*In addition to the above, there are **12 RP properties of ¥13.6 billion** which were purchased, settled and contracted by the end of January.

(Note 1) "Segment Income" is calculated by deducting specific costs of each segment, including interest expenses, sales commission and goodwill depreciation expense from Gross Profit.

(Note 2) Projects of Land Purchase and Development are included in RP inventory.

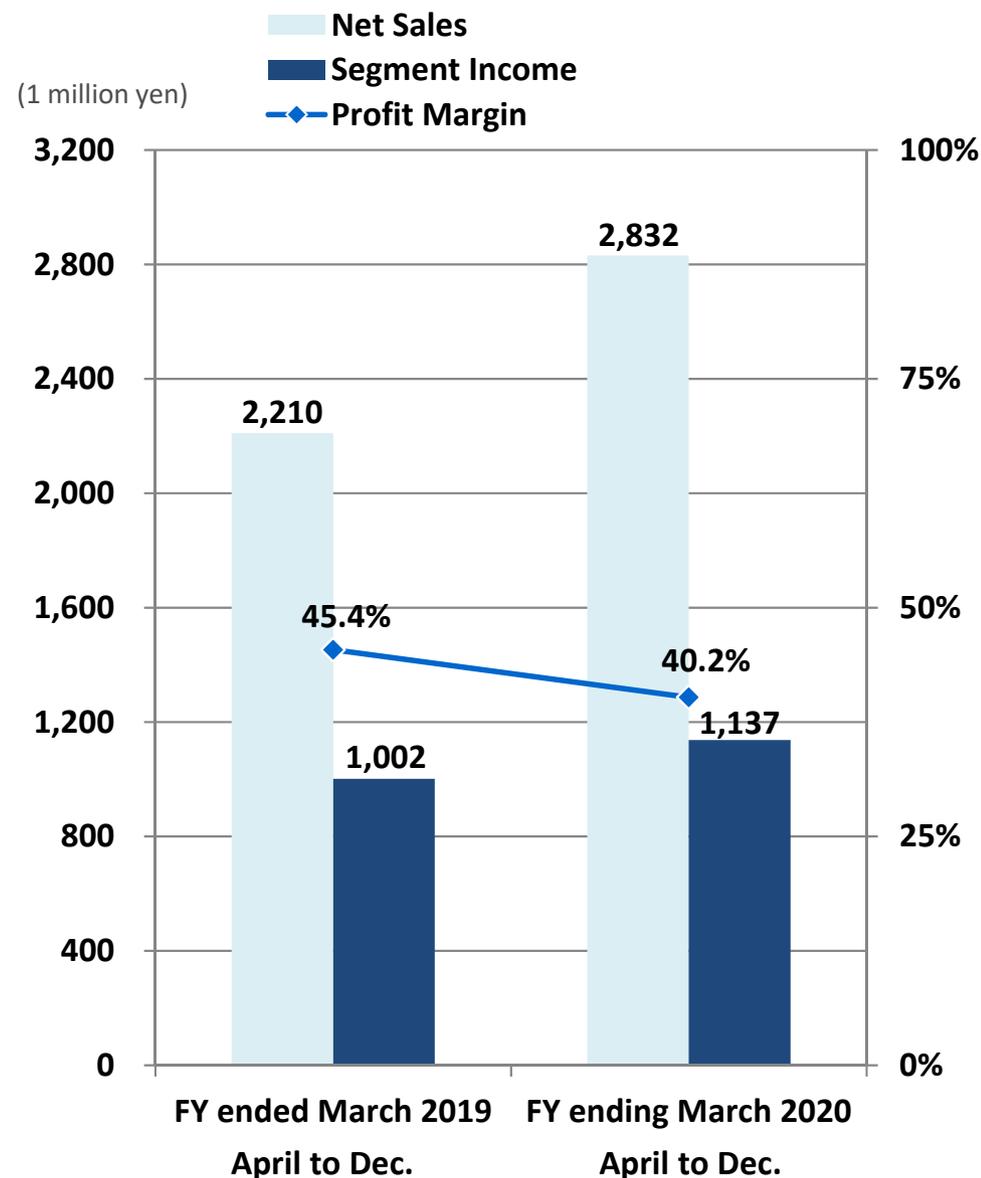
## Operating Results by Business Segment

# Rental Building Business (Rental Buildings / Sub-leases)



(Unit: 1 million yen)	FY ended March 2019 Apr. to Dec.	FY ending March 2020 Apr. to Dec.	Increase/ Decrease
Net Sales	2,210	2,832	+ 28.1%
Segment Income	1,002	1,137	+ 13.4%
Profit Margin	45.4%	40.2%	▲5.2% pt

- Net Sales increased by 28% from the same period of the previous year since Inventory increased due to the increased purchasing of RP properties and also Sub-leases rent increased due to newly opened hotels.
- On the other hand, Segment income increased by 13% and profit margin decreased by 5%pt from the same period of the previous year affected by the period of vacancy for replacement of tenants during the process of commercialization of PR properties and also by the increased proportion of sub-leases.
- We aim to focus on purchasing properties for the medium and long-term RP projects to increase rent revenue.



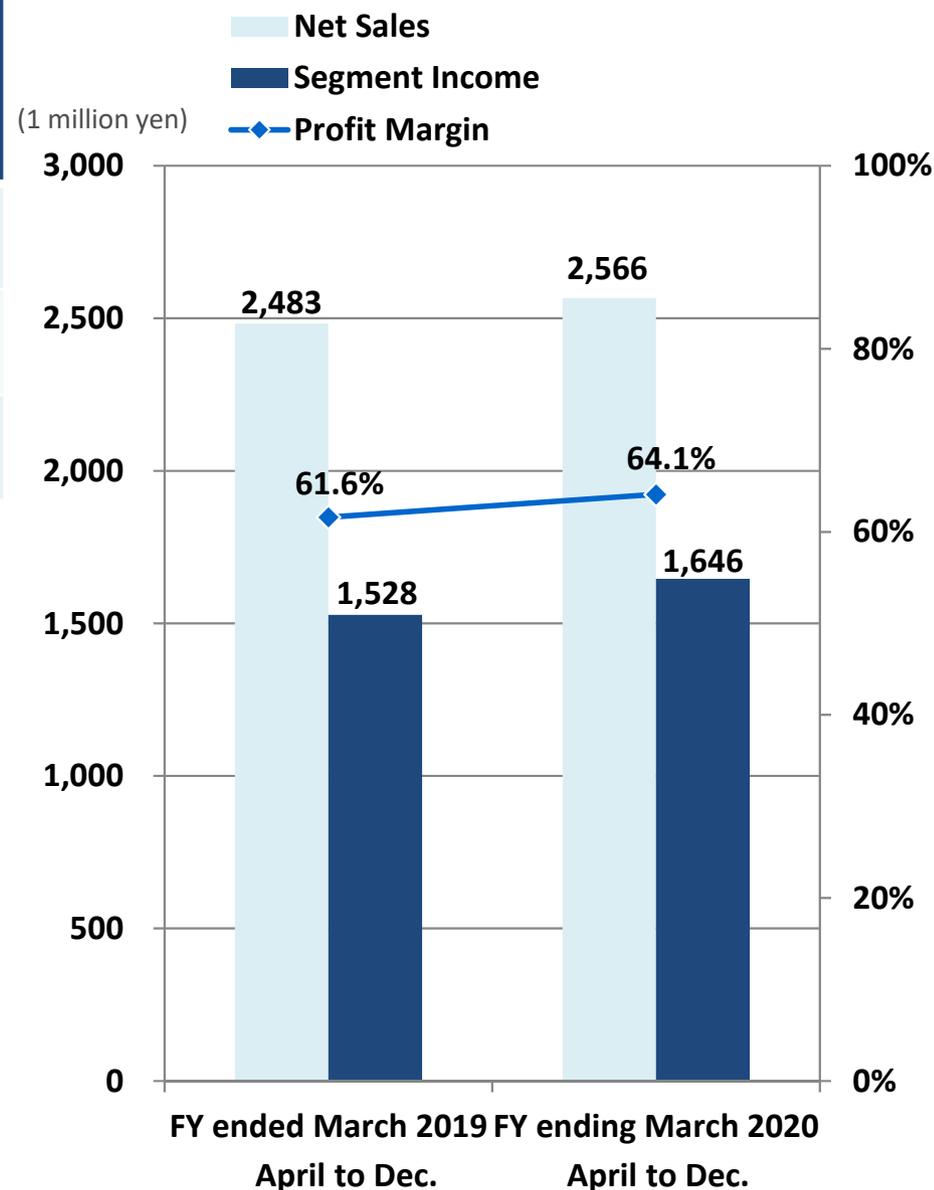
# Operating Results by Business Segment

## Real Estate Service Business

(Property Management / Building  
Maintenance / Brokerage / Leasing)



(Unit: 1 million yen)	FY ended March 2019 Apr. to Dec.	FY ending March 2020 Apr. to Dec.	Increase/ Decrease
Net Sales	2,483	2,566	+ 3.4%
Segment Income	1,528	1,646	+ 7.7%
Profit Margin	61.6%	64.1%	+ 2.6% pt



### <PM and BM Businesses>

- In PM and BM businesses, we provide our clients with high added value services by **meticulously taking care of tenants, solving any and all problems of our clients** as well as improving revenues from building management. Thus, our PM and BM businesses have **expanded the tenant and business bases** of the building owners in central Tokyo and contributed to the revenue of the whole group.

#### [Number of PM Managing Buildings and Occupancy Rate]

	[Number of Managing Buildings]	[Occupancy Rate]
End of Dec. 2017	369 buildings	95.5%
End of Dec. 2018	377 buildings	97.8%
End of Dec. 2019	391 buildings	98.4%

### <Brokerage and Leasing>

- Both Net Sales and Income slightly increased compared to the same period of the previous FY. They have contributed to the revenue of the whole group, working as **driving force to create high added values from the clients' point of view** in terms of the process of purchase, commercialization and sales of the RP Business.

## Operating Results by Business Segment

# Operation Business (Hotel Management and Conference Room Rental Business)



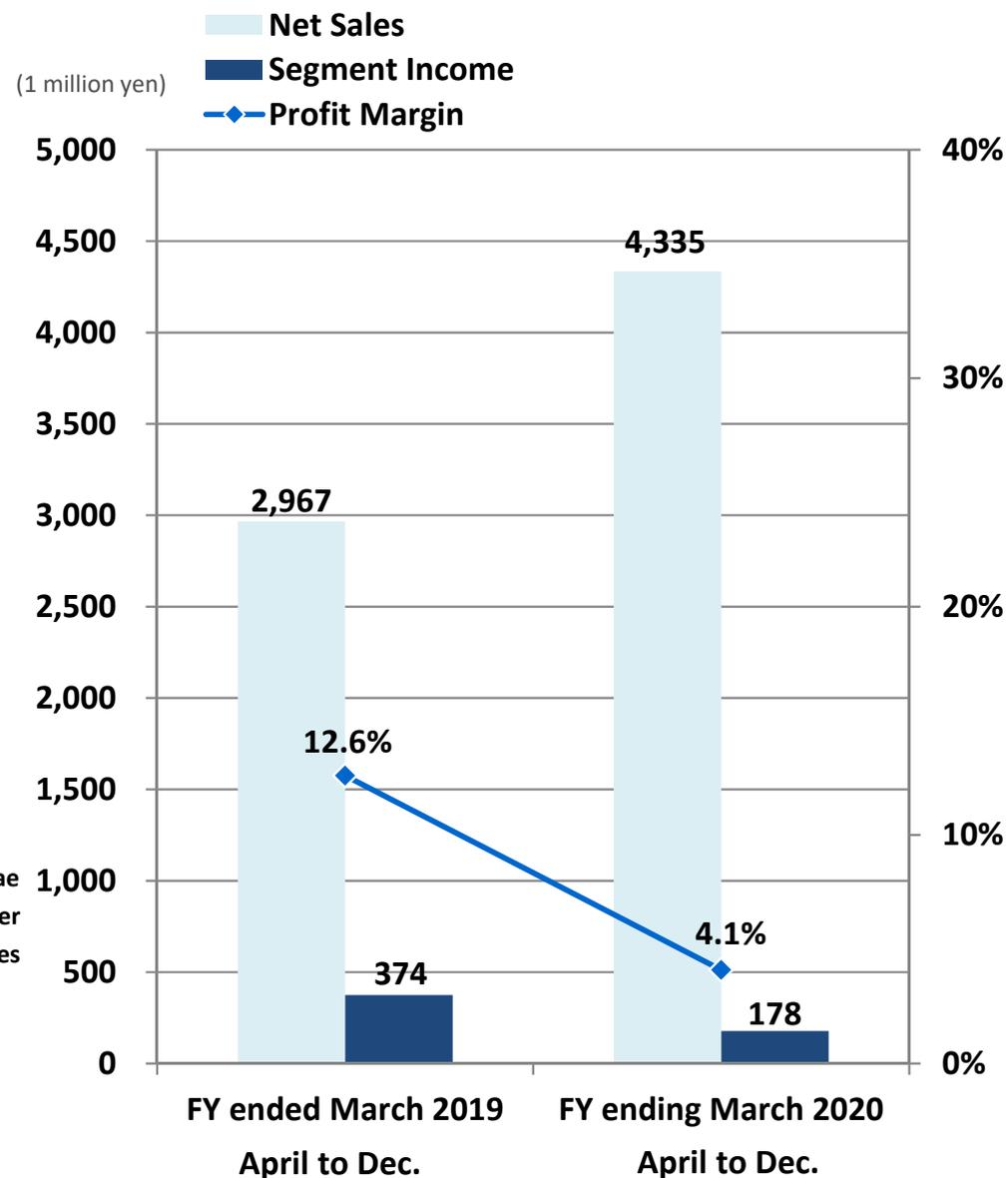
(Unit: 1 million yen)	FY ended March 2019 Apr. to Dec.	FY ending March 2020 Apr. to Dec.	Increase/ Decrease
<b>Net Sales</b>	<b>2,967</b>	<b>4,335</b>	<b>+ 46.1%</b>
Hotel operation business	2,312	3,346	+ 44.7%
Conference room rental business	655	989	+ 51.1%
<b>Segment Income</b>	<b>374</b>	<b>178</b>	<b>▲52.5%</b>
Hotel operation business	257	▲ 4	▲101.7%
Conference room rental business	117	182	+ 55.6%
<b>Profit Margin</b>	<b>12.6%</b>	<b>4.1%</b>	<b>▲8.5% pt</b>
Hotel operation business	11.1%	▲0.1%	▲11.3% pt
Conference room rental business	17.9%	18.5%	0.5% pt

### <Hotel Operation Business>

- Net Sales saw a 44.7% increase. Sales of Tabino Hotel Sado which opened last year contributed to the whole-year sales while the sales of HIYORI Hotel Osaka Namba Ekimae and COURTYARD BY MARRIOTT Osaka Honmachi were also added from June and October respectively. On the other hand, Segment Income decreased due to the start-up expenses for 3 new hotels which opened in this quarter and other expenses.

### <Conference Room Rental Business>

- Vision Center Hibiya newly opened in December. The number of sites has expanded to 19 (+6 from the previous FY) in total as of end of December. Both Net Sales and income steadily increased. We will further accelerate the pace of opening new facilities especially in the five wards of central Tokyo.



## Operating Results by Business Segment

# Others (Rent Guarantee, Construction and Overseas Business, etc.)



(Unit: 1 million yen)	FY ended March 2019 Apr. to Dec.	FY ending March 2020 Apr. to Dec.	Increase/ Decrease
Net Sales	772	3,574	+ 362.9%
Segment Income	499	882	+ 76.7%
Profit Margin	64.7%	24.7%	▲40.0%pt

The whole Net Sales and Income increased largely due to the sale of the land for development in Overseas Business and the increased sales of construction services of Kouwa Corporation which became our consolidated subsidiary through M&A. On the other hand, Profit Margin decreased by 40%pt due to the increased ratios of sales of Overseas Business and Construction Business.

### <Rent Guarantee Business>

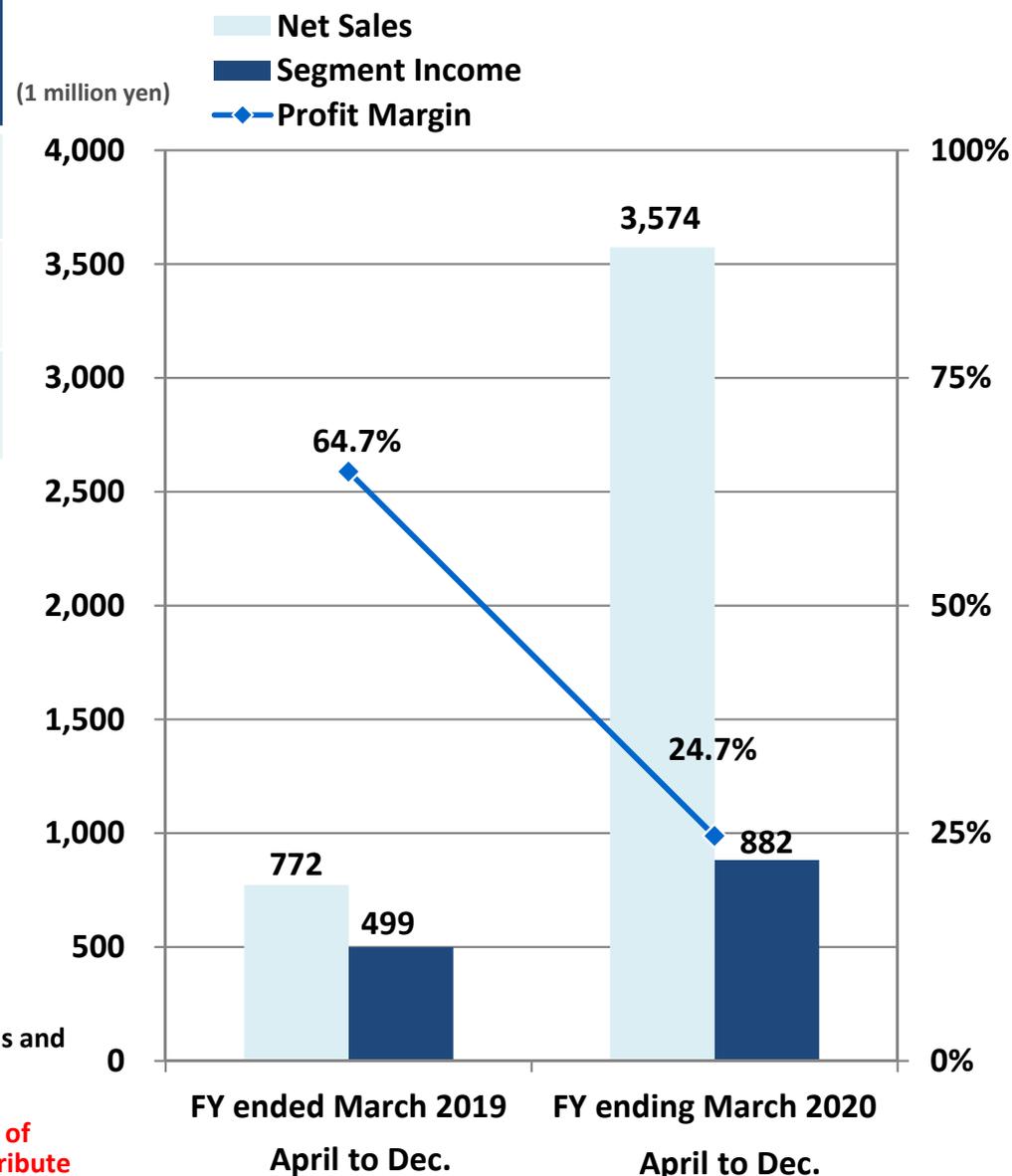
- The number of new and renewed guarantees handled remained steady, which has led to higher Net Sales and Income. With the major revision of debt-related provisions (to be enforced in April) by the Civil Code, as demand for institutional guarantees is expected to increase, we will enforce seminars and other events for building owners.

### <Construction Business>

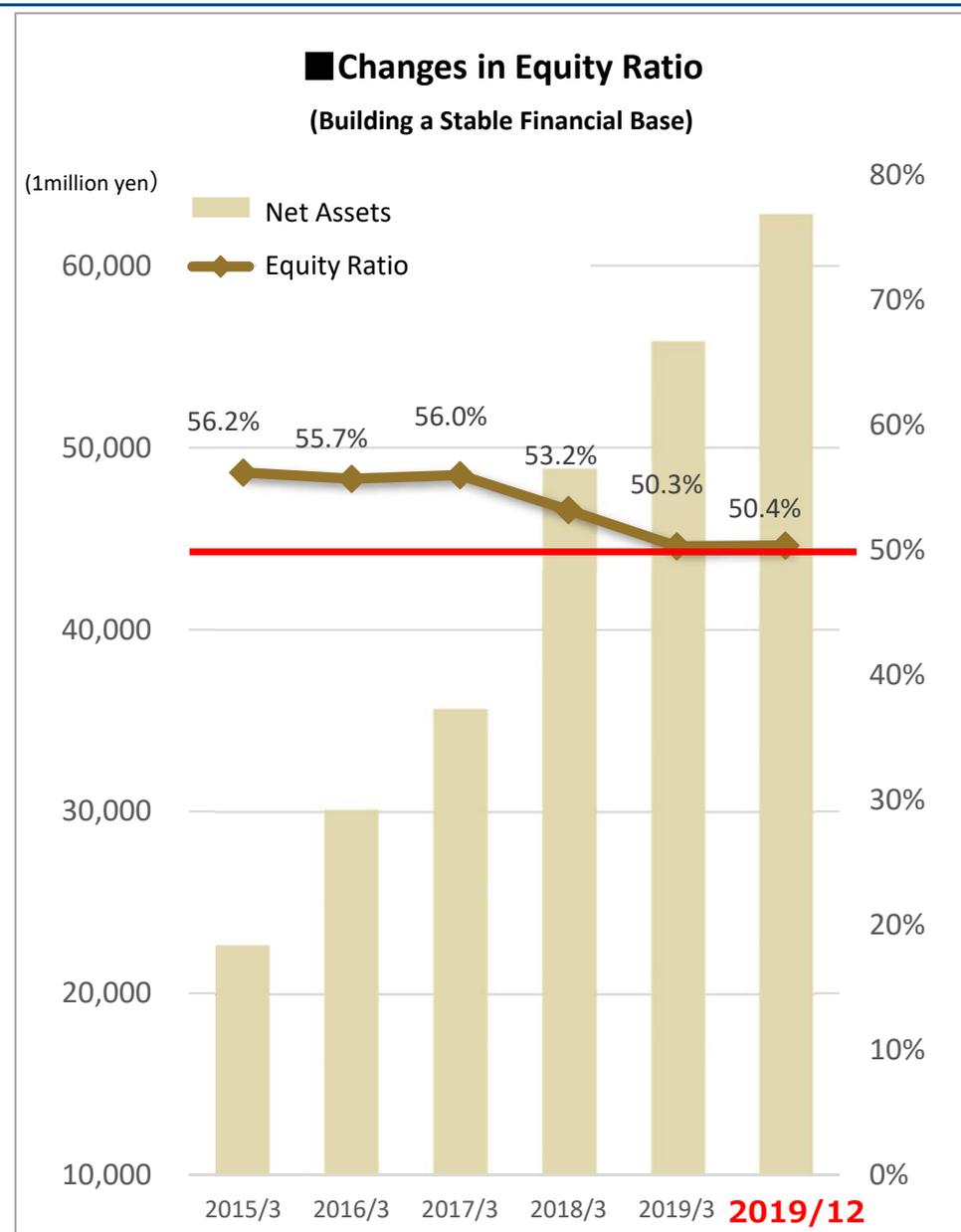
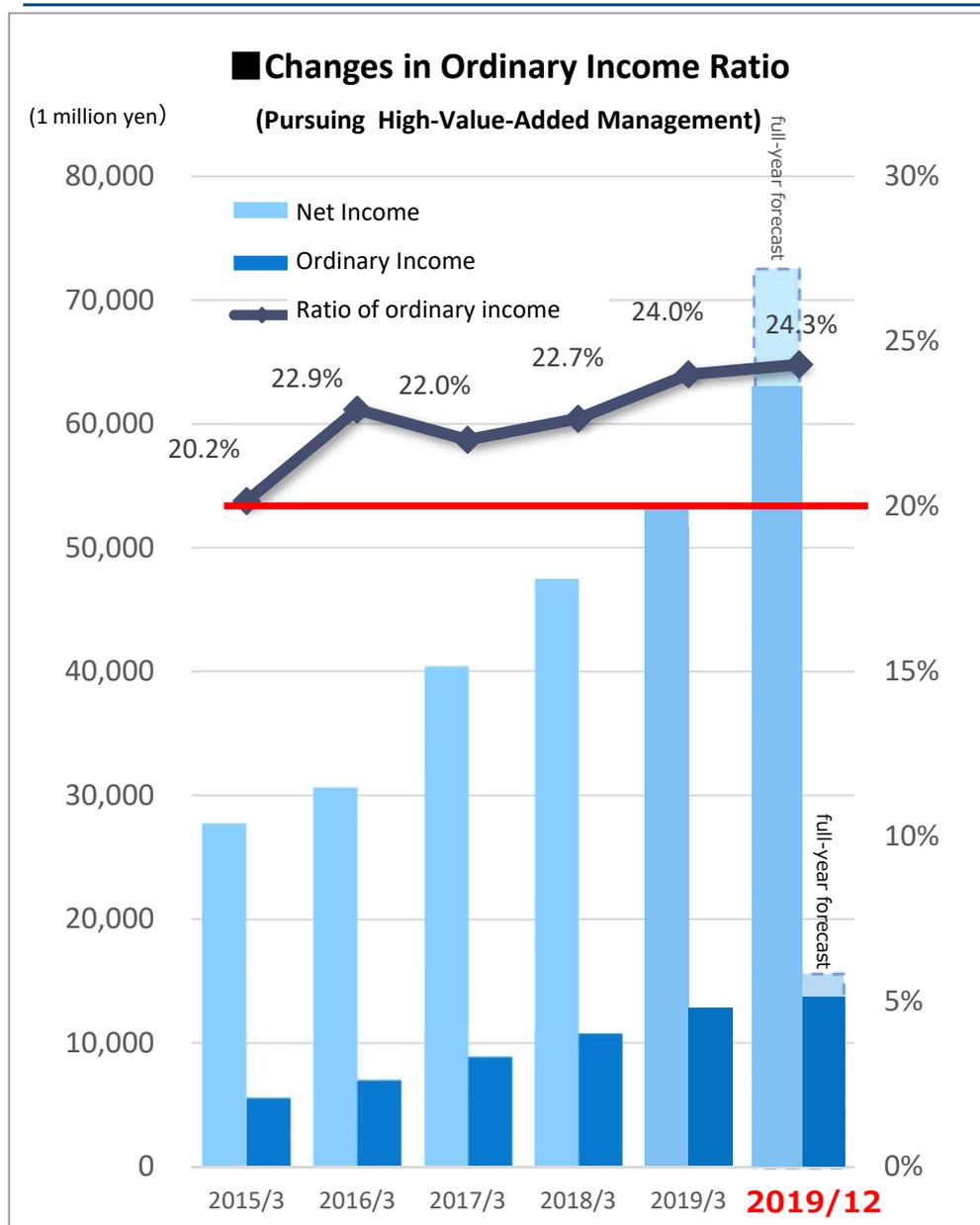
- Both Net Sales and Income increased as the positive results of Kouwa Corporation were added.

### <Overseas Business>

- The land for development in Da Nang was sold after we obtained all approvals and licenses and its profit on sale was recognized.
- A condominium project in Da Nang, HIYORI Garden Tower was completed in December. Its rooms are now being delivered one after another and one fifth of the rooms were already delivered as of the end of December, which will contribute to the results of 4Q



# Trends in Key Management Indicator



## **2) Insight for Business Environment**

1. Although the risk of its rapid decline has eased, the global economy as a whole is on a downward trend and the outlook remains uncertain.

◆The IMF **has downgraded** the outlook for the world economy **6 times in a row** and the global growth rate is forecasted to slow down to 2.9% in 2019.

◆There is growing concern that as the results of the spread of new coronavirus **the world economy may stagnate**.

◆The situation in the Middle East became tense at the beginning of the year and geopolitical risks are smoldering. On the other hand, **the US-China trade negotiations have made progress and concerns have receded**.

2. Although the Japanese economy continues to grow at a moderate pace, it has started to show clearer signs of a slowdown due to the impact of the global economy.

◆While the Japanese economy continues to expand for the longest time after the end of World War II, its future outlook maintains a sense of caution due to the slowing growth of the world economy.

◆Although **the number of foreign visitors to Japan reached a record high in 2019**, it has been sluggish due to a decrease in visitors from Korea and the impact of the new coronavirus.

◆Although the impact of consumption tax hike is limited, **the stagnation of world trade cast a shadow on a part of recent corporate performances**.

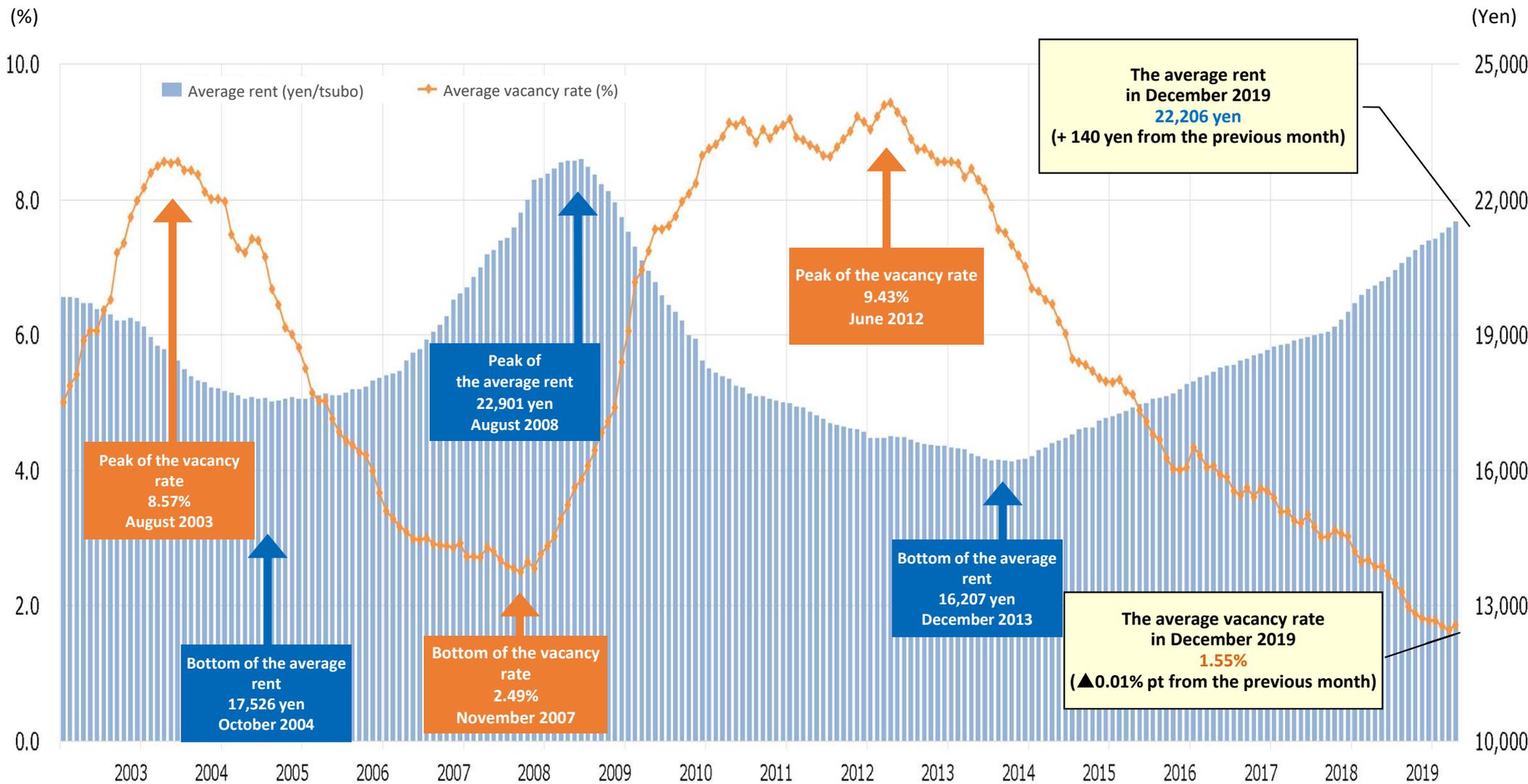
3. As for the office building market in central Tokyo, its vacancy rate is in the historically low level and the rising trend of room rents continues.

◆**Demand for office space has been robust** due to the increasing number of shared offices and workers as well as investments in recruitment.

◆**The vacancy rate is in the lowest level for the first time in 28 years since 1991** and the shortage of office spaces still continues.

◆While financial institutions' **lending attitudes toward real estate have become cautious partly**, willingness to invest in real estate remains firm among funds and other financial organizations.

# Trends in Vacancy Rate and Office Rents in 5 Wards of the Central Tokyo

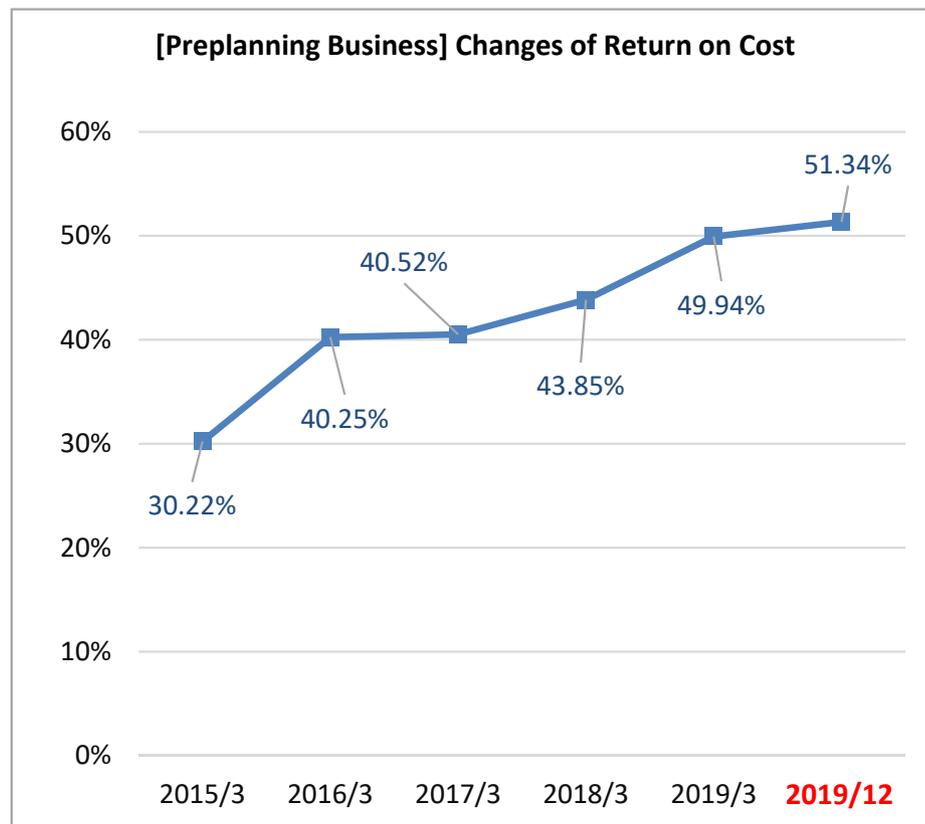
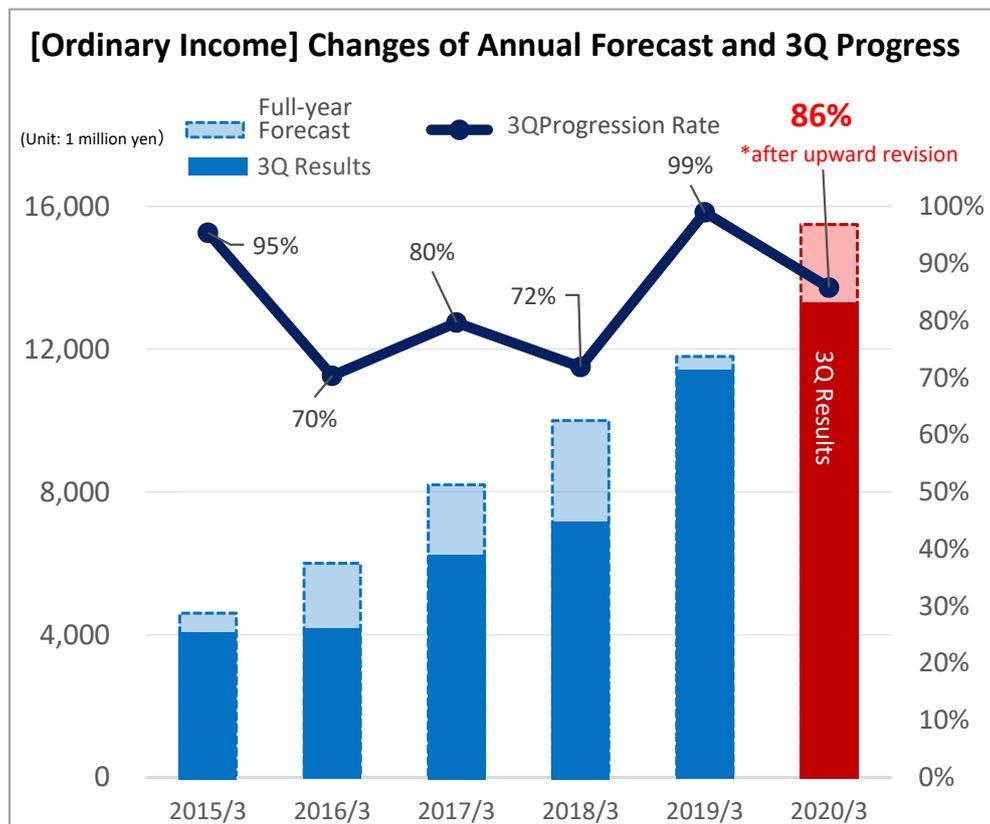


\*Source: Prepared by our company based on Miki Shoji's "Office Reports." Subjects are office buildings with a standard floor space of 100 tsubo or more in the 5 wards in the Central Tokyo.

# **3) Initiatives in the Third Quarter of the FY Ending March 2020**

## We Aim for solid growth while maintaining our highly profitable structure

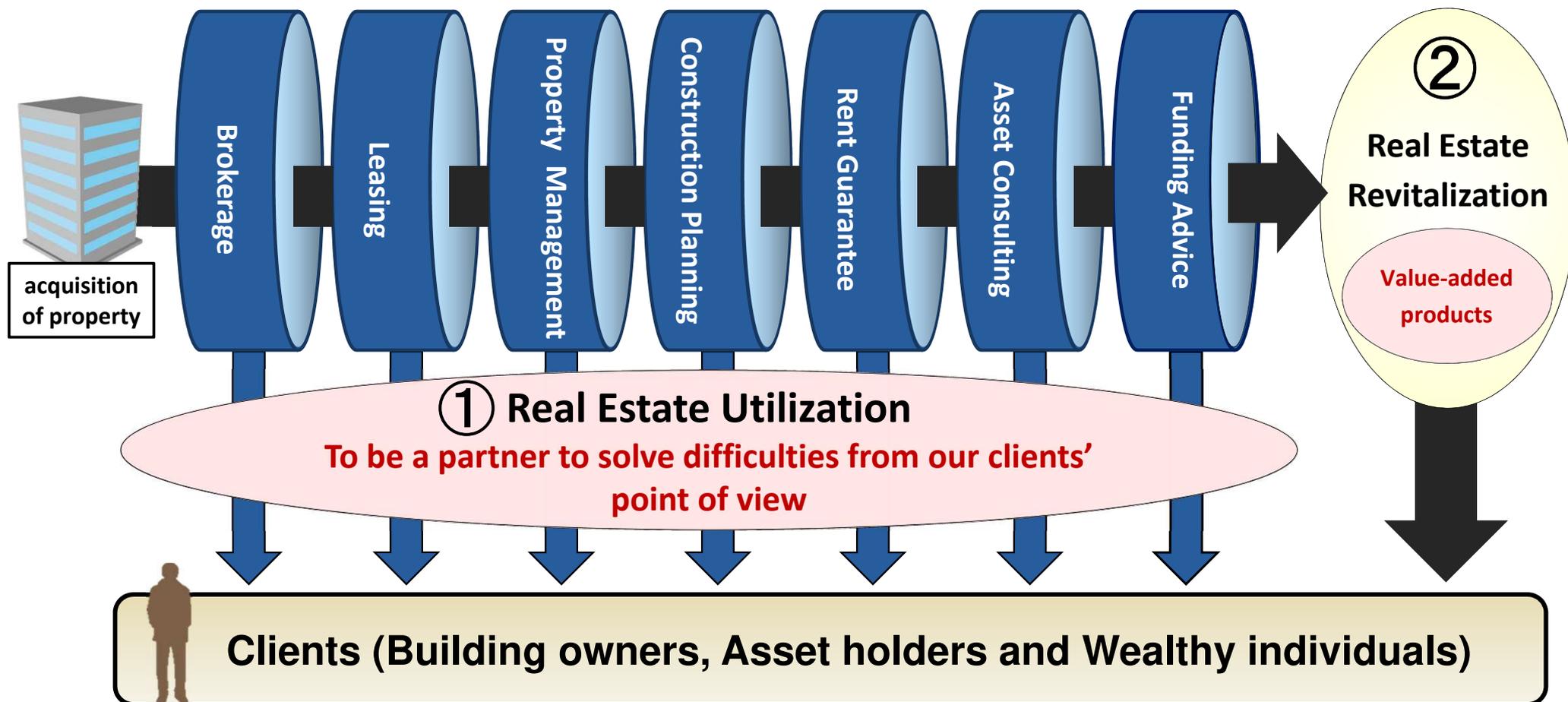
The number of buildings sold in RP Business has progressed ahead of the schedule of the full-year sales plan. Also, Net Sales and Incomes renewed the all-time high due to further improvement in profit margin.



We are not seeking for a short-term growth but we challenge to achieve the management “which has both growth and stability” in the long term by pursuing the improvement of the essential value of real estate.

# Consistent Office Building Business

- ① **In vertical real estate utilization business**, we survey and solve difficulties on site by listening to our clients' problems.
- ② **In horizontal real estate revitalization business**, we put together our know-how and our clients' needs learned from the process above, and apply this knowledge to transform the pre-owned buildings that we purchased into higher value RP products, and then to market them.

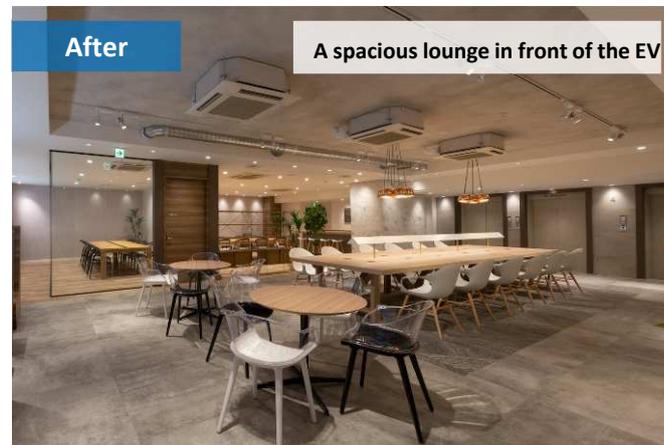


## We created spaces where both workers and visitors can relax naturally.

In the renewal of this property, we provided a large and full renovation over 1,000 tsubo spaces including extension. The large lounge for a non-territorial office is designed to create a spacious interior space to encourage communication among employees. Offices furnished with wood-grain furniture and interior goods create a comfortable and relaxing atmosphere for both workers and visitors.



Before



After

A spacious lounge in front of the EV



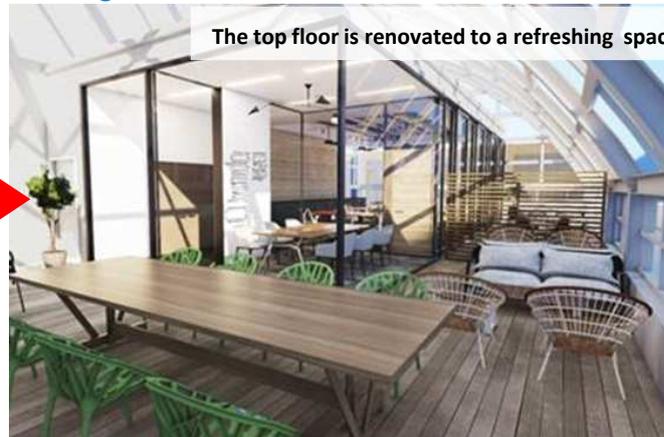
Interior with a high-quality and relaxing atmosphere



[Outline of property]

- Address: Daikyo-cho, Shinjuku-ku, Tokyo
- Structure: Steel-framed reinforced concrete  
a 9-story building with a deck roof and a basement
- Original completion: 1986 (32 years old)
- Usage: Office spaces and a parking lot
- Site area: about 1,078 m<sup>2</sup> (326 tsubo)
- Total floor area: about 5,481 m<sup>2</sup> (1,658 tsubo)

▲ Lounge



The top floor is renovated to a refreshing space

▲ Rooftop common space for refreshing (\* Image drawing)

▲ Office space

In the renewal of this property, **we extended and renovated its double-height space which had not been used after the tenant left, by applying the extra building volume so that the building increased its floor space by 45 tsubo to improve its profitability.** We will increase the value of real estate by finding and utilizing hidden potential of buildings.

# We have expanded our network of branches which focuses on local communities to solve our clients' problems.



1. **We specialize in small and medium-sized office buildings in central Tokyo.**

We opened a new branch at Hamamatsucho to extend our network of branches to 12 locations.

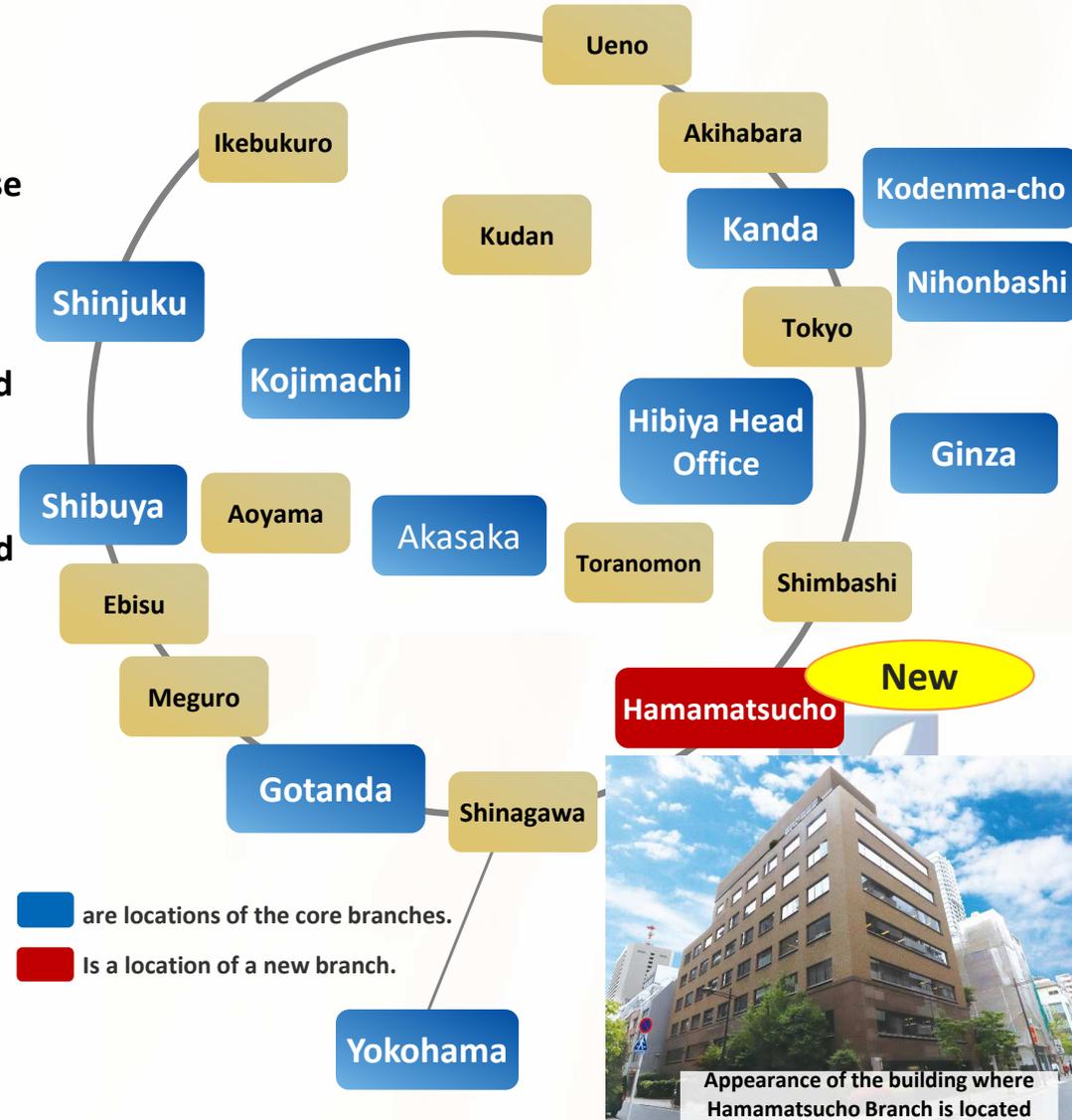
We are good at careful tenant placement by having close ties with the local communities and utilizing our local knowledge.

2. **Courtesy extended to our clients** have come to trust and we have become **“the partner for their real estate management.”**

We are their trustworthy point of contact to consult and solve any of their problems.

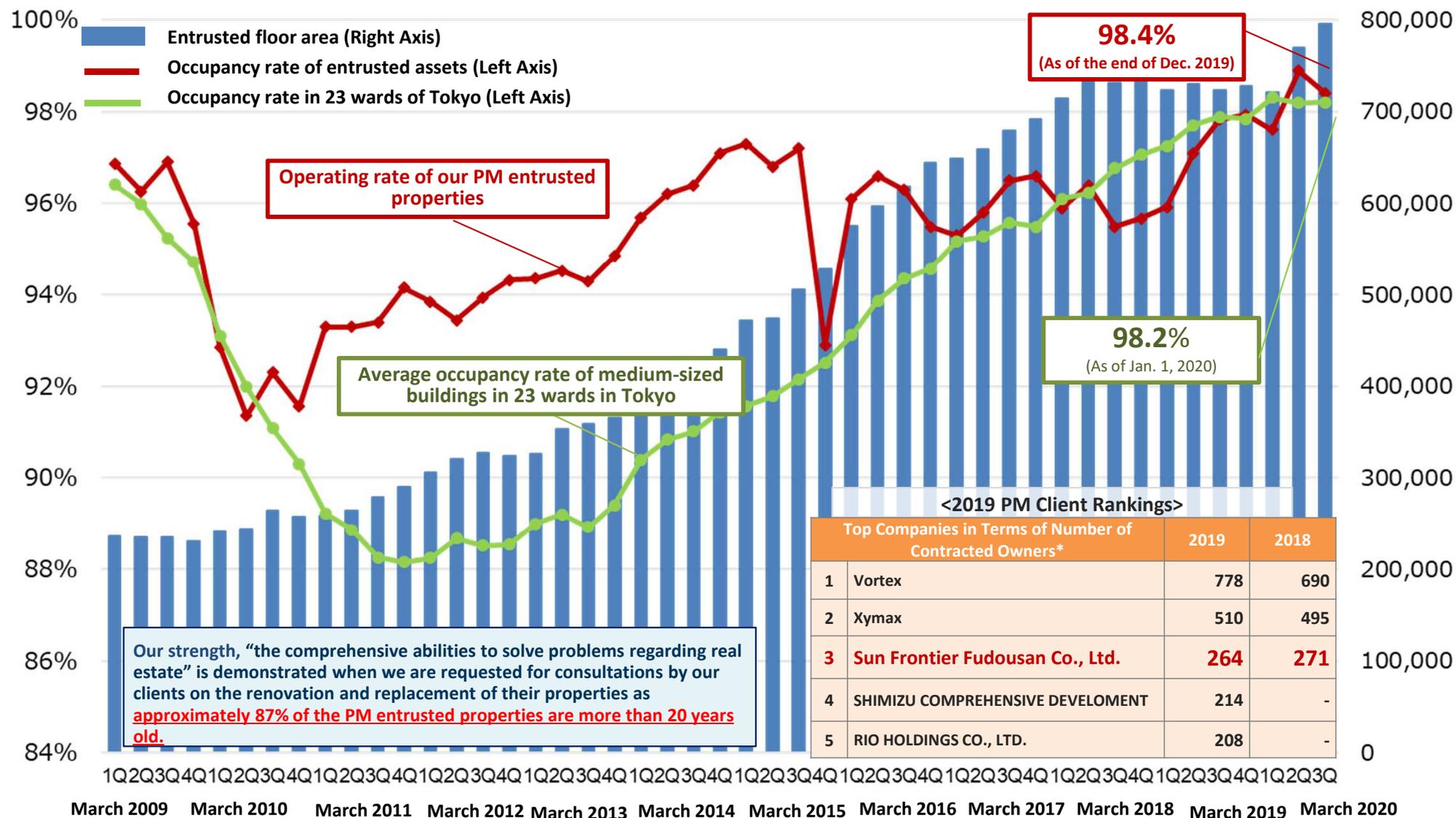
3. **We meet tenants' needs by understanding them and constantly changing our company according to the tenants' voice.**

4. **The network finds big hints for our Real Estate Revitalization Business,** which is the base for us to improve the value of real estate further day by day.



- Property Management Business -

We have achieved stable and highly profitable building management and expanded entrusted business.

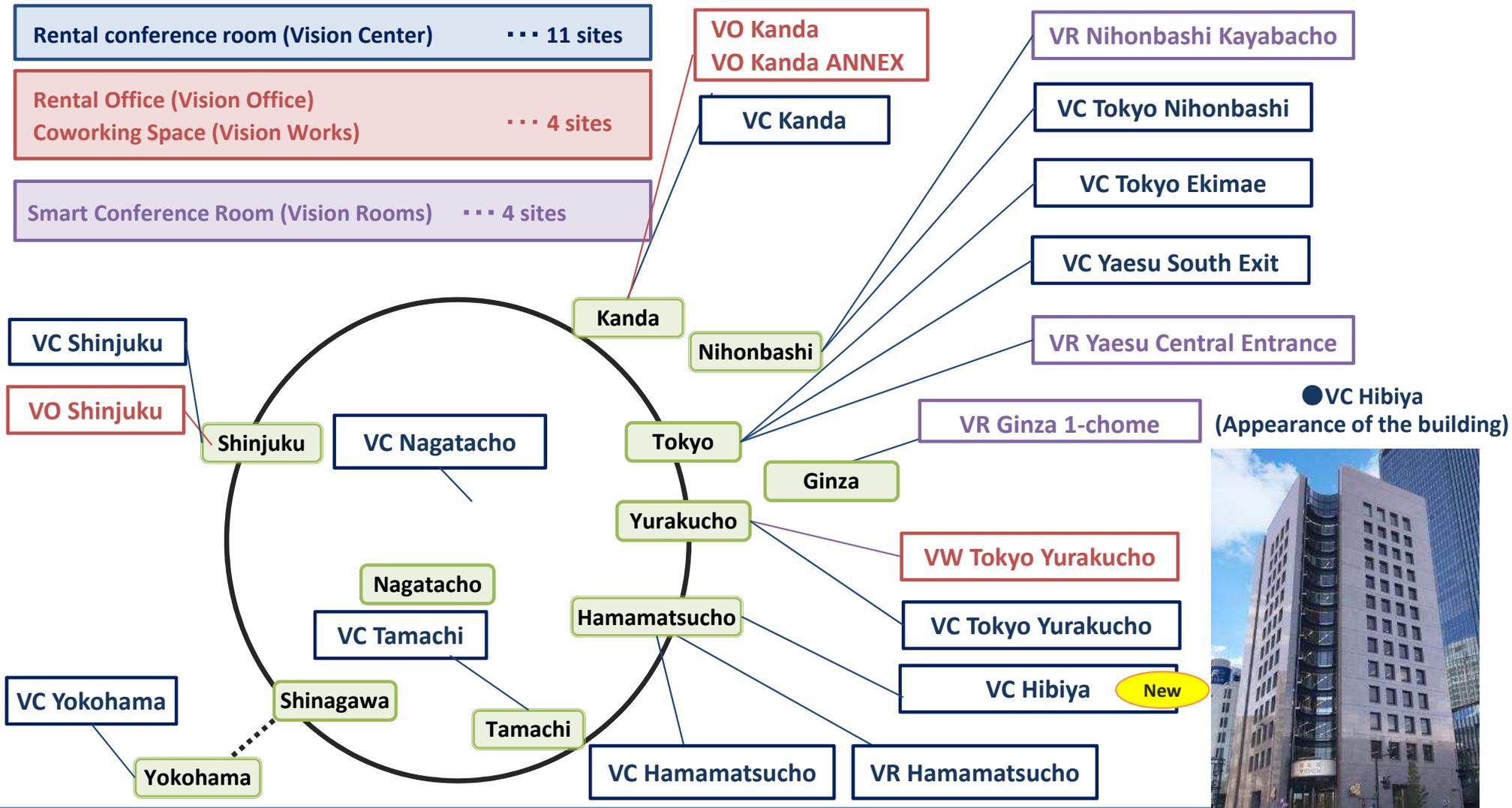


\*Source: Our research based on "Monthly Office Market Research Report" by Sanko Estate Co., Ltd., for the average occupancy rates of medium-sized buildings in 23 wards in Tokyo.

\*Source: As for PM Client Ranking, our research based on the November 2018 issue, "Monthly Property Management."

\*Operating rate: (Total operating area)/(Total lent available area).

# We will expand our business sites to achieve 45 sites in FY ending March 2023



The total number of sites is 19 sites with 7,000 seats as of today. **We are strengthening our internal system for the further expansion of sites.**

\* The seat number of rental conference rooms is calculated, using the school format (three-seat per desk.)  
Seats allocated in a square shape are calculated for the rooms to which the school format cannot be applied.

# Strengthening Rent Guarantee Business, Taking the Opportunity of the Revision of the Civil Code

The requirements of personal guarantees will be tightened due to major revisions of the Civil Code (Law of Obligations) which will become effective from April 2020. It will burden lessors (building owners) much and their needs for institutional guarantees are expected to increase and so we will strengthen seminars on the major revisions of the Civil Code for them.

## [Major Changes]

- Tightening confirmation of intention of individual third parties' guarantees concerning the business (confirmation with notarial deeds).
- Limit of maximum amount of personal guarantees.
- Clarification of the scope of personal guarantees.
- Addition of accountability of lessees to personal guarantors.
- Addition of accountability of lessors to personal guarantors.

-> Lessors will have to bare a greater burden due to a trend to protect individual guarantors.

## Strengthening Seminars for Lessors

### [Number of seminars held]

- ◆ Number of seminars held 108 seminars
- ◆ Cumulative number of participants Approx. 1,600 participants



We relieve concerns of building owners by throwing ourselves into a role of their building management advisor. As the most selected institutional guarantee company, we will contribute to the realization of a fair and impartial leasing market.

Enjoy TOKYO at our “Warm-Hearted Hotel,” located within walking distance from Ginza and Tokyo Stations

## Ground opening of “HIYORI Hotel Tokyo Ginza EAST” with open-air bath in Ginza

The hotel is located within walking distance from “Ginza Station” which is suitable for both sightseeing and business, and is also close to “Hatchōbori Station, Shintomicho Station, and Takaracho Station.” HIYORI Hotel Tokyo Ginza East is “the real hotel to enjoy and appreciate TOKYO” whose guests can walk not only to Ginza but also to various destinations in Tokyo including Tokyo Station, Nihonbashi and Tsukiji.

Its greatest feature is an “open-air bath” on the 11th floor, which is the top floor. Even though the hotel is located in the dead center of the city, we offer an exquisite space where guests can indulge themselves in a comfortable stay. The large and spacious bath with the Japanese traditional open-air bath will help guests relieve the fatigue of travel, making them so comfortable that they would forget they are in the middle of Tokyo.

Appearance



Hotel Service by “Warm-Hearted Staff”



A relaxing modern Japanese room with Ryukyu Tatami mats



An open-air bath with a large bath, which is very rare in central Tokyo



Sky Terrace with night views and a view of the Sky Tree



A Warm-Hearted and Comfortable Hotel

# Ground opening of “Tabino Hotel Kurashiki Mizushima”

Tabino Hotel Kurashiki Mizushima in Kurashiki City, Okayama Prefecture opened as the third hotel of “the Tabino Hotel brand.” The hotel specializes in accommodating guests who can use it casually as a foothold for sightseeing or business. The hotel is close to the Mizushima Industrial Complex, serving not only as a base for business travelers who visit the industrial complex where more than 200 offices locate and approximately 24,000 people work, but also as a base of sightseeing for tourists who go around the city where the historical flavor of the shogunate demesne remains. This is “the warm-hearted and comfortable hotel” we have meticulously designed for our guests who want to enjoy a long stay.



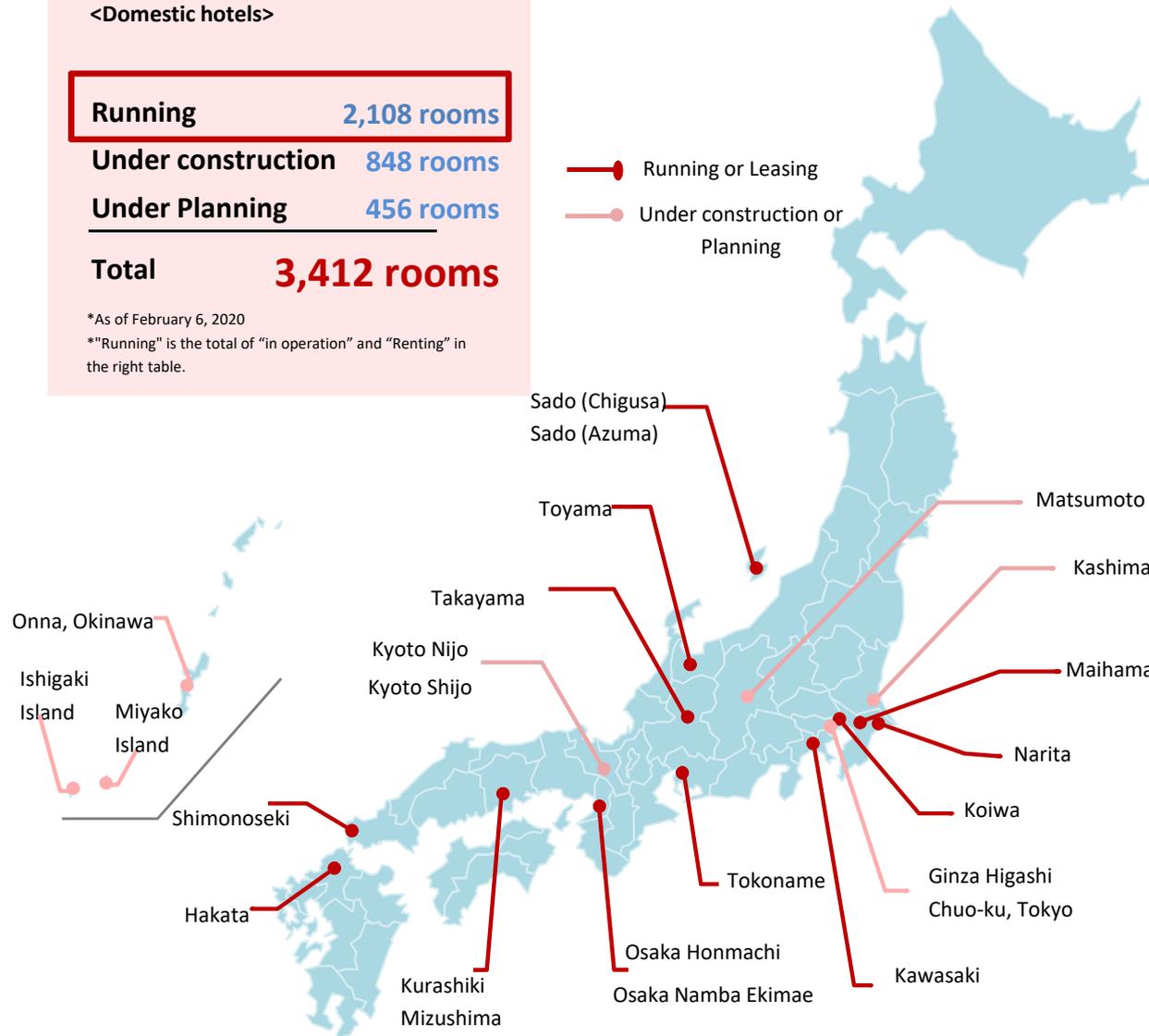
# List of hotels under operation and development

## Ongoing Development to equip 5,000 guest rooms in FY Ending March 2023

<Domestic hotels>

<b>Running</b>	<b>2,108 rooms</b>
<b>Under construction</b>	<b>848 rooms</b>
<b>Under Planning</b>	<b>456 rooms</b>
<b>Total</b>	<b>3,412 rooms</b>

\*As of February 6, 2020  
\*\*"Running" is the total of "in operation" and "Renting" in the right table.



Status	Open (Plan)	Hotel Name Location	No. of Rooms
In operation	April 2016	SSH Nagoya Tokoname	194
In operation	-	Sky Heart Hotel Kawasaki	200
In operation	-	Sky Heart Hotel Koiwa	105
In operation	-	Sky Heart Hotel Narita	100
In operation	-	Sky Heart Hotel Hakata	159
In operation	April 2017	HIYORI Hotel Maihama	80
Renting	-	Toyama	210
In operation	-	Azuma Sado	57
In operation	May 2018	Tabino Hotel Takayama	80
In operation	-	Sky Heart Hotel Shimonoseki	105
In operation	July 2018	Tabino Hotel Sado	111
In operation	May 2019	HIYORI Hotel Osaka Namba Ekimae	224
In operation	October 2019	COURTYARD BY MARRIOTT Osaka Honmachi	193
In operation	December 2019	HIYORI Hotel Tokyo Ginza EAST	135
In operation	February 2020	Tabino Hotel Kurashiki Mizushima	155
Under construction	April 2020	Tabino Hotel Kashima	194
Under construction	October 2020	Onna, Okinawa	204
Under construction	January 2021	Kyoto Nijo Kawaramachi	205
Under construction	August 2021	Miyako-Island	111
Under construction	April 2022	Kyoto Shijo Kawaramachi	134
Under Planning	July 2021	Matsumoto	176
Under Planning	April 2022	Ishigaki Island	132
Under Planning	May 2022	Chuo-ku, Tokyo	148

## 4) Future Strategies

Our Belief

**~ Not for profit, but for trust ~**

Business is a competition of usefulness.  
How many people can we be of service to?

We aim for steady achievements and sustainable growth.

We aim for not a temporal achievement but for  
“sustainable and steady growth”  
 and “steady achievements with profitability, safety and growth.”

<Basic policy>

Development of business focusing on urban areas and growth markets

<Three Policies>

1. To deepen and expand “office building business in central Tokyo” which has strong influences
2. To focus on growth markets of “hotels and Asia”
3. To actively utilize “M&A” to accelerate a growth of our company



To achieve stable growth over the medium to long term, we will strengthen value creation and management of real estate and build our firm revenue structure based on “both Flow and Stock”

<Quantitative Target>

FY ending March 2023

Net Sales	100 billion yen
Ordinary Income	20 billion yen
Net Income	14 billion yen
Equity Ratio	50% or more
Ratio of Ordinary Income	20% or more



# Growth Strategies of “Four Arrows”



# 1) Expansion of Core Business

To Deepen and Expand the Office Building Business



**For Office Building Business, Net Sales target for FY ending March 2023: 80 billion yen**

## <Replanning Business>

We capture evolving needs of offices, towns, and work styles in the future and aspire for “production & service” to design work styles. We aim to deepen and expand our Building Revitalization Business by **providing new high value-added products and offices that tenants have not yet noticed.**

## <Real Estate Service Business (Leasing, Property Management, etc.)>

Being kind and polite, contributing to building owners with specialized services unparalleled by our competitors. By repeatedly delivering solutions to their small concerns, we deepen our bonds with them to become a trusted “real estate partner” with whom our clients feel free to consult on any topics.

**Our strength lies in “a client base of office building owners in central Tokyo.”**

## <Conference Room Rental Business>

Leveraging our expertise and experiences to improve added values of office buildings, we are **rapidly expanding the sharing business, such as conference room rental business** that utilize vacant spaces and idle times.

## Expansion of Business

**Focusing on the central Tokyo area and small and medium-sized office buildings, we continuously keep refining our company's unique strengths.**

**We focus on the business area where we can exert our influence and keep on refining our business to make it distinctive and highly profitable by listening to our clients' voice.**



**=> We will expand our existing business further and at the same time, we will challenge new and various fields of business by utilizing M&A, the IT and others. We will improve our strengths in the business field of medium and small office buildings in central Tokyo.**

## 2) The Hotel Business

Proactive Expansion into Growth Markets



We are aiming to have 5,000 rooms in operation by FY ending March 2023.

Taking advantage of the increasing number of visitors to Japan, we are expanding into urban and regional tourism areas.

### <Theme> Warm-Hearted Hotels

1. Hotels that grow by their employees
2. Hotels that grow by listening to their guests
3. Hotels that grow and fit in with the community



Self-reliance, Cooperation with Others and Corporate Social Responsibility

We will continue to grow every day with these three important factors

Hotels provide a warm, high quality, comfortable and personal service by kind employees who work from the guests' viewpoint.

### <Two Strategies to Increase the Number of Operating Rooms>

1 Our flagship hotel brand "HIYORI HOTELS & RESORTS" is developed from a vacant lot.

We are aiming to become a well-known brand among upper brands.

2) Utilizing revitalization, M&A, and brand change, we will increase the number of guest rooms in a flexible way to respond to diverse needs and markets.

# 3) Overseas Operations

PJ in Progress in Da Nang, Vietnam



High-rise condominium PJ

**“HIYORI Garden Tower”**

## <Philosophy of Overseas Business:

**“Providing comfort to the people of Asia, together with our partners.” >**

Providing high-quality housing with sophisticated quality and planning in accordance with the Japanese standards, we will contribute to the economic development in the region by meeting the growing demand for housing there.



**Completed  
In December 2019**

Delivery in progress



Local signboard



A View overlooking the city



Entrance hall

There are 7 direct flights a week from Narita Airport to Da Nang, 7 direct flights a week from Kansai International Airport and also 7 direct flights a week from Haneda Airport.

There are 247 direct flights a week from Korea, 24 direct flights a week from China.

**This is the area where many companies are willing to expand their business and a resort which attracts many visitors from Asia.**

# 4) M&A

To Expand Existing Businesses and Invest in Start-up Business



We accelerate the growth of peripheral businesses by introducing human resources, technologies and platforms to our group and expanding optimal services in line with changes in the business environment.

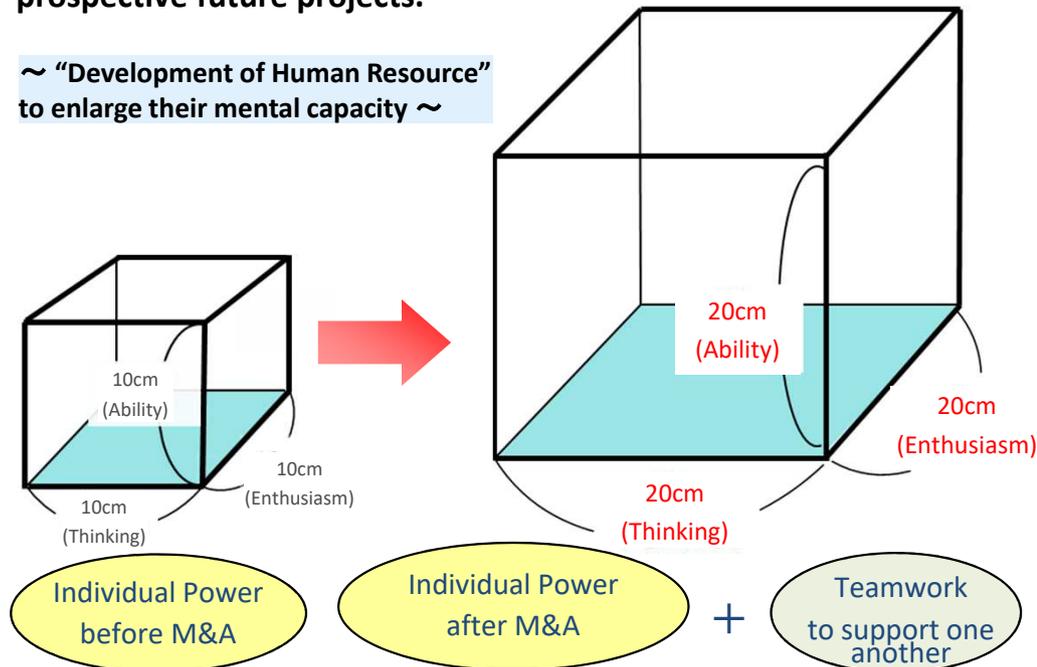
## <M&A and Business Acquisition Results>

Year	Company name and business name	Outline of business
① 2010	Sonomamma (just like that) Office !	Specialized sites for furnished offices
② 2012	Yubi (Currently known as SF Building Maintenance)	Building maintenance
③ 2016	Vision Center and Vision Office	Rental conference rooms and offices
	Hotel AU Tokoname (Currently known as Spring Sunny Hotel Nagoya Tokoname)	Hotel
	Sky Court Hotel (Currently Known as Sky Heart Hotel)	Hotel
④ 2018	Sado Resort Hotel Azuma	Long-established Japanese-style hotel (Sado Island)
	VIP Nangoku (Currently known as Sky Heart Hotel Shimonoseki)	Hotel
	Okesa Kanko Taxi	Taxi and sightseeing bus (Sado Island)
⑤ 2019	Kouwa Corporation	Interior finishing work for offices
	Sado Biyori	Information site on Sado Island

⇒ Horiguchi will take a lead role in teaching the employees of the acquired companies our company philosophy, talking about the life purpose, motivating them and developing their enthusiasm and ability in order to revitalize our business with their power.

We will carry out M&A which is so inspiring that our employees are strongly motivated and cast their sparkling eyes at prospective future projects.

~ "Development of Human Resource" to enlarge their mental capacity ~



## 4) M&A

To Expand Existing Business and Invest in Start-up Business

We formed a capital and business alliance with SKY ESTATE which provides services including an exterior wall survey using drones.

We strengthen inspection services by accurately assessing the state of aging of buildings through surveys of their exterior walls to propose the best repair work to our clients.

### Advantages of Exterior Wall Survey with a Drone

1. It is possible to detect even 0.2 mm cracks and floating tiles by using infrared rays.
2. High-rise buildings can be surveyed without scaffolding.
3. With no scaffolding or gondola required, operation can be done faster and more safely.  
Also, costs can be reduced to about 1/3.
4. Applicable for periodic reporting for specified buildings.



### [Outline of the Investee]

■ Name	: SKY ESTATE Inc.
■ Location	: 1-5-4, Higashiyama, Meguro-ku, Tokyo
■ Major Services	: Drone school management, exterior wall survey
■ Capital Stock	: 36.9 million yen
■ Established	: September 28, 2016
■ Number of Shares Acquired	: 20.1% of Issued shares

Sun Frontier Fudousan, which manages approximately 430 office buildings in central Tokyo will cooperate with SKY ESTATE which has cutting-edge drone piloting technology to create new values that differ from the conventional building management by introducing new technologies and innovative services for building management.

## 5) ESG initiatives

## Company policy

**Altruism**

**Philosophy is a source of  
our ESG initiatives**

## Management Philosophy

**With a vision to protect all employees and to pursue both spiritual and material happiness, at the same time, we will contribute to the prosperity of humankind and society with a spirit of symbiosis.**

## Corporate Philosophy

**We, the employees through our business improve our knowledge, technical skills and personalities with our strong enthusiasm and dedicate ourselves to utilization and distribution of real estate stock, thereby we reduce the waste of non-reproducible resources and contribute to permanent prosperities of mankind, flora and fauna on the earth.**

# Outlines of Our ESG Initiatives

Through our initiatives heavily based on the viewpoints of ESG, we will achieve our sustainable growth and a long-term improvement in our corporate value.

## Environment

- We revitalize dilapidated buildings without destroying them. We develop the Real Estate Revitalization Business, which grows in harmony with the environment. (391 buildings were revitalized as of the end of December 2019.)
- We operate a circulation market of furnished offices with an aim to reduce waste materials generated by office relocation.
- We promote the reduction of energy consumption at the buildings we manage in Property Management Business, utilizing the Energy-saving Subsidy and others. (→ P.38)
- We have introduced the renewable electric power service to 4 buildings we own. (→ P.37)**

## Social

- In our Real Estate Revitalization Business, we promote the revitalization of buildings to meet the social needs. → P.39)
- Under the slogan, “Cheer up Japan!” we develop Regional Revitalization Business from the aspect of tourism. → P.40)
- We have supported the Japanese language courses at Da Nang University in Vietnam since 2016. Also, we have started to employ 6 technical intern trainees from Vietnam in the aim of “human resources development” which is the base of mutual development of Japan and Vietnam.**
- We go ahead with the introduction of the drone technology to accelerate the innovation in the real estate industry.**

## Governance

- When we acquire properties, we clarify their possible risks, improve their legal compliance and correct shoddy workmanship on them through the process of commercialization and then supply them to the market. We turn the properties into a real estate stock with high social values and sell them.
- We have established “Nomination and Compensation Committee” as a voluntary advisory body to the Board of Directors in order to improve objectivity and transparency of the procedures regarding appointment and dismissal of the directors and their compensations.
- We have improved our monitoring function for the corporate management by appointing 5 independent outside directors out of 10 directors.

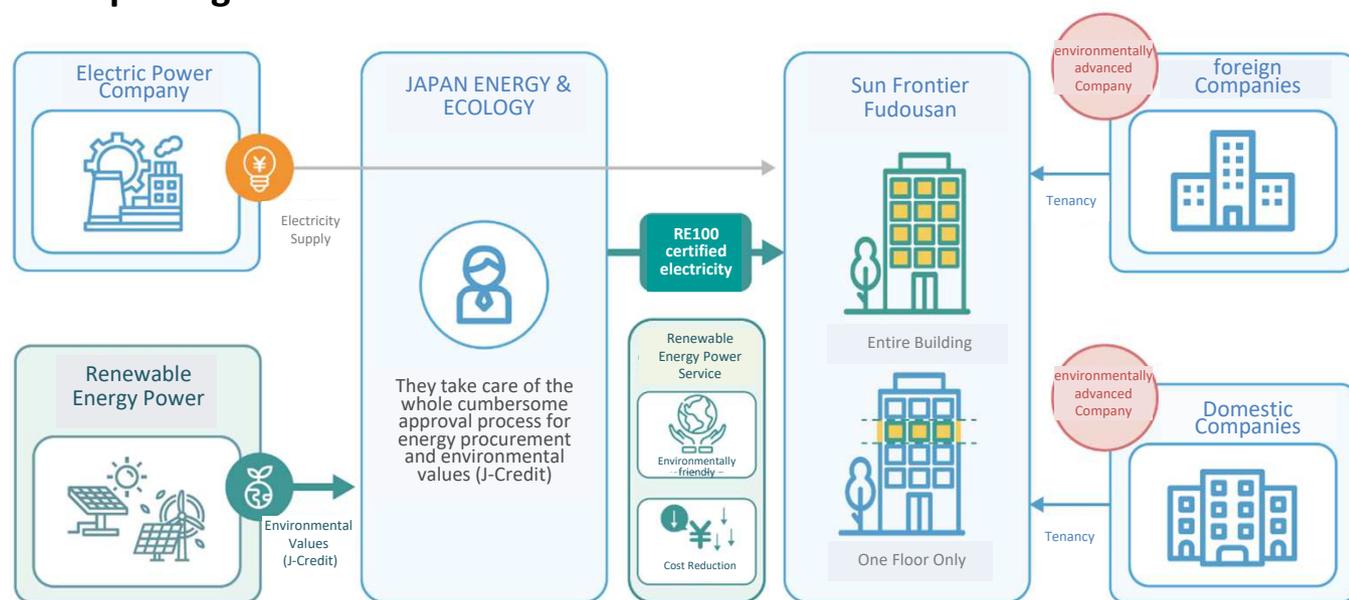
# Launch of Renewable Energy Power Services [E]

We started the first renewable electricity service for office building tenants in Japan, working with JAPAN ENERGY & ECOLOGY which supports energy procurement for corporate clients.

## Main Features of the Service

- This is the first service in Japan that supports even building tenants to meet the requirements of environment initiatives, such as “RE 100” and “RE Action” if they occupy more than one floor of the building.
- By purchasing electricity cheaply, building owners can reduce costs in line with their environmental measures.
- On behalf of the building owners, we take care of the whole cumbersome approval process for environmental values (J-Credit).

## Concept Diagram



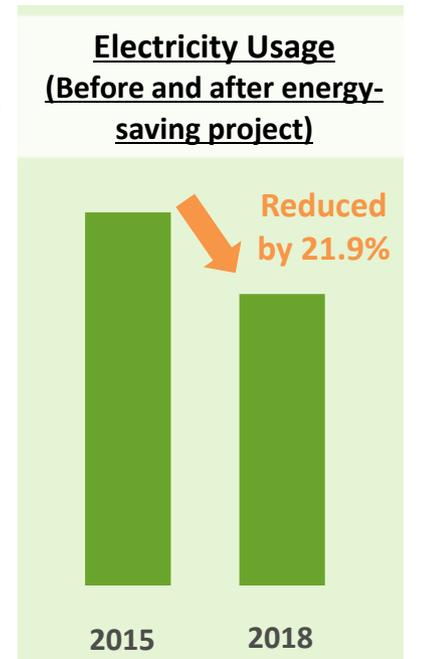
## Through the Property Management, we engage in environmental contribution activities with our building owners [E]

As part of our efforts to improve the value of buildings, we propose the owners the replacement of facilities utilizing the Energy-saving Subsidy.

“Replacement to LED lights in a whole building,” “renewal to gas heat pump type air conditioning” and “introduction of energy management system” were adopted in the following case of a building renovation.

### [Detailed works]

- ❑ All 1,472 fluorescent lights in a building replaced with LED lights.
- ❑ Air conditioning system was replaced with GHP (Gas Heat Pump).
- ❑ All 78 air conditioners are now monitored 24 hours a day with the introduction of an energy management system. They are automatically controlled for optimal energy efficient operation.
- ❑ In order to verificate of the effect of reducing energy consumption and to further promote environmental contribution activities, our energy consumption report is submitted on a monthly basis.



Taking advantage our position that we can propose and promote the replacement of facilities to our clients through our management and revitalization work of many buildings, we will promote the efficient energy usage in business and introduce facilities that contribute to energy-saving, and thereby strive to enhance efforts to reduce CO<sup>2</sup> emissions through our real estate business.

## Contribution to the Revitalization of Local Communities and Society [S]

- We promote the revitalization of buildings for the most suitable utilization that meets the needs of society

We rent the buildings to our clients who can support people's life at all stages. We revitalize them to meet the needs of the region.

Before



Originally, for office-use



After



Revitalization as a nursery school from the 1<sup>st</sup> basement floor to 4<sup>th</sup> floor, as an after school for elementary students on the 5<sup>th</sup> floor and a support center for cancer patients on the 6<sup>th</sup> floor

In industry-government-academia cooperation we create a recreational waterfront space where local people can get together.

Before



After



We changed the usage of the first floor from a parking lot to a restaurant and connected it with a boardwalk along the canal, which creates an attractive waterfront scenery



<We will energize Sado Island through tourism!>

**When rural areas are energized, so Japan as a whole will be.** As the number of foreign visitors to Japan rapidly increases, spurred by fascination (culture, history, nature, food, hot spring, hospitality and others) that Japan is proud of, we will take on the challenge of regional revitalization projects that focus on the attractiveness and features unique to regions, in particular the regions that possess the “Wonderfulness of Japan.” **The first will be Sado, where we are familiar with. We have already created jobs for over 100 employees.**

Sun Frontier Sado Inc.

Hotel Business

Transportation Infrastructure Project

Highlight Finding Project

Tourism and Travel Business

Web Advertising Business

Hotel AZUMA



Okesa Kanko Taxi



Kanko Oyasumidokoro



Travel Agency

Sado Biyori



Rental Car Business



Tabino Hotel Sado



## Our initiatives for Governance (G)



In our company, we have an idea of “right humanity” as judgement criterion for all of our executives and employees to execute business assignments. We endeavor to strengthen our system of governance to ensure the execution.

### We have established Nomination and Compensation Committee

We have established “Nomination and Compensation Committee” as a voluntary advisory body to the Board of Directors in order to improve objectivity and transparency of the procedures regarding appointment and dismissal of the directors and their compensations.

The majority of the committee members are outside directors to ensure sound management of the company.

### We have ensured our risk management at the time of acquisition of properties and our compliance with laws and regulations at the time of their sale.

When we acquire properties, we make a comprehensive business judgement, considering not only their profitability but also their key risks, environmental impacts, compliance and others. We have also established our three-step checking system to identify risks in a broad context not only by our departments in charge but in cooperation with legal and audit departments. As for sale of the pre-owned buildings which are disqualified, we first make them qualified enough to meet legal compliance requirements and market them.

### We conduct a monthly training on compliance.

We give all the employees a monthly training on compliance in order to establish an efficient system of legal compliance. The training has a broad range of themes, such as “prevention of insider trades,” “prevention of trades with antisocial forces,” “information management,” etc. We will devote ourselves to sound business operation.

## **6) Company Information and Reference Materials**

## Vision

**As “professionals of real estate utilization”**  
we aim to be “the real estate company” of the world’s most loved, trusted and selected

## Clients

Building owners, asset holders, wealthy individuals

## Core Business

Real estate revitalization and utilization

## Policy

- Not for profit, but for trust  
To solve problems from the clients’ point of view
- To focus on people rather than property
- One-stop solutions to any and all problems

## Strategy

Central  
Tokyo

Office

## Strength

Tenant  
mediation

Real estate  
revitalization

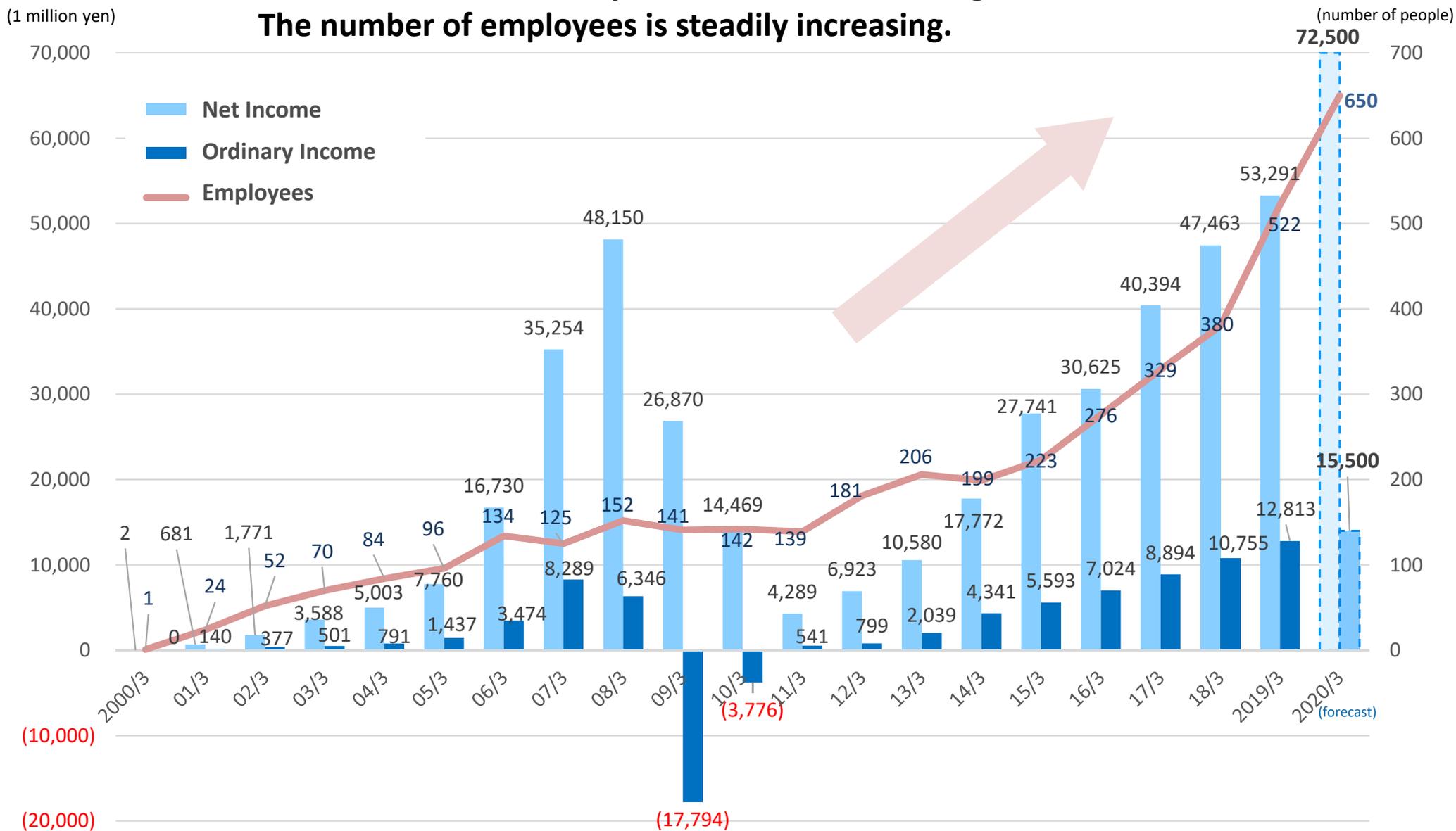
Effective operation

Creativity

# Changes in Net Sales, Ordinary Income, and Number of Employees



Both Net Sales and Ordinary Income remained strong.  
The number of employees is steadily increasing.



# Change of Representative Director (President)



Sun Frontier Fudousan Co., Ltd. made the decision to change the Representative Director (President) as of April 1, 2020.

## 1) Specifics of the change

Name	New title	Current title
Tomoaki Horiguchi	Chairman	President
Seiichi Saito	President	Executive Vice President and Vice President Executive Officer

## 2) Reason for the change

- We have devoted ourselves and worked as one to deliver our clients solutions concerned with real estate under our consistent motto, “Altruism” since our foundation on April 1999. Thanks to all of you, we celebrated the 20th anniversary last April, and now we are steadily making progress to achieve the goals of the Medium-Term Management Plan which sets the final year in the FY ending March 2023.
- Under these circumstances, we have worked on the development of the human resource for the next generation and the further strengthening of our management base, and made this decision in order to improve the long-term and sustainable corporate value of our company.
- Tomoaki Horiguchi, the current President will keep the right of representation and continue to commit himself to help the Sun Frontier Fudousan Group achieve further development as the Chairman.

## 3) Biography of the new president

<b>Name</b>	Seiichi Saito
<b>Biography</b>	2005: Joined Sun Frontier Fudousan 2006: Director, General Manager of Administration Division 2008: Senior Managing Director 2012: Vice President and Vice President Executive Officer 2014: Executive Vice President and Vice President Executive Officer (present post) 2015: General Manager of Asset Management Division (present post)

# Corporate Profile



<b>Company Name</b>	Sun Frontier Fudosan Co., Ltd.
<b>Location of Head Quarters</b>	2-2, Yurakucho 1-chome, Chiyoda-ku, Tokyo
<b>Date of Foundation</b>	April 8, 1999
<b>Date of Lsting</b>	November 19, 2004 (Jasdaq Stock Exchange) February 26, 2007 (First Section of Tokyo Stock Exchange)
<b>Capital Stock ※</b>	11,965 million yen
<b>Representative</b>	Tomoaki Horiguchi, President
<b>Number of Consolidated Employees ※</b>	598 full-time employees (1,011 including part-timers and temporary workers)
<b>Average Age of Employees ※</b>	34.1 years old (※ As of December 31, 2019)
<b>Business Profile:</b>	<p>Real estate revitalization</p> <p><b>Real estate services</b> { Real estate management, brokerage, construction planning, non-payment guarantee, operation of rental buildings, asset consulting }</p> <p>Hotel development and management</p>
<b>Accounting Month</b>	March
<b>Listed Market</b>	Tokyo Stock Exchange, First Section (Code number: 8934)



# We will appreciate your further supports.

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