COMPANY RESEARCH AND ANALYSIS REPORT

IINO Kaiun Kaisha, Ltd.

9119

Tokyo Stock Exchange First Section/ Fukuoka Stock Exchange

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Summary

Pursuing IINO MODEL and IINO QUALITY heading towards 2030

1. Dual pillars of the historical shipping business and the real estate business

IINO Kaiun Kaisha, Ltd. <9119> (hereafter, also “the Company”) is a shipping company with a history of over 120 years since it was founded in 1899 (IINO Shokai, Maizuru, Kyoto). Currently, it is developing its business on the dual pillars of the shipping businesses (the oceangoing shipping business and the regional shipping business), which mainly involve the transportation of resources and energy, and the real estate business for the rental of office buildings, mainly the head office of the IINO Building. The Company’s distinguishing characteristics and strengths in the shipping business include its fleet of chemical tankers, which is one of the largest in the industry, and its gas carriers which accumulate medium- to long-term contracts as a stable source of earnings. The distinguishing characteristic of the real estate business is that it owns multiple rental office buildings in prime areas in the center of Metropolitan Tokyo, including the IINO Building, which is the Company’s head office building (including the IINO Hall and Conference Center).

2. Sales increased while profit declined in FY3/20, and the Company expects both recurring and final profit to increase in FY3/21

In the FY3/20 consolidated results, revenue increased 5.1% year on year (YoY) to ¥89,179mn, operating profit declined 16.8% to ¥3,976mn, recurring profit decreased 26.5% to ¥3,455mn, and profit attributable to owners of parent declined 19.1% to ¥3,788mn. An improvement in market conditions in the large gas carriers and chemical tankers in the shipping business was a factor for higher earnings, but overall profit declined due to a number of factors, including the increase in docking expenses in the shipping business and an increase in equipment renewal costs in the real estate business.

The forecasts for the FY3/21 consolidated results are for revenue to decline 1.3% YoY to ¥88,000mn, operating profit to drop 4.4% to ¥3,800mn, recurring profit to increase 4.2% to ¥3,600mn, and profit attributable to owners of parent to increase 18.8% to ¥4,500mn. In terms of the impacts of the novel coronavirus disease (COVID-19) (on the assumption that the impacts of COVID-19 will continue for the April–September period), the Company expects a roughly minus ¥2,000mn impact at the operating profit stage (roughly ¥1,600mn in the shipping business and ¥400mn in the real estate business), and thus is forecasting a decline in operating profit, but the Company is forecasting increases in both recurring profit and final profit due to the improvement in non-operating income/ expenses and the booking of extraordinary income (realization of foreign currency translation adjustment due to the completion of the liquidation of an overseas subsidiary).

3. Formulated ambitious new Mid-term Management Plan with a focus on ESG and SDGs

The Company has formulated a new Mid-Term Management Plan spanning April 2020 through March 2023. The plan is named “Be Unique and Innovative.: The Next Stage - Towards 2030-” To achieve the goals for 2030 (IINO VISION for 2030) the Company will further pursue the creation of its own unique business model, IINO MODEL, and the provision of high quality service, IINO QUALITY, to increase the economic value of the Group, while at the same time as creating social value and responding to social needs including environmental preservation through proactive initiatives on sustainability and thereby creating shared value.

In the new Mid-Term Management Plan, there is no change to the basic scenario of pursuing growth on the two pillars of the shipping business and the real estate business. However, we get the strong impression that the Company is focusing not only on numerical targets (FY3/23 recurring profit of ¥7,000–¥8,000mn, EBITDA of ¥19,500–¥20,500mn, ROE of 8–9%), but that the plan also places a strong emphasis on addressing ESG and SDGs, as well as accelerating DX. We find this point to be appealing, and we expect the Company to grow its earnings and increase its corporate value over the medium-term.

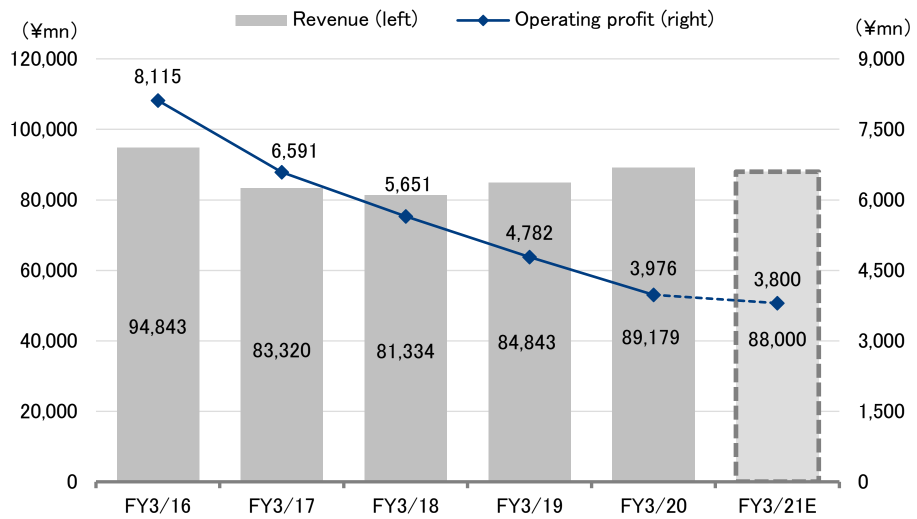
4. Will strengthen shareholder returns dependent on profit growth by combining a stable dividend with a performance-linked dividend based on a payout ratio of 30%

Regarding profit distribution, the performance of the shipping business is significantly impacted by market conditions. Therefore, the Company previously had a basic policy of aiming to pay a stable dividend of ¥8 to ¥12 per year, paying close attention to strengthening its financial position, keeping the necessary internal reserves, and studying the outlook for the future business environment. However, in conjunction with the formulation of the new Mid-Term Management Plan, from FY3/21, in addition to the existing policy of maintaining a stable dividend, the Company will pay performance-linked dividends based on a consolidated payout ratio of 30%. This will provide greater clarity on the link between dividend amounts and profit growth, as the Company aims to improve business performance and increase dividends.

Key Points

- Dual pillars of the historical shipping business and the real estate business
- Forecasting higher recurring profit and final profit in FY3/21 consolidated results
- Pursuing the IINO MODEL and IINO QUALITY heading towards 2030
- Proactive sustainability initiatives

Result trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Dual pillars of the historical shipping business and the real estate business

1. Company profile

The Company is a shipping company with a history of 120 years since it was founded in 1899 (IINO Shokai, Maizuru, Kyoto). Currently, it is developing its business on the dual pillars of the shipping businesses (the oceangoing shipping business and the regional shipping business), which mainly involve the transportation of resources and energy, and the real estate business for the rental of office buildings, mainly the head office of the IINO Building (Metropolitan Tokyo, Chiyoda Ward).

At the end of FY3/20, capital was ¥13,092mn, the equity ratio was 31.7%, net assets per share was ¥692.63, and the number of outstanding shares was 111,075,980 shares (of which 5,269,276 were treasury shares).

At the end of FY3/20, the Group consisted of 73 companies, including the Company and 72 Group companies (58 consolidated subsidiaries, 5 equity-method affiliates, and 9 affiliates outside the scope of consolidation). Overseas, it has local subsidiaries and representative offices in Singapore, Houston, London, Connecticut, Dubai and Shanghai.

2. History

In 1899, the founder Torakichi Iino established IINO Shokai in Maizuru, Kyoto, and began transportation of coal and stevedoring business. In 1944, the Company changed its name to its current name of IINO Kaiun Kaisha, Ltd., and in 1949 the Company listed on the Tokyo Stock Exchange. In 2004, the Company simultaneously obtained ISO9001 and ISO14001 certification in the shipping business. In 2005, it simultaneously obtained the ISO9001 and ISO14001 certification in the office building leasing business. The Company celebrated the 120th anniversary of its founding in July 2019.

In the shipping business, in 1964, the Company separated and transferred its liner department upon the consolidation of the shipping industry. After this, it shifted to focus on the management of tanker and tramp services. The Company began the chemical tanker business in earnest in the 1980s. In 1991, it participated in an Indonesian-produced LNG project and began an LNG transportation business. In 1993, the Company participated in a Qatar-produced LNG project, while in 2001 it participated in the world’s largest methanol production project in Saudi Arabia. In December 2019, the Company delivered its first methanol tanker with a dual-fuel main engine, while in March 2020, the Company completed its first VLCC equipped with a SOx scrubber (desulfurization unit). In 2021, the Company plans to complete its first VLGC equipped with a dual-fuel main engine which can use LPG as a fuel. These are initiatives that the Company is proactively introducing to use technologies that reduce the burden on the environment.

In the real estate business, in 2011 the Company completed phase 1 of the IINO Building construction project and the building opened. That year, the head office (the IINO Building) became the first office space in Japan to receive the LEED Platinum Certification. In 2014, the Company completed phase 2 of the IINO Building construction project and held the grand opening. In 2018, the Shimbashi Tamura-cho District Urban Redevelopment Project, which includes the site of the former Tokyo Sakurada Building, got started in earnest, while the IINO Building's office floor portion (7th floor through 27th floor) received the highest rank of five stars under the Building-Housing Energy-efficiency Labeling System (BELS). In 2019, in the DBJ Green Building certification by the Development Bank of Japan, which is awarded to office buildings that are friendly to the environment and society, the IINO Building received a top rank of five stars, while the Shiodome Shiba-Rikyu Building received a four-star ranking. Furthermore, in March 2020, the Company acquired an office building in London, adding overseas real estate to the business portfolio.

Company history

Year	Major event
1899	Torakichi Iino, established IINO Shokai in Maizuru, Kyoto, and began a harbor loading and coal transportation business.
1918	Established IINO Shoji Kaisha, Ltd., which succeeded all of the businesses of IINO Shokai.
1922	Established IINO Kisen Kaisha Ltd, and it inherited the separated IINO Shoji outsourcing maritime transportation business.
1931	Fujisan Maru, Japan's first full-scale oceangoing transport tanker was built.
1941	Changed the name of IINO Shoji to IINO Kaiun Sangyo Kaisha, Ltd., and it was merged with IINO Kisen.
1944	Changed the name of IINO Kaiun Sangyo to IINO Kaiun Kaisha, Ltd, the current company name.
1949	The company's stock was listed on the Tokyo Stock Exchange.
1950	Built Ryuho Maru, Japan's first post-war large-scale tanker.
1951	Entered fully into the liner business.
1953	Established IINO Fudosan Kaisha, Ltd.
1960	Completed building of the former IINO Building, transferred the head office to this building, and started the IINO Hall business.
1963	Built Toyosu Maru, the Company's first oceangoing LPG tanker.
1964	Separated and transferred the liner business department on the consolidation of the marine transportation industry. Since then, it has focused on the management of tankers and cargo trampers.
1967	Completed Tokyo Sakurada Building.
1970	Built Zenkoren Maru No.5, the Company's first Panamax- dry bulk carrier.
1974	Established IINO Marine Service Co., Ltd., to conduct ship management operations.
1983	Completed Tokyo Fujimi Building.
1988	Completed IINO Takehaya Building.
1991	Participated in an Indonesia LNG project and began an LNG transportation business.
1993	Participated in a Qatar LNG project.
1995	Completed Sasazuka Center Building.
1997	Merged with IINO Fudosan Kaisha, Ltd. Established IINO Media Pro Co, Ltd., a company managing photo studios and conducting design and advertising production.
1999	100th anniversary of its foundation Completed building of the Ryuho Maru, the Company's first double-hull tanker.
2000	Completed building of BLUE ISLAND, the Company's first cape size-type dry bulk carrier.
2001	Participated in the world's largest methanol production project in Saudi Arabia (started operations in 2004).
2002	Established IINO SINGAPORE PTE. LTD., as a local subsidiary in Singapore.
2003	Built SK SUNRISE, the Company's first self-managing LNG tanker. Opened the Dubai Representative Office.
2004	Acquired integrated certification for ISO9001 and ISO14001 in the marine transportation industry. Established IINO UK LTD., as a local subsidiary in London.
2005	Established a joint venture with Mitsui & Co., Ltd., and QATAR SHIPPING COMPANY. Acquired integrated certification for ISO9001 and ISO14001 for office-leasing business. Built NORTH PIONEER, the Company's first and Japan's second regional shipping LNG tanker.
2006	Completed Shiodome Shiba-Rikyu Building. Started ship operations at IINO SINGAPORE.
2007	Integrated the Small Gas Tanker Division into IINO Gas Transport, Ltd.
2009	Started the IINO Building construction (rebuilding) work. Started transportation of bio-ETBE (ethyl tertiary butyl ether) by chemical tanker.
2011	Completed phase 1 of the IINO Building construction project. The building opened in October. The head office (the IINO Building) is the first office space in Japan to receive the LEED Platinum Certification.
2014	Expanded facilities at the North America base and established the Houston office. Completed phase 2 of the IINO Building construction project and held the grand opening.
2016	The IINO Building was certified as being a workplace excelling in specified global warming countermeasures (top-level workplace) in the Tokyo Metropolitan Government Environmental Protection Ordinance. The IINO Building was awarded the 1st ABINC Special Award.

Year	Major event
2017	Formulated Mid-Term Management Plan (FY2017–FY2019).
2018	Concluded a time charter contract for a newly constructed methanol tanker equipped with a dual-fuel main engine, the Company's first. The IINO Building acquired the Tokyo Fire Department's Fire Safety Building Certification (common name: Excellence Mark). The IINO Building was registered by the Tokyo Metropolitan Government Bureau of Environment as an Edo no Midori Registered Green Area (Excellent Green Area). Fully fledged start of the Shimbashi Tamura-cho District Urban Redevelopment Project, which includes the site of the former Tokyo Sakurada Building. The IINO Building was awarded 5 stars by the Building-Housing Energy-efficiency Labeling System (BELS) for the office floor portion (7th floor through 27th floor). The NS Toranomon Building was awarded Honorable Mention at the FY2018 Minato-ku "Scenic Town Awards." Acquired additional shares of Northern LNG Transport Co., I Ltd. and Northern LNG Transport Co., II Ltd. in the Snohvit LNG project.
2019	Completed a VLGC for Astomos Energy Corporation. IINO Building obtained the top ranking of 5 stars in the DBJ Green Building Certification by the Development Bank of Japan. The Shiodome Shiba-Rikyu Building obtained a 4-star ranking in the DBJ Green Building Certification by the Development Bank of Japan. Donated credits (excess reduction of CO2) based on the Tokyo Cap-and-Trade Program. Completed its first ship (methanol tanker) equipped with a dual-fuel main engine.
2020	Acquired an office building in London, U.K. Completed its first VLCC equipped with a SOx scrubber. Concluded a time charter contract for a newly-built very large gas carrier (VLGC) with Equinor ASA, and made the decision to build the Company's first VLGC equipped with a dual-fuel main engine that can use LPG as fuel. JP CORAL, a bulk carrier managed and operated by the Company, won the Best Quality Ship Award for 2019. Formulated the mid-term management plan "Be Unique and Innovative.: The Next Stage - Towards 2030-" looking ahead to 2030.

Source: Prepared by FISCO from the Company's materials

Business overview, features, and strengths

Engaged in the shipping business (oceangoing shipping business, regional transport shipping business), and the real estate business

1. Business overview

A feature of the Company is that its earnings are from the dual pillars of the shipping business (the oceangoing shipping business and the regional shipping business) and the real estate business. In FY3/20, these three business segments accounted for 76.6%, 10.4%, and 13.1% of total revenue, respectively, and 16.4%, 14.3%, and 69.3% of operating profit, respectively. Meanwhile, the operating margin in each business segment was 1.0%, 6.2%, and 23.6%, respectively.

Results by segment

Revenue and percentages of total revenue (¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Consolidated revenue	94,843	83,320	81,334	84,843	89,179
Oceangoing shipping business	72,364	62,572	61,865	64,873	68,391
Regional shipping business	9,424	8,514	9,012	9,427	9,244
Real estate business	13,138	12,314	10,545	10,669	11,667
Total	94,925	83,399	81,422	84,968	89,302
Adjustment	-82	-80	-88	-125	-123
%					
Oceangoing shipping business	76.2%	75.0%	76.0%	76.3%	76.6%
Regional shipping business	9.9%	10.2%	11.1%	11.1%	10.4%
Real estate business	13.8%	14.8%	13.0%	12.6%	13.1%

Source: Prepared by FISCO from the Company's financial results

Operating profit and percentages of total operating profit (¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Consolidated operating profit	8,115	6,591	5,651	4,782	3,976
Oceangoing shipping business	3,767	2,626	1,713	583	651
Regional shipping business	364	180	700	926	570
Real estate business	3,984	3,786	3,238	3,273	2,755
Total	8,115	6,591	5,651	4,782	3,976
Adjustment	-	-	-	-	-
%					
Oceangoing shipping business	46.4%	39.8%	30.3%	12.2%	16.4%
Regional shipping business	4.5%	2.7%	12.4%	19.4%	14.3%
Real estate business	49.1%	57.4%	57.3%	68.4%	69.3%

Source: Prepared by FISCO from the Company's financial results

Operating margin

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Consolidated operating margin	8.6%	7.9%	6.9%	5.6%	4.5%
Oceangoing shipping business	5.2%	4.2%	2.8%	0.9%	1.0%
Regional shipping business	3.9%	2.1%	7.8%	9.8%	6.2%
Real estate business	30.3%	30.7%	30.7%	30.7%	23.6%

Source: Prepared by FISCO from the Company's financial results

In looking at the last five years of results, there has not been a major change in the ratio of revenue by segment, but there has been a change in operating margins. In the oceangoing shipping business, the operating margin has been declining due to factors including changes in market conditions and increasing docking expenses. In the regional shipping business, operating margin has been trending upwards due to stable revenue based on medium- to long-term contracts and efficient deployment of vessels, but operating profit declined in FY3/20 as a result of an increase in docking. In the real estate business, operating margin declined in FY3/20 due to the increase in equipment renewal costs, but the operating margin was in the 30% range excluding this temporary factor, and the business is a source of stable earnings.

In the shipping business, chemical tankers for which the Company has one of the largest fleets in the world, and gas carriers are the core businesses

2. Shipping business

The Oceangoing shipping business involves the transportation of cargo across the water worldwide by oil tankers, which transport crude oil; chemical tankers, which transport petrochemical products; large gas carriers, which transport LNG (liquefied natural gas) and LPG (liquefied petroleum gas); dedicated coal and wood chip carriers; and small- and medium-sized dry bulk carriers, which transport grains, steel materials, and fertilizer. The regional shipping business involves the transportation of cargo mainly in Japan's coastal and regional marine areas, including by small gas carriers that transport LNG, LPG, and petrochemical gas. These businesses also include other operations, such as a ship management business and sales of maritime equipment.

At the end of FY3/20, the Group's number of operating ships was a total of 105 ships (54 owned ships and 51 chartered ships, including shared equity interests and short-term charters). Breaking this down, in the oceangoing shipping business, it had three oil tankers, 43 chemical tankers, 17 large gas carriers, and 16 dry bulk carriers, while in the regional shipping business, it had 26 small gas carriers.

The Company's main business partners include Astomos Energy Corporation (an LPG trading company created from the integration of the LPG departments of the Idemitsu Kosan <5019> Group and the Mitsubishi Corporation <8058> Group), Idemitsu Kosan, Oji Holdings Corp. <3861>, ENEOS Corporation (ENEOS Holdings, Inc. <5020> Group company), National Federation of Agricultural Cooperative Associations (ZEN-NOH), J-POWER <9513>, Tosoh Corporation <4042>, Zeon Corporation <4205>, Hokkaido Gas Co., Ltd. <9534>, and SABIC (Saudi Arabia Basic Industries Corporation).

With the main operations being resources- and energy-related transportation by chemical tankers, gas carriers, and other ships, these businesses utilize the Company's global network to provide efficient marine transportation services over a wide range of marine areas, from open oceans to regional waters. The Company's distinguishing characteristics and strengths include the fact that it has one of the largest chemical tanker fleets in the industry, and that it has gas carriers on medium- to long-term contracts as a source of stable earnings. In particular, the Company has a leading share in transport volume of petrochemical products originating from the Middle East. The Company also has a leading share in the domestic transportation market for LPG and petrochemical gas. Moreover, it is one of the very few companies in Japan operating coastal shipping LNG carriers.

Many of the chemical tankers that the Company operates have stainless-steel tanks. Compared to normal iron tanks, stainless-steel tanks have a strong resistance to corrosion, so they have the advantage of being able to transport cargo such as sulfuric acid. The Company is also working to realize efficient operations for the transportation in its chemical tankers not only of petrochemical products, but also of cargo such as palm oil. In addition to stainless-steel tankers, the Company possesses advanced ship management expertise that is required for the transportation of petrochemical products, such as for tank cleaning, and moreover expertise in transporting cargo efficiently, which leads to it having a competitive advantage.

The real estate business involves the leasing of office buildings in prime areas in the center of Metropolitan Tokyo

3. Real estate business

The real estate business mainly involves the rental, management and maintenance of office buildings. A feature of this business is that the Company owns rental office buildings in prime areas in the center of Metropolitan Tokyo, such as the IINO Building (including the IINO Hall & Conference Center), which is the head office building. It is also deploying related business including a rental photo studio business (Hiroo studio and Minami Aoyama studio).

In addition to the Tokyo Fujimi Building (Metropolitan Tokyo, Chiyoda Ward) completed in 1983, the IINO Takehaya Building (Metropolitan Tokyo, Bunkyo Ward) completed in 1988, and the Shiodome Shiba-Rikyu Building (Metropolitan Tokyo, Minato Ward) completed in 2006, in 2009 the Company began work to rebuild the IINO Building (Metropolitan Tokyo, Chiyoda Ward), and it completed phase 1 of the IINO Building construction project in October 2011 and the building opened for business, and then in November 2014, it completed phase 2 of this project and held the grand opening. In December 2017, the Company acquired partial equity interest of the NS Toranomon Building (Metropolitan Tokyo, Minato Ward), which was completed in 2016. In addition, in March 2020, the Company's U.K. consolidated subsidiary (established in January 2020) acquired the office building Bracton House in London, U.K., thus adding overseas real estate to the business portfolio.

In March 2017, the Company sold the Sasazuka Center Building (completed in 1995) following a review of its business portfolio. Also, in order to participate in the Shimbashi Tamura-cho District Urban Redevelopment Project (construction began in April 2018 and is scheduled to be completed by the end of June 2021), in FY3/18 it demolished the Tokyo Sakurada Building (Metropolitan Tokyo, Minato Ward, completed in 1967).

As a result, as of the end of FY3/20, the Company owned six rental buildings (IINO Building, Tokyo Fujimi Building, Shiodome Shiba-Rikyu Building, NS Toranomon Building, IINO Takehaya Building, and Bracton House in London).

The real estate business is one of the main sources of a stable earnings for the Company from a long-term perspective. Going forward, the Company will look to acquire excellent properties overseas as well as in regional areas of Japan, rather than limiting its scope to its previous target area of central Tokyo.

The IINO Building is pursuing advanced environmental performance

4. IINO Building

The IINO Building, which opened in 2011 (grand opening in 2014), has become an earnings source based on the concept of being a "building that will still be loved 100 years in the future," and it is equipped with hall and conference functions. The building also pursues advanced environmental performance. For example, the adoption of a "double-skin exterior" by doubling the normal outer walls and window glass creates an air-heat insulating layer, thus reducing thermal load.

It was the first building in Japan to acquire the Platinum Certification, which is the highest certification for LEED-CI (environmental compliance evaluation system by the U.S. Green Building Council). Also, in 2015 it acquired the Certification of Site Symbiosis with Ikimono (living things) (Association for Business Innovation in harmony with Nature and Community (ABINC) certification), which evaluates the efforts of office buildings and commercial facilities to protect biodiversity. In 2016, within the sites that had acquired ABINC certification, this building was awarded the 1st ABINC Special Award as a facility that is contributing greatly to the spread in the awareness of ABINC and to the mainstream acceptance of biodiversity.

Also, in 2016 it was certified as being a workplace excelling in specified global warming countermeasures (top-level workplace) in the 2015 Tokyo Metropolitan Government Environmental Protection Ordinance. In February 2018, it acquired the Fire Safety Building Certification (common name: Excellence Mark), based on the Tokyo Fire Department's system to show which buildings had been certified as being excellent for fire safety. Then, in March 2018, the building was registered as an Edo-Midori Green Space (Excellent Green Space) by the Tokyo Metropolitan Government Bureau of Environment in its native plants registration system. In October 2018, the IINO Building's office floor portion (7th floor through 27th floor) received the highest rank of five stars under the Building-Housing Energy-efficiency Labeling System (BELS).

Furthermore, in March 2019, in the DBJ Green Building certification by the Development Bank of Japan, the IINO Building received the highest rank of five stars, while the Shiodome Shiba-Rikyu Building maintained its four-stars ranking.

5. Earnings profile/risk factors and countermeasures

In terms of the Company's earnings profile and risk factors, all of the Company's businesses are easily impacted by changing market conditions. However, the Company aims to build a robust business foundation by accumulating stable sources of revenue in each business.

In the shipping business, the oceangoing shipping business in particular, is impacted by elements including shipping market conditions, the price of fuel oil, and FOREX rates. Moreover, for the mainstay chemical tankers, the effects of fluctuating market conditions on spot freight cannot be avoided.

To counter these factors, for chemical tankers, the Company aims to maximize profits by combining multiple, approximately one-year contract of affreightment (COA), which constitute about 70% of the total, and spot freight, which constitute about 30%. COA generally have a price adjustment clause called bunker adjustment factors (BAF) tied to fluctuations in the price of fuel oil, but depending on the contract, if the fuel oil price increases by a small amount, the increase may not be transferred to the price, and this may impact profitability.

Oil tankers and gas carriers are mainly deployed on medium- to long-term time charter contracts, as the Company is promoting the accumulation of stable long-term revenue sources with oil tankers and gas carriers. In December 2018, the Company acquired additional shares in Northern LNG Transport Co., I Ltd. and Northern LNG Transport Co., II Ltd. (hereinafter, "NLTC I" and "NLTC II") – special purpose companies formed for the purpose of owning LNG tankers in the Snohvit LNG project – from Mitsui & Co., Ltd. <8031>, thereby increasing its ownership stake in these two companies. Also, including the regional shipping business, the Company is working to renew contracts on favorable terms to handle the increase in costs, and is aiming to boost profitability.

From January 2020, the International Maritime Organization (IMO) started to implement tighter international regulations on sulfur content in marine fuels (SOx regulation). Specifically, cap on the concentration of sulfur included in marine fuel will be lowered from the current level of “no more than 3.5%” to “no more than 0.5%.” As response options, the Company can install scrubbers (desulfurization units) and/or use low-sulfur fuel oil (fuel that is compliant with the new regulation).

The negative impacts of the tougher regulation include the increased costs of ship equipment and servicing required to ensure that vessels can use compliant fuel oil and cost increases related to differences between the cost of conventional fuel and compliant fuel oil. With respect to the increased costs from using compliant fuel oil, the Company has worked to gain the understanding of cargo owners that this is a necessary cost in order to protect the environment, and has made progress in passing the increased costs along to cargo owners. Meanwhile, the positive impact of the tougher regulation is expected to lead to an improvement in market conditions for product tankers and chemical tankers due to demand for the transport of compliant fuel oil and an improvement in the supply-demand balance due to the scrapping of vessels that cannot comply with the tighter regulation.

In the real estate business, earnings tend to be influenced by factors including real estate market conditions, vacancy rates, and rents, but all of the rental buildings that the Company owns are located in prime locations in the center of Metropolitan Tokyo and London where office building rent levels are firm. The IINO Building, the pillar of earnings in the real estate business, not only is located in a good area, but its advanced environmental performance is also a strength. The IINO Building should continue to be a source of stable earnings.

Business performance

Profits declined in FY3/20

1. Overview of FY3/20 consolidated results

In the FY3/20 consolidated results, revenue increased 5.1% YoY to ¥89,179mn, operating profit declined 16.8% to ¥3,976mn, recurring profit declined 26.5% to ¥3,455mn, and profit attributable to owners of parent declined 19.1% to ¥3,788mn. The average FOREX rate was ¥109.13/USD (compared to ¥110.67/USD in FY3/19), the average price of fuel oil in Singapore was US$412/MT (versus US$430/MT in FY3/19), and compliant fuel oil was US$598/MT.

Overview of FY3/20 consolidated results

(¥mn)

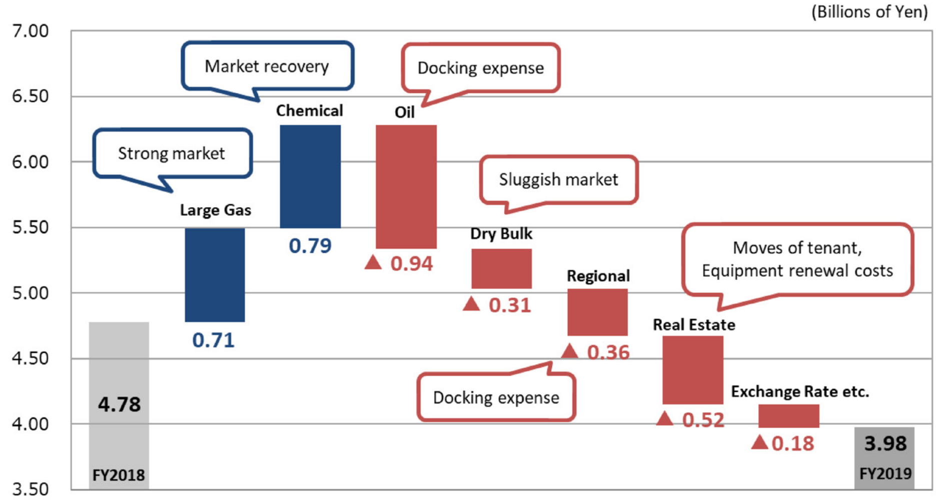
	FY3/19	FY3/20	YoY (%)
Revenue	84,843	89,179	5.1
Operating profit	4,782	3,976	-16.8
Recurring profit	4,701	3,455	-26.5
Profit attributable to owners of parent	4,685	3,788	-19.1
EPS (¥)	44.28	35.80	-
Dividend (¥)	15.00	12.00	-
BPS (¥)	689.25	692.63	-
Average FOREX rate (¥/USD)	110.67	109.13	-
Average price of fuel oil (USD/MT)	430	412	-
Average price of compliant fuel oil (USD/MT)	-	598	-

Source: Prepared by FISCO from the Company's financial results

Looking at the comparison with FY3/19, an improvement in market conditions in the large gas carriers and chemical tankers in the shipping business was a factor for higher earnings, but overall profit declined due to a number of factors, including the increase in docking expenses in the shipping business and an increase in equipment renewal costs in the real estate business. The impact of the spread of COVID-19 was minimal on the whole.

The overall ¥800mn decline in operating profit was the result of positive factors including the improvement in the market conditions for large gas carriers (+¥710mn), the better market conditions for chemical tankers (+¥790mn), and negative factors including an increase in docking expenses for an oil tanker (-¥940mn), the sluggish market conditions for dry bulk carriers (-¥310mn), an increase in docking expenses for regional shipping (-¥360mn), a decline in occupancy due to tenants leaving and higher equipment renewal costs in the real estate business (-¥520mn), and exchange rate and other (-¥180mn).

Breakdown of YoY change in operating profit



Source: The Company's results briefing materials

In non-operating income, the Company booked ¥311mn in equity in earnings of affiliates, but dividend income declined ¥498mn, and foreign exchange gains fell ¥370mn, resulting in a ¥440mn decline in total non-operating income. Also, in extraordinary income, gain on sales of non-current assets declined ¥1,187mn, but in extraordinary losses, impairment loss declined ¥1,146mn, and loss on valuation of investment securities declined ¥201mn, resulting in a ¥182mn increase in overall extraordinary gains and losses.

2. Overview by segment

The overview by segment (before adjustment for consolidation) is as follows

Overview of FY3/20 results by segment

(¥mn)

	FY3/19	FY3/20	YoY (%)
Consolidated revenue	84,843	89,179	5.1
Oceangoing shipping business	64,873	68,391	5.4
Coastal and regional shipping business	9,427	9,244	-1.9
Real estate business	10,669	11,667	9.4
Total	84,968	89,302	5.1
Adjustment	-125	-123	-
Consolidated operating profit	4,782	3,976	-16.8
Oceangoing shipping business	583	651	11.8
Coastal and regional shipping business	926	570	-38.5
Real estate business	3,273	2,755	-15.8
Total	4,782	3,976	-16.8

Source: Prepared by FISCO from the Company's financial results

(1) Revenue and profit increased in the oceangoing shipping business

In the oceangoing shipping business, revenue increased 5.4% YoY to ¥68,391mn, while operating profit increased 11.8% YoY to ¥651mn. Negative factors included the increase in docking expenses for an oil tanker and sluggish market conditions for dry bulk carriers. On the other hand, factors including stable accumulation of revenues and stronger market conditions and profitability improvements for large gas carriers and chemical tankers led to an overall increase in revenues and profits.

In oil tankers, the market stayed at low level at the beginning of fiscal year, but it spiked from summer due to an attack on oil infrastructure in Saudi Arabia and other factors. The oil tanker market dipped temporarily at the end of the fiscal year due to the impact of COVID-19, but market conditions rose again as demand for offshore oil storage increased. In chemical tankers, the market conditions were sluggish due to the downturn in global economy, however, the market has been on a recovery track from autumn due to the impacts of a rise in the oil tanker market. However, the market softened slightly at the end of the fiscal year due to the impact of COVID-19. For large LPG carriers, the market improved from summer due to factors such as an upturn in arbitrage transactions from the U.S. to Asia, and was generally favorable. For large LNG carriers, the market was generally solid, supported by the usual demand for transport during periods of the year in which energy demand is high. For dry bulk carriers, the market began the fiscal year on a soft note due to the impact of trade friction between China and the U.S. and other factors. The market improved temporarily from summer through autumn, but turned down again from winter. Subsequently, the market was in the doldrums by the end of the fiscal year due to the contraction in economic activity caused by COVID-19.

As key initiatives, the oceangoing shipping business accumulated medium- to long-term contracts as a source of stable revenue, enhanced profitability through efficient deployment of its fleet, and proactively introduced technologies to reduce environmental impacts. In oil tanker operations, the Company saw a deterioration in profitability due to docking expenses in the first quarter, but in March 2020 its first VLCC equipped with a SOx scrubber (desulfurization unit) completed. In chemical tanker operations, the Company strove for efficient vessel deployment through a combination of COA and spot cargo shipping. Also, in December 2019, a new methanol tanker equipped with a dual-fuel main engine (a first for the Company) was completed and deployed on a long-term contract. For large gas carriers, the Company secured stable revenues through the ongoing operation of tankers deployed on existing medium- to long-term contracts. For dry bulk carrier operations, efforts were made to deploy vessels efficiently, but the Company was unable to completely avoid an impact from the deterioration in market conditions.

(2) Revenue and profit decreased in regional shipping business

In the regional shipping business, revenue declined 1.9% YoY to ¥9,244mn, while operating profit fell 38.5% YoY to ¥570mn. Market conditions in coastal gas shipping business were solid, but market conditions in regional gas transport were soft. As key initiatives, the Company strove to maintain stable revenue based on medium- to long-term contracts and efficient deployment of its fleet. However, the profit declined due to an increase in docking expenses in coastal shipping.

(3) Real estate business revenue increased but profit declined

In the real estate business, revenue increased 9.4% YoY to ¥11,667mn, while operating profit declined 15.8% to ¥2,755mn. The departures of some tenants in IINO Building resulted in a vacancy period, but the Company succeeded in finding new tenants with the backdrop of a favorable office building leasing market. On the other hand, LED lighting replacement work was carried out, and equipment renewal costs also increased at the IINO Building, while at the IINO Hall & Conference Center, customers refrained from holding events due to COVID-19. As a result, overall profit declined in the real estate business.

However, the decrease in occupancy and the increase in equipment renewal costs are temporary factors, and at the IINO Building, new tenants will move in by May 2020, and the building will be fully occupied. The business will remain a source of stable revenue. In March 2020, the Company acquired an office building in London, U.K. (will be reflected in the consolidated financial statements from 1Q FY3/21) and added overseas real estate to the business portfolio as an initiative to develop next-generation businesses.

Steadily accumulating net assets

3. Financial overview

In terms of profitability, revenues increased while profits declined in FY3/20, so all profit margins declined YoY. Also, ROE (return on equity) dropped 1.4 percentage points to 5.2%.

Financially, at the end of FY3/20 total assets were up ¥8,652mn versus the end of the previous fiscal year, to ¥231,088mn. This was mainly due to increases in the completion of vessels and in cash and deposits. The equity ratio fell 1.1 percentage points to 31.7%. Net assets increased ¥351mn to ¥73,428mn and have been steadily accumulating. Based on its strengths of the dual pillars of the shipping businesses and the real estate business, there would seem to be no problems in terms of the Company's financial soundness.

Key management indicators

(¥mn)

Item	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Revenue	94,843	83,320	81,334	84,843	89,179
Cost of sales	79,974	69,880	68,816	73,160	78,074
Gross profit	14,869	13,440	12,518	11,683	11,105
Gross margin (%)	15.7	16.1	15.4	13.8	12.5
SG&A expenses	6,754	6,848	6,867	6,901	7,129
SG&A expenses ratio	7.1	8.2	8.4	8.1	8.0
Operating profit	8,115	6,591	5,651	4,782	3,976
Operating margin (%)	8.6	7.9	6.9	5.6	4.5
Non-operating income	2,643	742	1,153	1,721	1,157
Non-operating expenses	3,103	2,229	2,173	1,802	1,678
Recurring profit	7,655	5,105	4,631	4,701	3,455
Recurring margin (%)	8.1	6.1	5.7	5.5	3.9
Extraordinary income	633	3,776	3,577	2,161	969
Extraordinary losses	4,022	5,027	3,599	1,605	231
Profit before income taxes	4,267	3,854	4,609	5,257	4,193
Total income taxes	602	-19	344	467	414
Profit attributable to owners of parent	3,659	3,885	4,243	4,685	3,788
Net income margin attributable to owners of parent (%)	3.9	4.7	5.2	5.5	4.2
Comprehensive income	497	4,607	4,780	4,814	1,939
Total assets	230,278	203,969	210,237	222,435	231,088
(Current assets)	29,125	25,145	24,711	24,365	29,884
(Non-current assets)	201,153	178,824	185,526	198,070	201,204
Total liabilities	164,993	135,195	140,999	149,359	157,660
(Current liabilities)	35,342	38,039	41,688	51,607	47,563
(Non-current liabilities)	129,651	97,156	99,311	97,752	110,097
Net assets	65,285	68,774	69,237	73,077	73,428
(Shareholders’ equity)	61,322	64,098	64,036	67,801	70,002
(Capital stock)	13,092	13,092	13,092	13,092	13,092
No. of shares outstanding at the end of the fiscal period, including treasury shares	111,075,980	111,075,980	111,075,980	111,075,980	111,075,980
No. of treasury shares at the end of the fiscal period	106,024	106,737	5,267,927	5,268,871	5,269,276
EPS (¥)	32.97	35.01	38.53	44.28	35.80
BPS (¥)	587.51	619.18	653.29	689.25	692.63
Dividend per share (¥)	10.00	10.00	10.00	15.00	12.00
Equity ratio (%)	28.3	33.7	32.9	32.8	31.7
ROE (return on equity) (%)	5.6	5.8	6.2	6.6	5.2
Cash flows from operating activities	18,804	11,075	12,117	14,549	13,079
Cash flows from investing activities	-18,551	12,788	-15,399	-21,202	-14,840
Cash flows from financing activities	2,475	-27,242	3,350	5,826	6,234
Cash and cash equivalents at end of period	14,326	10,719	10,536	9,826	14,208
Ratio of cash flow to interest-bearing debt (years)	6.9	9.7	9.5	8.1	9.7
Interest coverage ratio (times)	7.9	5.4	7.1	9.0	8.9
Number of employees	619	626	622	629	646

Source: Prepared by FISCO from the Company's financial results

Outlook

Forecast is for higher recurring profit and final profit in FY3/21

1. Overview of consolidated results outlook for FY3/21

The FY3/21 consolidated results forecasts are for revenue to decline 1.3% YoY to ¥88,000mn, operating profit to fall 4.4% to ¥3,800mn, recurring profit to increase 4.2% to ¥3,600mn, and profit attributable to owners of parent to increase 18.8% to ¥4,500mn.

In terms of the impacts of COVID-19 (assuming the impacts of COVID-19 will continue for the April–September period), the Company expects a roughly minus ¥2,000mn impact at the operating profit stage (roughly ¥1,600mn in the shipping business and ¥400mn in the real estate business), and thus is forecasting a decline in operating profit, but the Company is forecasting increases in both recurring profit and final profit due to the improvement in non-operating income/expenses and the booking of extraordinary income (realization of foreign currency translation adjustment due to the completion of the liquidation of an overseas subsidiary).

The assumed average exchange rate is ¥105.00/USD (FY3/20 average exchange rate was ¥109.13/USD). The Company is forecasting that each one yen change in the exchange rate will have a ¥106mn impact on recurring profit. The assumed average price of fuel oil (Singapore) is 305USD/MT (the FY3/20 average was 412USD/MT), and a compliant fuel oil price of 400USD/MT (versus 598USD/MT in FY3/20)

Overview of consolidated forecast for FY3/21

(¥mn)

	FY3/20	FY3/21	YoY (%)
Revenue	89,179	88,000	-1.3
Operating profit	3,976	3,800	-4.4
(Shipping Business)	1,221	500	-59.0
(Real Estate Business)	2,755	3,300	19.8
Recurring profit	3,455	3,600	4.2
Profit attributable to owners of parent	3,788	4,500	18.8
EPS (¥)	35.80	42.53	-
Dividend (¥)	12.00	12.00	-
BPS (¥)	692.63	-	-
Average FOREX rate (¥/USD)	109.13	105.00	-
Average price of fuel oil (USD/MT)	412	305	-
Average price of compliant fuel oil (USD/MT)	598	400	-

Source: Prepared by FISCO from the Company's financial results, results briefing materials, and Mid-Term Management Plan presentation materials

The Company is assuming that the impacts of COVID-19 will continue from April to September 2020, so the 1H consolidated results are for revenue of ¥42,000mn, operating profit of ¥1,100mn, recurring profit of ¥1,000mn, and net income attributable to owners of parent of ¥1,200mn. As these forecasts indicate, the Company expects revenue and profits to be concentrated in 2H.

2. Outlook by segment

The outlooks for each segment are as follows.

(1) Concern about a dulling of transport volume and sluggish market conditions in the shipping business

The Company expects operating profit in the shipping business (total of the oceangoing shipping business and the regional shipping business) to decline 59.0% YoY to ¥500mn. The Company will work to accumulate stable revenue and promote efficient deployment of its fleet, but there is concern that freight movement will slow down, and market conditions will become sluggish due to the global economic slowdown caused by COVID-19. The Company is expecting this to result in a negative impact of approximately ¥1,600mn (approximately ¥1,100mn due to the market slump and deterioration of revenues in dry bulk carriers and chemical tankers, and roughly ¥500mn due to the increase in labor costs associated with the prolonged docking of ships due to immigration regulations).

Meanwhile, the oil tanker, large gas carrier and coastal/regional shipping divisions are expected to avoid any major impacts from COVID-19, as their business operations are based on medium- to long-term contracts. With respect to the ramp-up of SOx regulation by the IMO which went into effect from January 2020, the Company has worked to gain the understanding of cargo owners that this is a necessary cost in order to protect the environment, and has made progress in passing the increased costs due to the use of compliant fuel oil along to cargo owners.

(2) Full occupancy of the IINO Building in the real estate business

In the real estate business, the Company is expecting operating profit to increase 19.8% YoY to ¥3,300mn. The Company is forecasting that event postponements due to COVID-19 will have a roughly ¥400mn negative impact due to a decline in utilization of IINO Hall and the photo studio, but new tenants finished moving into the mainstay IINO Building by May 2020, resulting in full occupancy, so IINO Building will drive overall performance. These new leases are on more favorable terms for the Company than before, which will aid performance. Also, the office building the Company acquired in March 2020 in London, U.K. is also expected to contribute to performance in the real estate business.

Medium- to long-term growth strategy

Mid-Term Management Plan with an eye towards 2030

1. Review of previous Mid-Term Management Plan

Toward the 125th anniversary of its foundation in 2024, the Company formulated its Mid-term Management Plan, Be Unique and Innovative, from April 2017 to March 2020. Under this plan, the theme was taking up the challenges of balanced management and advancement (achieving a balance between the dual pillars of the shipping business and the real estate business, stable earnings and next-generation business, and well-balanced numerical growth targets). Toward this, it set the priority strengthening measures as pursuing greater business differentiation, solidifying stable earnings, and challenges of next-generation business.

In terms of results under the plan, the prolonged stagnation in the chemical tanker market and reduced occupancy in the IINO Building due to the departure of tenants, along with other factors, led to results falling short of the targets (FY3/18–FY3/20 total operating profit target was ¥21,000mn, but the actual total operating profit was ¥14,400mn). The measures implemented included improving COA ratio by acquiring new chemical tanker COAs, reducing the impact of market conditions through medium- to long-term contracts of chemical tankers, and acquiring new tenants for the IINO Building.

In terms of the status of efforts on key initiatives, for pursuing greater business differentiation, the Company focused on strengthening competitiveness in oil tankers and maintaining a market-leading position in the regional gas shipping business. In terms of solidifying stable earnings, the Company worked on initiatives in the energy resources shipping business, maintained and expanded Middle East share in the chemical tanker market, and promoted redevelopment of the Shimbashi Tamura-cho District Urban Redevelopment Project. In terms of challenges of next-generation business, the Company acquired an office building in London (U.K.) and delivered a methanol tanker equipped with a dual-fuel main engine.

2. Overview of new Mid-Term Management Plan

Based on the results of the previous mid-term management plan, the Company has formulated a new Mid-Term Management Plan spanning April 2020 through March 2023. The plan is named “Be Unique and Innovative.: The Next Stage - Towards 2030-”.

In the plan, the Company set the goal towards 2030 (IINO VISION for 2030) with a view to establishing our position as an independent global corporate group that continues to evolve with creative ideas in response to the demands of the times. Therefore, during the period of the new mid-term management plan, the Company will further pursue the creation of its own unique business model (IINO MODEL) and the provision of high quality service (IINO QUALITY) to increase the economic value of the Group, while at the same time as creating social value and responding social needs including environmental preservation through proactive initiatives on sustainability and thereby creating shared value.

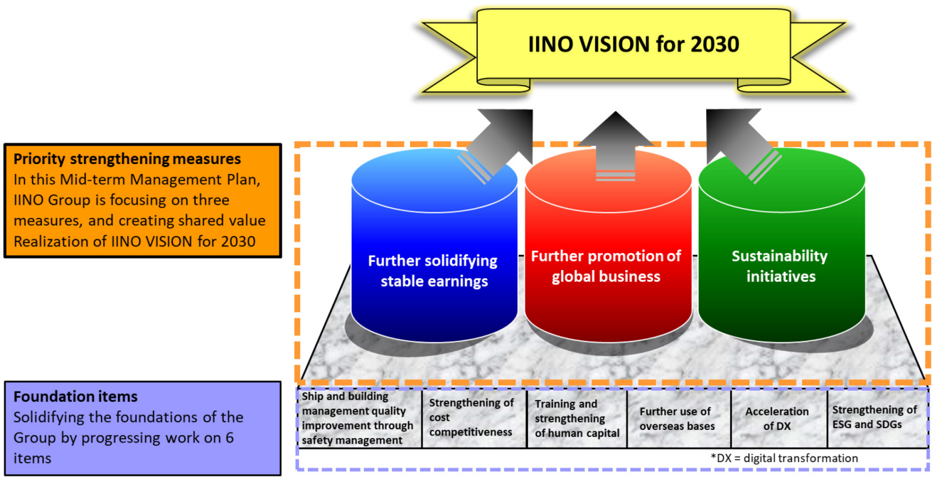
3. Priority strengthening measures

Under the priority strengthening measures (three measures) of the further promotion of global business, further solidifying stable earnings, and sustainability initiatives, there are six foundation items in order to solidify the foundations of the Group. These foundation items include ship and building management quality improvement through safety management, strengthening of cost competitiveness, training and strengthening of human capital, further use of overseas bases, acceleration of digital transformation (DX), and strengthening of measures to address ESG (Environment, Social, Governance) and the SDGs (Sustainable Development Goals).

Reorganization of corporate philosophy system

Source: The Company's Mid-Term Management Plan presentation materials

Overview of Mid-Term Management Plan



Source: The Company's Mid-Term Management Plan presentation materials

In terms of further promotion of global business, for enhancing competitiveness to promote a global system, the Company will strengthen measures to operate routes outside existing Middle East routes, while for gas carriers and dry bulk carriers the Company will strengthen measures for new cargoes and new routes. Meanwhile, in terms of strengthening organizational capability to support a global system, the Company will increase headcount at overseas offices and strengthen functions, among other efforts.

With respect to further solidifying stable earnings, in terms of initiatives for strengthening the real estate business, the Company will aim to acquire properties in central Tokyo that will become sources of stable earnings from a long-term perspective, and focus on outstanding properties overseas and in regional areas in Japan to quickly generate earnings. With respect to further strengthening energy transport, the Company will promote stable fleet replacement, continue high-quality service to existing contracted shippers, and continue the ongoing supply of stable and high-quality energy transport, among other efforts.

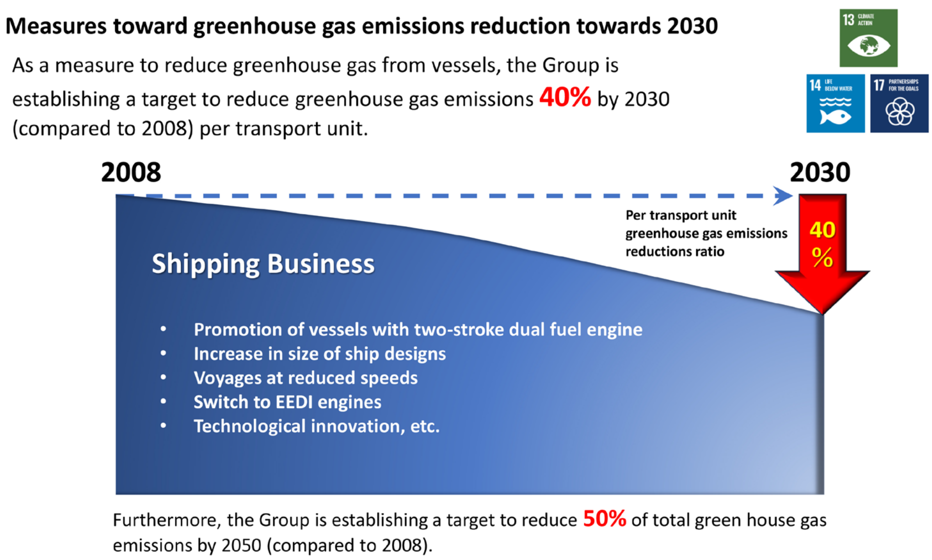
With respect to sustainability initiatives, in terms of investment in assets that contribute positively to the environment, the Company will bolster investment in large vessels with fuel-efficient engines (reduces CO2 emissions and improve economic efficiency), and promote the improvement of the energy mix in Company-owned buildings (switch to renewable energy, use LED, etc.). When it comes to strengthening initiatives on next-generation fueled ships, the Company will invest in vessels fueled by LNG, LPG, and methanol, etc., as well as advance know-how on operating and managing ships with dual-fuel engines. In terms of strengthening initiatives on sustainable cargo (cargo with low environmental impact, as well as cargo that contributes to the eradication of hunger and poverty), the Company will accumulate operational know-how for cargo such as LNG, grains, and fertilizers. The Company will also promote new business development.

4. Response to ESG and SDGs

The new Mid-Term Management Plan lays out a strong response to ESG and the SDGs. Specifically, the Company aims to create social value and economic value at the same time, and thereby improve corporate value, by bolstering communication with stakeholders and seriously working to overcome environmental, social, and economic issues.

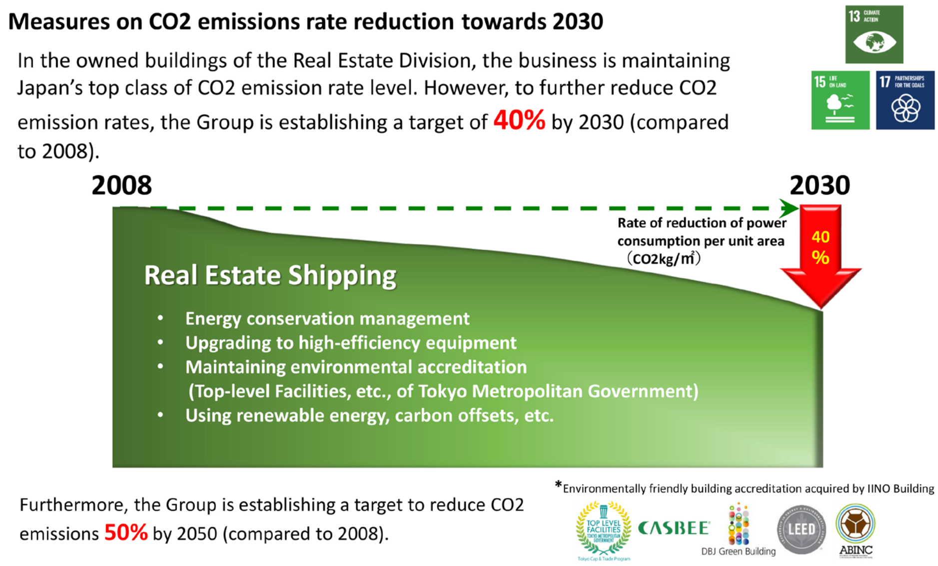
In terms of a response to greenhouse gases, as an emissions reduction target, in the shipping business, the Company will work to reduce greenhouse gas emissions 40% by 2030 (compared to 2008) per transport unit. Going even further, the Company has set a target of reducing greenhouse gas emissions 50% by 2050 (compared to 2008). Meanwhile, in the real estate business, the Company established a reduction target of 40% by 2030 (compared to 2008) of CO2 emissions per unit area, and to reduce emissions 50% by 2050 (compared to 2008).

Initiatives to reduce greenhouse gases



Source: The Company's Mid-Term Management Plan presentation materials

Initiatives to reduce CO_2 emissions



Source: The Company's Mid-Term Management Plan presentation materials

In the shipping business, the Company is promoting initiatives aimed at reducing environmental impacts as well as putting next-generation fueled vessels into use. Such efforts include switching to dual-fuel engine vessels and switching to EEDI-compliant engines. In December 2019, Creole Sun, the Company's first ever methanol tanker equipped with a dual-fuel main engine, was delivered. Dual-fuel main engines can use not only compliant fuel (low sulfur fuel oil), but can also use methanol as a fuel. The vessel is chartered to Waterfront Shipping Company Ltd., a wholly-owned marine shipping subsidiary of Methanex Corporation, the world's largest producer of methanol, in a long-term contract. Also, in March 2020, the fifth generation Fujisan Maru, a VLCC equipped with a SOx scrubber, was completed. This is the Company's first vessel equipped with a SOx scrubber. The vessel will join Idemitsu Tanker Co., Ltd.'s primary VLCC fleet. Furthermore, in April 2020, the Company announced the construction of its first VLGC equipped with a dual-fuel main engine. The vessel is expected to be completed in 2021, and will be deployed on a time charter contract to Equinor ASA.

In the real estate business, the Company has been maintaining a level of CO2 emission rates that is top-class in Japan, including the IINO Building. However, the Company will promote other initiatives, including additional energy-conserving building management efforts, upgrades to high-efficiency equipment, maintaining environmental accreditation, and using renewable energy. Also, in November 2019, the Company donated 614 tons of credits (excess CO2 emissions reductions) to the Tokyo Metropolitan Government under the Tokyo Cap-and-Trade Program.

With respect to addressing the "S" in ESG, the Company will thoroughly establish safety and peace of mind (safe vessel operation, safe building management), address BCP, and promote work style reform. With respect to "G," the Company will promote the diversity of executives and employees (gender, race, nationality, etc.)

5. Acceleration of DX

In addition to responding to the rapidly changing business environment, the Company will accelerate the implementation of DX in order to create new value heading towards 2030.

The Company will upgrade its digitalization base, and aim to create new value such as improving the quality of safe vessel navigation (real-time ship-to-land communication, optimal route monitoring, use of fault prediction technology), ESG promotion support (CO2 reductions, better fuel efficiency, realizing diverse work styles, and operational reform (create an environment allowing employees to focus on high value-added work, bolster the organizational system to pass down know-how). The Company expects to work on the renewal of its core system sequentially in phases starting from FY3/21.

6. Numerical targets

As indicators emphasized in the Mid-Term Management Plan, in terms of profitability, recurring profit and EBITDA are key indicators taking into consideration business investment income/loss and cash flow. For efficiency, ROE is the key indicator with a focus on capital costs. For financial health, the D/E ratio will be the key indicator in order to maintain discipline with the financial base. The Company aims to achieve sustainable growth, keeping a good balance between these three indicators.

Numerical targets   Trends in indicators

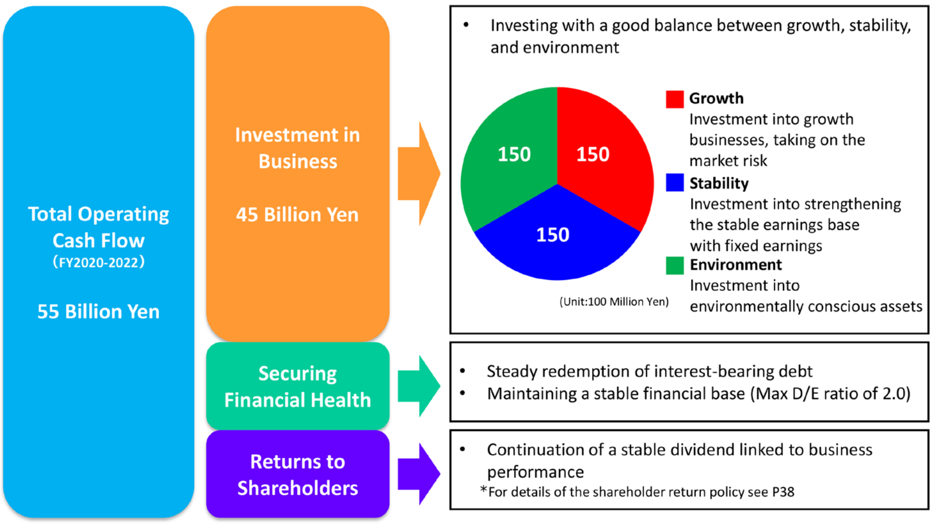
		FY2019 Result	FY2020 Plan	FY2021 Plan	FY2022 Plan	FY2030 Target
Assumptions	Exchange Rate	109.13Yen/$	105Yen/$	105Yen/$	105Yen/$	
	Bunker Oil Price*1	IFO380cSt: $412/mt Compliant Oil: $598/mt	1H: $300/mt 2H: $500/mt	$670/mt	$650/mt	
Revenue	(100 Million Yen)	892	880	900～1,100	900～1,100	1,600
Operating Profit	(100 Million Yen)	40	38	70～80	75～85	120
	Shipping	12	5	25～35	25～35	60
	Real Estate	28	33	45	50	60
Recurring Profit	(100 Million Yen)	35	36	65～75	70～80	100
Net Income	(100 Million Yen)	38	45	60～70	70～80	100
EBITDA*2	(100 Million Yen)	139	156	190～200	195～205	250
ROE		5.2%	6%	7～8%	8～9%	10%
D/E Ratio	(times)	1.72	Max. 2.0	Max. 2.0	Max. 2.0	Max. 2.0

*1 Bunker Oil Price: Assumptions are based on compliant fuel oil price after FY2020

*2 EBITDA: Operating Profit + Depreciation + Dividend Income and Equity in Earnings of Affiliates of main business investments

Source: The Company's Mid-Term Management Plan presentation materials

Numerical targets Operating cash flow allocation



Source: The Company's Mid-Term Management Plan presentation materials

Numerical targets Fleet and property projections

	2016 Results	2016 Results	2022 Projections	2030 Projections
Chemical Tankers	38	43	39	
LPG Carriers (Large Type)	35 (6)	31 (6)	33 (7)	
LNG Carriers	13	12	12	
Oil Tankers	3	3	4	
Dry Bulk Carriers	16	14	15	
Shipping Total	105	103	103	120+α
Real Estate Total	4	6	7	10+α

Be Unique and Innovative.
(Chemical)
• Gradually expand fleet
• Replace older vessels
(Dry Bulk)
• Optimize fleet
• Create flexible fleet structure based on short-to mid-term-contract(charter-in)
(Real Estate)
• Strategic focus on target area
• Replace asset holdings
• Acquisition of existing properties overseas

Be Unique and Innovative. : The Next Stage
(Chemical)
・From maintaining share to improving profitability
・Replace older vessels
(LPG)
・Maintaining the superiority of regional shipping vessels
・Replacing assets with the latest vessels designs incorporating dual fuel engines
(Real Estate)
・Completion of redevelopment project in the Shimbashi Tamura-cho District

Towards 2030

Source: The Company's Mid-Term Management Plan presentation materials

The Company expects a decline in operating profit in FY3/21 under the assumption that the impacts of COVID-19 will continue from April to September 2020.

Regarding operating profit expectations between FY3/22 and FY3/23, in the shipping business (a forecast range considering the impact of market fluctuations) the Company expects market conditions to improve, and will work to accumulate medium- to long-term contracts that will serve as a stable source of earnings, to improve profitability through the efficient allocation of vessels, and to proactively introduce technologies that reduce environmental impacts. In the real estate business, in addition to operating the main IINO Building at full capacity, against the backdrop of the increasing value of the Nishi-Shimbashi/Toranomon area based on the large-scale redevelopment, the Shimbashi Tamura-cho District Urban Redevelopment Project (Minato-ku, Tokyo, scheduled to be completed at the end of June 2021), is expected to contribute to profits. In addition, the Company will transcend the conventional target area strategy, and will also likely engage in multi-faceted aggressive development, including overseas.

The target for three-year total operating cash flow is ¥55,000mn, while the target for investment in business is ¥45,000mn. The Company plans to invest with a good balance between growth, stability, and the environment.

In the new Mid-Term Management Plan, there is no change to the basic scenario of pursuing growth on the dual pillars of the shipping business and the real estate business. However, we get the strong impression that the Company is focusing not only on numerical targets (FY3/23 recurring profit of ¥7,000–¥8,000mn, EBITDA of ¥19,500–¥20,500mn, ROE of 8–9%), but that the plan also places a strong emphasis on addressing ESG and SDGs, as well as accelerating DX. We find this point to be appealing, and we expect the Company to grow its earnings and increase its corporate value over the medium-term.

Shareholder return policy

Will strengthen shareholder returns dependent on profit growth by combining a stable dividend with a performance-linked dividend based on a payout ratio of 30%

The FY3/21 dividend per share forecast is the same amount as the FY3/20 dividend – an annual dividend of ¥12 (interim dividend of ¥6, period-end dividend of ¥6). The forecast dividend payout ratio is 28.2%.

Regarding profit distribution, the performance of the shipping business is significantly impacted by market conditions. Therefore, in the past, the Company had a basic policy of aiming to pay a stable dividend of ¥8 to ¥12 per year, paying close attention to strengthening its financial position, keeping the necessary retained earnings, and studying the outlook for the future business environment. However, in conjunction with the formulation of the new Mid-Term Management Plan, from FY3/21, in addition to the existing policy of maintaining a stable dividend, the Company will pay performance-linked dividends based on a consolidated payout ratio of 30%. This will provide greater clarity on the link between dividend amounts and profit growth, as the Company aims to improve business performance and increase dividends.

Information security

Formulated information security-related regulations considering the latest situation

In a situation in which large-scale cyber attacks against companies are increasing and interest in companies' information security measures is rising, the Company is aware that conducting information security and appropriately protecting its information assets are one of its most important management issues. Therefore, it has formulated information-related regulations. In January 2019, it has revised an information security policy.

Also, together with IINO Systems Co., Ltd., a subsidiary that is responsible for systems development, maintenance, and management for the Group, in addition to restricting Web access, changing passwords and other measures, the Group as a whole is implementing various information security measures, including holding Risk Management Committee meetings and conducting risk management response checks.

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