Tosei Corporation

8923 Tokyo Stock Exchange First Section

28-Mar.-16

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An Integrated Real Estate Company Focused on Its Core Revitalization Business, Specializing in the Tokyo Area

Tosei Corporation (8923) is an independent mid-sized integrated real estate company targeting the Tokyo market as its primary business area. Tosei has an extensive business portfolio, encompassing its core Revitalization Business, as well as the Development Business, Rental Business and Fund and Consulting Business. Tosei also has an expansive customer base, including Japanese and international institutional investors and end users. The company is working to increase and stabilize its earnings by flexibly reshaping its business portfolio according to changes in the operating environment.

In the Revitalization Business, Tosei's core business, Tosei is engaged in residential, office, commercial buildings and other properties. With a huge property inventory, Tosei primarily undertakes highly liquid small- and medium-sized properties (worth around ¥0.3 to ¥2.0bn). By harnessing its ability to meticulously add value to properties ("value-up" capabilities) and its sourcing capabilities focused on specific areas, Tosei is able to generate capital gains without relying on a decline in the capitalization rate (cap rate). This is one of the company's strengths.

In November 2014, Tosei publicly listed Tosei Reit Investment Corporation (3451), for which Tosei serves as the single sponsor. Efforts are being made at Tosei Reit Investment Corporation to increase the certainty of exit strategies for properties in tandem with increasing stable asset management fee revenues.

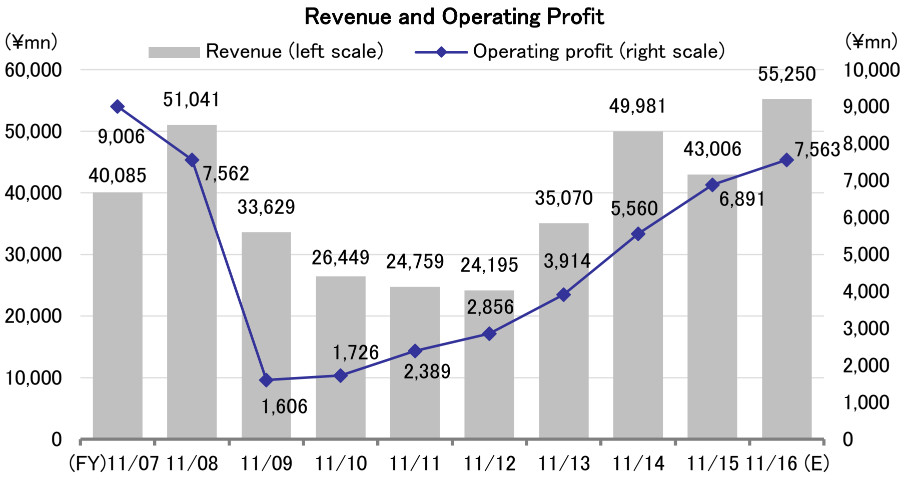
In FY11/15 (December 2014-November 2015), the first year of its current medium-term management plan, Tosei reported revenue of ¥43.0bn, down 14.0% YoY, and operating profit of ¥6.89bn, up 23.9% YoY. The company delivered a strong operating performance, surpassing its initial operating profit forecast by ¥0.89bn. Performance was driven by the Revitalization Business, along with dividend income and large asset management contracts in the Fund and Consulting Business.

In FY11/16, management is forecasting revenue of ¥55.25bn, up 28.5% YoY, and operating profit of ¥7.56bn, up 9.7% YoY. Business results are projected to continue growing on the back of earnings from the development of two commercial facility properties. Given the conservative assumptions underlying the property sales prices in the Revitalization Business, the company is highly likely to outperform its forecasts.

Under its medium-term management plan, Tosei seeks to expand the size of the company by expanding existing businesses through aggressive property purchases and new initiatives in peripheral businesses such as the hotel business. Through these measures, Tosei aims to generate revenue of ¥100.0bn in FY11/20.

Check Point

- The Revitalization Business specializes in small and medium-sized properties such as office, commercial buildings and residential properties in the Tokyo market
- Resilience to financial market crises underpinned by stable earnings from a diverse business portfolio and customer base, as well as rental income and other sources
- Prospects for continued growth in revenue and operating profit driven by aggressive procurement of properties in a favorable real estate investment market



Source: Earnings Release
Note: Forecasts issued by the company. Tosei has transitioned to IFRS from FY11/13.
(Results for FY11/12 have been retrospectively restated.)

Company Overview

Starting out from condominium sales to steadily build a broad business portfolio

(1) History

Although the founding of the company dates far back to 1950, Tosei was effectively founded in June 1994 when the current President and CEO Seiichiro Yamaguchi purchased the company's stock and was appointed president. After graduating from Keio University, Mr. Yamaguchi had worked for three years at Mitsui Real Estate Sales Co., Ltd. (currently Mitsui Fudosan Realty Co., Ltd.) and served in other capacities before being appointed director of the company in 1990.

Following the appointment of Mr. Yamaguchi to president, Tosei was mainly engaged in condominium sales and the liquidation of aging, small buildings worth ¥0.1 to ¥0.2bn. Thereafter, the company expanded its business fields to the sale of detached houses, management of private placement funds, development of buildings and commercial facilities and other activities. By February 2004, when the company achieved its stock listing, real estate revitalization had become its core business.

In January 2012, Tosei set up an overseas subsidiary in Singapore primarily to strengthen relationships with international investors. In March 2013, Tosei became the first Japanese real estate company to list its shares on the Mainboard of the Singapore Exchange (SGX) (Stock code: S2D). In conjunction with this move, the company shifted its accounting standards to IFRS from Q1 of FY11/13.

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History

	Event
Feb. 1950	Established as Yukari Kogyo Co., Ltd. to conduct a foodservice business in Oita City, Oita Prefecture
Apr. 1952	Relocated headquarters to Kameido, Koto Ward, Tokyo
June 1964	Added real estate sales, brokerage, rental and property management businesses to the company's purpose of business
May 1968	Relocated headquarters to Soto-Kanda, Chiyoda Ward, Tokyo
July 1969	Company name changed to Yukari Co., Ltd.
Mar. 1973	Obtained building lots and buildings transaction business license (License Number: Governor of Tokyo (1) No. 24043)
Mar. 1983	Company name changed to Tosei Building Co., Ltd.
June 1994	Seiichiro Yamaguchi appointed as President and CEO (current position)
Oct. 1994	Initiated sales of "THE Palms" series condominiums
Mar. 1996	Company name changed to Tosei Fudosan Co., Ltd.
Apr. 1996	Initiated revitalization business
Dec. 1997	Initiated construction contractor operations, including repair and maintenance and restoration to original condition, as part of the property management business
July 1999	Initiated sales of detached houses in the "Palms Court" series
Feb. 2001	Initiated asset management business upon registering as a general real estate investment advisory business
Mar. 2001	Acquired and merged three companies through leveraged buyouts
Apr. 2001	Acquired First-class Architect's Office License (Tokyo Governor's Registration No.46219)
Nov. 2001	Building Management Division spun off to Tosei Community Co., Ltd.*1
Aug. 2002	Structured first private real estate investment trust fund, the Argo Fund
Feb. 2004	Registered shares as over-the-counter securities at Japan Securities Dealers Association
Sept. 2004	Obtained real estate specified joint enterprise license
Dec. 2004	Cancelled registration as over-the-counter securities at Japan Securities Dealers Association and listed shares on JASDAQ Securities Exchange
Mar. 2005	Established Tosei Revival Investment Co., Ltd. *2
Apr. 2005	Made Tosei Community Co., Ltd.*1 a consolidated subsidiary by acquiring its shares
Sept. 2005	Established the subsidiary Tosei REIT Advisors, Inc. *3
Oct. 2006	Company name changed to Tosei Corporation Relocated headquarters to Toranomon, Minato Ward, Tokyo
Nov. 2006	Listed on Second Section of Tokyo Stock Exchange
Sept. 2007	Registered as a type II financial instruments business and investment advisory and agency business
Sept. 2009	Initiated the "Restyling Business" as a new business model in the Revitalization Business
Sept. 2011	Listed on First Section of Tokyo Stock Exchange
Jan. 2012	Established the subsidiary Tosei Singapore Pte. Ltd.
Dec. 2012	Established the subsidiary NAI Tosei Japan ,Inc.
Mar. 2013	Listed shares on Main Board of Singapore Exchange
Nov. 2014	Tosei Reit Investment Corporation listed shares on Tokyo Stock Exchange

Sources: Annual securities report and other materials published by Tosei

*1 Current name: Tosei Community Co., Ltd. (only the Japanese name has changed.)
*2 Current name: Tosei Revival Investment Co., Ltd. (only the Japanese name has changed.)
*3 Current name: Tosei Asset Advisors, Inc.

Flexibly Adapting to Changes in the Business Environment With a Diverse Business Portfolio

(2) Outline of Business

Tosei has a portfolio of six businesses, comprising three investment businesses (Revitalization Business, Development Business, and Alterative Investment Business) and three stable businesses (Rental Business, Fund and Consulting Business, Property Management Business).

Tosei positions three businesses as its growth drivers: the core Revitalization Business, as well as the Development Business and the Fund and Consulting Business. Meanwhile, the company also emphasizes business stability. It is able to cover its SG&A expenses and interest expenses with gross profit generated by its three stable businesses.

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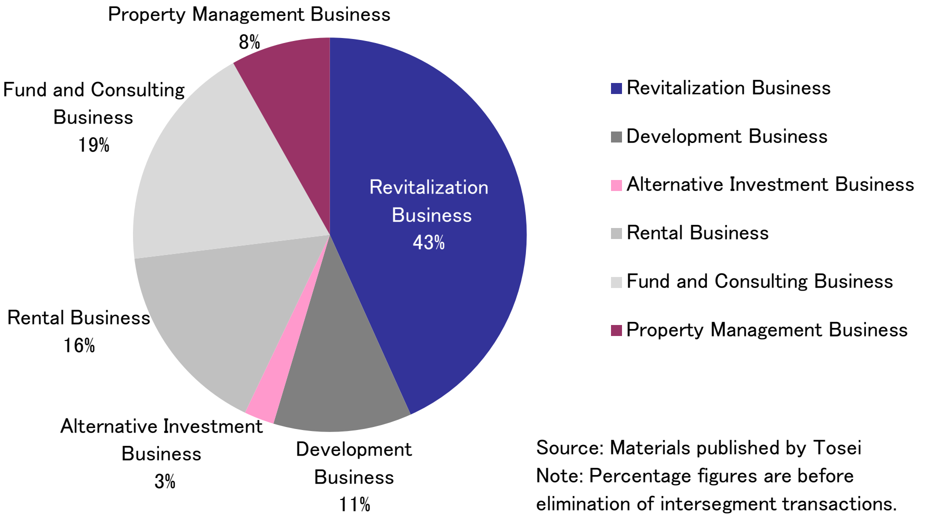
Gross Margin by Business Segment (FY11/15)



Source: Materials published by Tosei
Note: Percentage figures are before elimination of intersegment transactions.

The operations of each business segment are described as follows.

a) Revitalization Business

The Revitalization Business is Tosei's main source of earnings. The company acquires office buildings, commercial buildings, and residential and other properties whose asset value has declined. After increasing the value of those properties, Tosei generates gains on real estate sales by selling those properties to buyers including high net worth individuals, companies, private placement funds, REITs, and overseas investors. Any rental income generated during the holding period of properties is recorded as revenue under the Rental Business.

The project period for these properties ranges from six months to around two years. Many of these properties are aging properties built around 20 years ago. There are a wide range of property values centered on small and medium-sized properties worth between ¥0.3 to ¥2.0bn, with some properties worth up to around ¥10.0bn.

Tosei improves net operating income (NOI) by adding value to properties through means including enhancing legal compliance, renovating facilities, upgrading functionality, improving the interior and exterior design features, and improving occupancy rates of the properties. This enables Tosei to increase realized gains on real estate sales without relying on a decline in the cap rate.

Through the listing of Tosei Reit Investment Corporation, Tosei also undertakes warehousing functions (the temporary acquisition of properties for subsequent sale to a REIT at an appropriate time) to provide pipeline support as the sponsor. Ordinarily, the profitability of bridge projects for REITs is low compared to property sales to external customers. However, Tosei is able to generate long-term, stable asset management fees and other commissions from these projects.

In September 2009, Tosei initiated the Restyling Business as a new business model in the Revitalization Business. Under this model, Tosei acquires income-generating apartments and employee housing at the level of whole buildings from condominium developers, private funds, companies and other sellers, and adds value to tenanted spaces every time a tenant vacates a unit. The company then successively sells those units to end users one unit at a time. This business takes time and effort. In response to the recovery of the real estate investment market, Tosei has not procured any new properties for the Restyling Business since the last property was purchased in 2012.

Outside Japan, Tosei has acquired condominium units and offices in Malaysia on a trial basis as part of efforts to explore the feasibility of developing the Revitalization Business abroad in earnest.

b) Development Business

Tosei develops condominiums and detached houses for sale to end users, and income-generating apartments, office buildings, commercial buildings, mixed-use buildings and other properties for investors (such as companies, high net worth individuals, private funds, REITs). Tosei sells the properties after construction is complete or all tenant places have been filled, and thereby generates earnings from development. Initially, Tosei began developing condominium buildings, and expanded its asset types to detached houses in 1999 and office and commercial buildings in 2005. Tosei has now begun developing hotels, for which demand is increasing rapidly.

Given its diverse property development lineup, one of Tosei's strengths is that it is able to flexibly consider property development options according to location, size and needs when acquiring a site.

Tosei's product brands are THE Palms series for condominiums or rental, THE Palms Court series for detached houses, and the T'S BRIGHTIA series for commercial buildings.

Condominiums for sale primarily comprise medium-sized family-type units for first-time buyers in the Tokyo area. The prices of detached houses are set mainly between ¥40 and ¥50mn, in an effort to set Tosei apart from the major homebuilders that offer detached houses for around ¥30mn. Currently, in development for end users, Tosei is concentrating on detached houses for sale because land and construction costs have only a small impact on this type of property. As part of these efforts, in December 2015 Tosei acquired URBAN HOME, a real estate developer headquartered in Machida City, Tokyo.

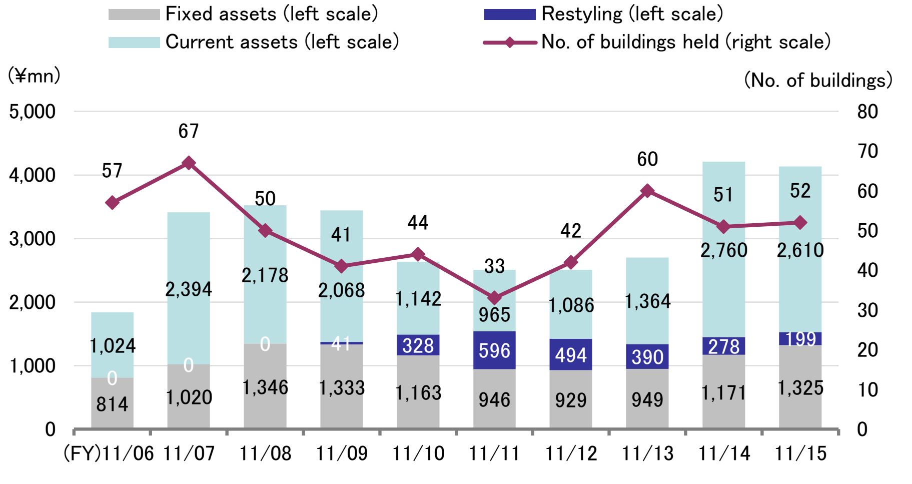
The scale of properties under development for investors is largely the same as properties acquired for revitalization and sale in the Revitalization Business.

c) Rental Business

In addition to rental income from income-generating properties owns as investment properties and fixed assets, Tosei recognizes rental income generated while owing inventories (revitalization and development properties) as revenue under the Rental Business. However, rental income from properties acquired through M&As in the Alternative Investment Business is recognized as revenue under this business.

Rental income from fixed and other assets represented 32% of total rental income in FY11/15. However, the company plans to increase its holding of fixed assets going forward.

Rental Income



Source: Compiled based on the materials published by Tosei

Note: Presented on an IFRS basis since FY11/12. Fixed assets correspond to the IFRS line item "Investment properties."

The number of buildings is the number of properties among fixed assets and current assets that are generating rental income as of the end of the fiscal year.

Arranging and Managing Private Placement Funds and Managing REITs as a Single Sponsor

d) Fund and Consulting Business

In the Fund and Consulting Business, undertaken principally by subsidiary Tosei Asset Advisors, Inc., the Tosei Group generates various fee revenues by arranging and managing private placement funds and managing REITs as a single sponsor of Tosei Reit Investment Corporation. The primary equity investors of the private placement funds are overseas investors. In some cases, the Group also undertakes same-boat investment to align its interests with equity investors of private placement funds. In the consulting business, the Group receives brokerage fees related to corporate real estate (CRE), along with disposition fees and consulting fees.

The fee revenue structure from private placement funds is as follows.

Fee Revenue Structure from Funds

Type of fees	Description of fees	Fee rates
Acquisition fee	One-time fee for acquisition of property	Around 30 to 50 basis points of acquisition value
Asset management (AM) fee	Fee for investment and management of assets held by funds, with fees received throughout the fund management period	Around 30 to 50 basis points of assets under management (AUM) Around 10 to 20 basis points for rescue asset management
Disposition fee	One-time fee for disposition of properties	Around 30 to 70 basis points of the disposition value
Incentive fees	Contingency fee received if the initial hurdle rate is surpassed when the fund expires	Around 20 to 30% of the portion exceeding the hurdle rate

Source: Compiled by FISCO mainly based on interviews with the company

Following the Lehman Brothers bankruptcy, the Tosei Group proactively took on rescue asset management deals to perform asset management on behalf of bankrupt asset management companies. However, this business has a low asset management fee rate. As a result of progress made on the disposition of properties, only a few rescue asset management deals remain at this time.

From same-boat investment in private placement funds, the Tosei Group receives disposition dividends funded by gains on property dispositions and income dividends funded by rental income.

In corporate real estate (CRE), the Tosei Group currently provides contract-based consulting services related to 20 buildings for 10 companies. Through these services, the Group offers advice on improving occupancy rates, relocating head offices and other matters. Although the contribution of consulting fee revenues to earnings itself is small, the CRE business can lead to opportunities to acquire properties and to serve as broker when properties are disposed of.

The Tosei Group's assets under management for private placement funds had been declining in step with progress made on property dispositions. However, in December 2014, Tosei Asset Advisors, Inc. closed an asset management agreement with Blackstone for an approximate ¥200bn fund investing in income-generating apartments in Japan. As a result, there was a sharp turnaround in the Tosei Group's assets under management for private placement funds in FY11/15.

Unlike private placement funds, which have a finite investment period, REITs have an unlimited investment period. Accordingly, there are high hopes for Tosei Reit Investment Corporation to drive outward growth in order to sustain and expand the Tosei Group's assets under management.

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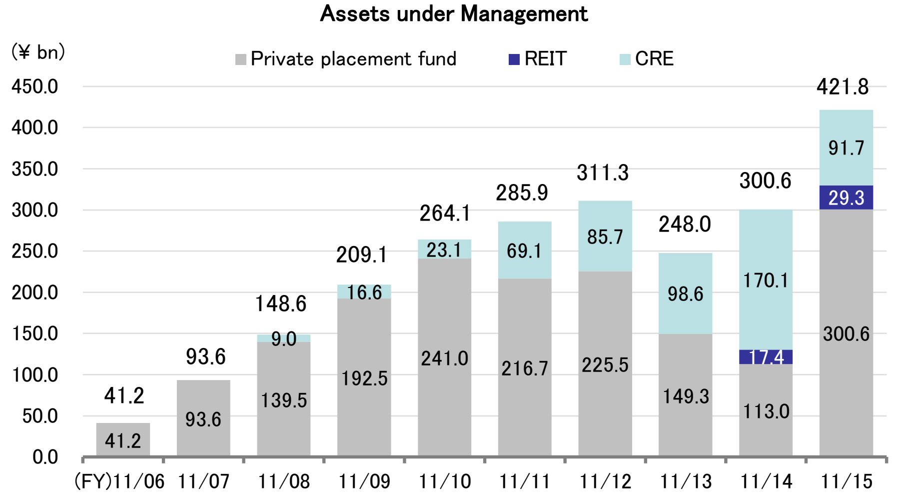
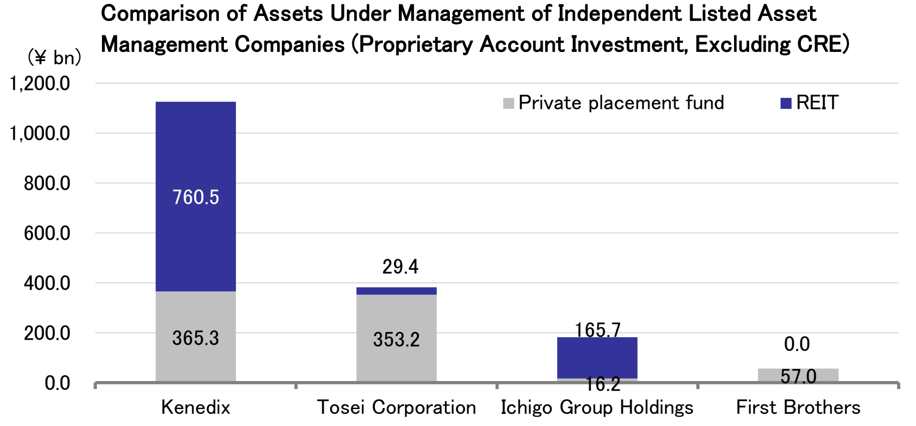




Source: Compiled based on the materials published by each company
Note: Figures for Kenedix and Tosei are as of December 31, 2015, while figures for Ichigo Group Holdings and First Brothers are as of November 30, 2015. REIT for Kenedix does not include minor sponsor REITs.

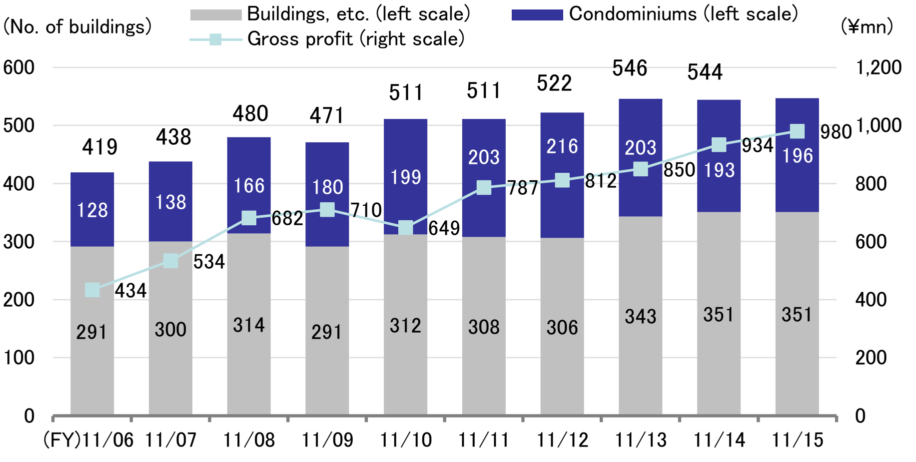
Steady Increases in Gross Profit Associated With a Growing Number of Buildings Under Management in the Property Management Business

e) Property Management Business

Subsidiary Tosei Community Co., Ltd. has been entrusted with property management and business management centered on condominiums and office buildings. Specifically, Tosei Community provides contract-based services such as property management, cleaning, and renovation work for buildings and facilities. In addition to properties Tosei Community has been involved in through other businesses, Tosei Community has been entrusted by external clients with services for hotels, universities, multi-tenant logistics facilities and other properties.

The property management business is a stable, recurring revenue business that has seen steady increases in gross profit in step with a growing number of buildings under management.

Number of Buildings Under Management



Notes: All types of assets other than condominiums are included in "Buildings, etc."

f) Alternative Investment Business

In the Alternative Investment Business, subsidiary Tosei Revival Investment Co., Ltd. invests in real estate-backed non-performing loan (NPL) funds and conducts mergers and acquisitions (M&As) of businesses with real estate to acquire real estate. Financial institutions' disposal of bad loans has currently finished and in this environment no new real estate-backed NPLs are generated. Therefore, the business centers on M&As of businesses with real estate. Trading gains related to properties acquired through M&As and rental income are recorded under the Alternative Investment Business.

The bulk of current earnings are derived from membership revenue from a sports club acquired through an M&A in 2014. The sports club property is planned to be developed as a condominium.

As a new initiative, the business is also considering equity investment in private equity funds specializing in corporate rehabilitation to try to connect this to real estate acquisition.

Making a Strength of the Meticulously Added Value of a First-class Architect's Office

(3) Features and Strengths

a) The Tokyo market is Tosei's primary business area and its main targets are small- and medium-sized properties

Tosei's primary business area is the Tokyo market (centering on Tokyo and including Kanagawa, Saitama and Chiba prefectures) and about 60% of its inventories are located in central Tokyo.

The Tokyo market has the largest economy of the world's major cities, and no other region in Japan can come close to the Tokyo market in terms of its stock of income-generating real estate, high liquidity and the extent of demand for its rental properties such as offices and residences. Even as Japan's population contracts, Tokyo continues to see increases in its population and the number of households, as well as being a central locale for inbound tourism demand. Heading toward the 2020 Tokyo Olympic and Paralympic Games, numerous redevelopment projects and upgrades of transportation infrastructure can be expected to further improve urban capabilities.

Market Size of the Central Tokyo Revitalization Business

Office Building Stock	
No. of Properties	56,149 buildings
Total Floor Space	33.03mn tsubo

Rental Condominium Stock	
No. of Properties	68,454 buildings (1mn units)
Total Floor Space	21.18mn tsubo

Source: Estimates by Tosei based on various types of data

The company handles a wide array of property sizes, centered on small- and medium-sized properties of ¥0.3bn to ¥2.0bn, with some properties worth up to about ¥10.0bn. However, properties around ¥1.0bn make up most of the property portfolio. There are many listed companies that get involved in real estate revitalization on proprietary accounts, but swelling inventories of old small- and medium-sized properties means there is almost no competition at the time of acquisition. Therefore, the company has been able to acquire more than 80% of its property portfolio through direct negotiations with sellers.

Having the Tokyo market as a primary business area has helped Tosei to develop a discerning eye for properties and to form a variety of business connections that enhance the company's information gathering and leasing capabilities.

Listed Companies Involved in Revitalization on Proprietary Accounts

	8923 Tosei Corporation	8934 Sun Frontier Fudousan	2337 Ichigo Group Holdings	3299 MUGEN ESTATE	3244 Samty
Main Business Area	Tokyo market	5 central Tokyo wards	Major cities centering on Tokyo	Primarily the Tokyo market	Regional cities centering on the Kinki region
Main Asset Types	Residential, offices, commercial facilities	Offices, commercial buildings	Offices, commercial buildings, residential, hotels	Condominium units, residential, offices, apartments	Residential, commercial facilities
Average Property Value	About ¥1.0bn	¥0.5-¥1.0bn	¥2.0-¥3.0bn	Over ¥0.1bn	Several ¥0.1bn -¥2.0bn

Source: Compiled by FISCO

b) Meticulous "Value-up" Capabilities

Another strength of Tosei is its "value-up" capabilities—its ability to meticulously add value to properties. This strength is backed by the company's own in-house first class architect's office. After carefully identifying locations, property features and requirements it uses "Value UP32," a checklist of 32 proprietary revitalization items, to carry out accurate property revitalization while taking into account cost performance. Besides improving a property's exterior and facilities, Tosei may also acquire low occupancy buildings or empty buildings and revitalize them through conversion to other purposes or by utilizing its high leasing capabilities. Empty buildings do not have tenants, so there are no restrictions on revitalization work. In such cases, the company can customize properties to the head-office specifications of corporate clients, and they will sell at higher prices than properties sold to yield-conscious investors.

Mere resellers are hit directly by the impact of worsening conditions in the real estate market. But for Tosei, it can, for example, acquire low occupancy properties at a bargain price and increase NOI by enhancing the value or boosting occupancy by attracting tenants. This enables Tosei to absorb the impact of the rising cap rate. The benchmark of gross profit margin at the time of property acquisition is set to be 15-20% on the assumption that the cap rate does not change, but there has actually been a positive impact from a decreasing cap rate, so the profit margin is currently much higher than the aforementioned benchmark.

c) Resilience to Environmental Change Due to Various Asset Types and Broad Customer Base

In addition to a diverse business portfolio that has cash flow with different characteristics, the company handles various asset types and possesses a broad customer base. This enables the company to flexibly allocate its business resources to appropriate businesses and asset types in response to changes in real estate market conditions and financial environment. This reduces risk when real estate market conditions worsen and expands earnings when the market is robust. It has also enabled the company to ride out the market downturn that occurred around the time of the Lehman Brothers bankruptcy without incurring a loss.

(4) Bank Formation

As can be seen through the collapse of many real estate companies unable to break the deadlock of refinancing around the time of the Lehman Brothers bankruptcy, fundraising is crucial for the existence of real estate companies, so financial strategy is extremely important.

Tosei has a system of mainly dealing with the three megabanks, primarily The Bank of Tokyo-Mitsubishi UFJ (8306) along with Sumitomo Mitsui Banking Corporation (8316) and Mizuho Bank, Ltd. (8411). It also has transactions with public financial institutions and just over 30 regional banks actively involved in real estate financing, including major regional banks such as The Bank of Fukuoka (8354) and the Hiroshima Bank (8379). Tosei Reit Investment Corporation's bank formation generally follows that of Tosei.

The borrowing period for the Revitalization Business (inventories) is generally about three to five years (and cases of long-term borrowing of 10-15 years for investment properties and fixed assets), which is generally a longer period than regular businesses. While aiming for fundraising that does not require urgent sales and allows for property sales at the best possible timing, it also counters refinancing risk when the financial environment worsens.

Interest rates on borrowing at hand are just under 1.5%, including up-front fees.

(5) Status of Major Shareholders

Seiichiro Yamaguchi, essentially the founder of the company and its president and CEO, is the main shareholder, and the second largest shareholder is Zeus Capital Limited, the Yamaguchi family's asset management company. As of the end of November 2015, the top two shareholders held 39.1% of the company. Although there is a strong leaning toward being an owner-managed company, this ratio fell below 50% on April 15, 2010 (50.2%→49.2%) and it was exempted from the accumulated earnings tax applied to family concerns.

Other major shareholders are custodians. The major shareholding report confirms that Sparx Asset Management Co., Ltd. held a 6.7% share as of October 15, 2015 and Halley SICAV had an 8.4% stake as of February 5, 2016.

Major Shareholders (As of the end of November 2015)

	Name of shareholder	Number of shares held (1,000 shares)	Shareholding ratio (%)
1	Seiichiro Yamaguchi	12,885	26.68
2	Zeus Capital Limited	6,000	12.42
3	KBL EPB Ordinary Account 107501 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	2,412	4.99
4	Japan Trustee Services Bank, Ltd. (Trust Account)	2,250	4.66
5	CBNY-Government of Norway (Standing proxy: Citibank Japan Ltd.)	1,577	3.26
6	State Street Bank and Trust Company 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	1,415	2.93
7	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,168	2.42
8	BNP PARIBAS Securities Services Luxembourg / JASDEC / FIM / Luxembourg Funds (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited Tokyo Branch)	775	1.60
9	HSBC-Fund Services, Sparx Asset Management Co., Ltd. (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited Tokyo Branch)	736	1.52
10	MSCO CUSTOMER SECURITIES (Standing proxy: Morgan Stanley MUFG Securities, Co., Ltd.)	610	1.26
Total of Top 10		29,832	61.78

Source: Quarterly reports
* The No. 1 shareholder is the president and CEO
The No. 2 shareholder is the president's family's asset management company
Shareholders Nos. 3-7, No. 9 and No. 10 are custodians

Financial Trends

Strong Performance Exceeding Initially Forecast Operating Profit by ¥0.89bn

(1) Difference between IFRS and Japanese Accounting Standards (J-GAAP)

There are different names, such as the consolidated statements of income under J-GAAP being the Consolidated Statements of Comprehensive Income in IFRS and J-GAAP's consolidated balance sheet referred to as the Consolidated Statement of Financial Position under IFRS. However, there are no significant differences in the basic presentation of the latter.

Differences with the former are that the IFRS Consolidated Statements of Comprehensive Income do not incorporate the concepts of ordinary profit and loss, non-operating profit or loss or extraordinary gain or loss, nor do they incorporate the corresponding line items. Under IFRS, operating profit and loss is regarded as profit or loss from sources other than investment gain/loss, finance income/costs, share of profit of equity accounted investees, corporate income tax and profit (loss) from discontinued operations. Consequently, while gain (loss) on disposition of fixed assets or impairment loss are recorded as an extraordinary gain or loss according to J-GAAP, under IFRS they are recorded under an item called Other income and expenses and are therefore included in operating profit and loss. Profit before tax under IFRS is equivalent in J-GAAP to Income (loss) before income taxes and minority interests (obtained by adjusting ordinary profit for extraordinary gain (loss)).

Items that have an impact on the profit of real estate companies are 1) borrowing costs for development properties while they are under development are capitalized under IFRS; and 2) the one-step recognition approach of impairment loss used under IFRS makes the timing of recognition earlier than J-GAAP. In addition, when an event that caused an impairment loss is resolved, the loss may be reversed under IFRS (reversals are not permitted under J-GAAP). There are other differences in treating impairment loss, but overall impact is limited. Tosei prepared financial statements for FY11/12 in both J-GAAP and IFRS, but the differences for revenue and profit were minimal.

(2) Results for FY 11/15

According to the Consolidated Financial Results for FY11/15, announced on January 13, revenue was ¥43.0bn, down 14.0% YoY, operating profit was ¥6.89bn, up 23.9% YoY, profit before tax ¥6.04bn, up 29.5% YoY, and profit for the year ¥4.13bn, up 43.9%. This is a steady start for the first year of the current medium-term management plan. Earnings forecasts were revised twice during the year under review and full-year results were slightly higher than the second revision of full-year earnings forecasts released on October 28, 2015. Although revenue was ¥13.4bn lower than initially forecast, operating profit exceeded the forecast by ¥0.89bn, profit before tax by ¥0.99bn and profit for the year by ¥0.87bn.

The main reasons that operating profit exceeded initial forecasts are 1) in the Fund and Consulting Business, booking ¥0.72bn as the disposition dividend from a fund in which Tosei has made a minor investment; and, 2) a better than expected gross profit margin in the Revitalization Business.

Revenue was significantly below initial forecasts in the Revitalization Business due to 1) proceeds from sales of bridge projects to Tosei Reit Investment Corporation were lower than projected; and, 2) as overall profits were forecast to exceed initial plans and real estate prices anticipated to rise, some planned property sales (about ¥5.0bn) were put off to next year or later.

The Revitalization Business and Fund and Consulting Business were driving forces compared to the previous fiscal year, covering the Rental Business, where gross profit was ¥1.91bn (down ¥0.61bn YoY due to the vacation of a major tenant).

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The Revitalization and Fund and Consulting Businesses are Driving Forces

(3) Main Segment Performance Trends

There are six segments and comments below refer to the four main segments.

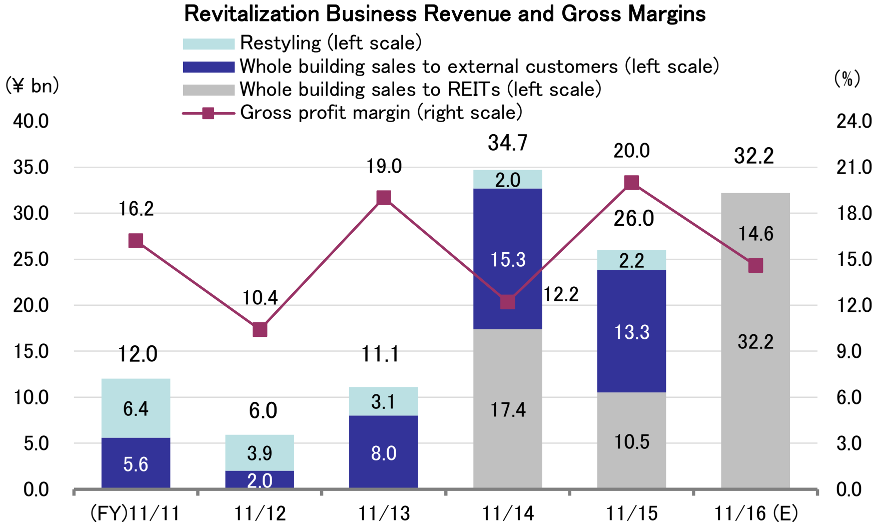
a) Revitalization Business

Results for the segment were revenue of ¥25.9bn, down 25.2% YoY, gross profit of ¥5.19bn, up 22.9% YoY and operating profit of ¥4.18bn, up 25.7% YoY. The segment earned about 60% of the entire operating profit. The segment sold 24 properties (with an average sales amount of ¥0.99bn per property) including apartments and office buildings such as the Toyocho Tosei Building and 68 units from nine properties in the Restyling business. The revenue from whole building sales was ¥10.5bn, with a contribution of four properties (2 offices, 1 commercial building and 1 residential property) accompanying the public offering of Tosei Reit Investment Corporation. There were few medium-sized properties worthwhile from the perspective of REIT investment so performance was significantly below that initially envisioned. Of the 20 properties sold to external customers, nearly all were sold to businesses.

Restyling made no new acquisitions and is gradually reducing inventory. As of the end of FY11/15 the segment had an inventory of nine properties comprised of 164 units (revenue in the vicinity of ¥5.0bn).

Despite a significant reduction in revenue YoY, the gross profit margin improved to 20.0%, up 7.8 percentage points YoY, and operating profit increased. The gross profit margin was significantly higher than the initially projected 13.9% due to: 1) lower than expected revenue from low-margin bridge projects for REIT; and, 2) the gross profit margin for external customers being higher than the expected 23% level due to a lowering of the cap rate, the effects of "value-up" activities and market recovery that raised rental income. For your reference, the gross profit margin in FY11/14 was low at 12.2% due to: 1) provided property worth ¥17.4bn in conjunction with the IPO of Tosei Reit Investment Corporation; 2) when providing properties of ¥1.4bn for the launch of the first semi-governmental real estate fund aimed at promoting creation of sustainable and energy-efficient real estate, it held down the sales prices considering the highly public nature of the fund; and, 3) a special case involving the acquisition of limited proprietary rights of land for a central Tokyo office building acquired for ¥2.8 bn in the year under review and sold to a private placement fund at zero profit. Without these factors, the gross profit margin for FY11/14 was 22%. A comparison excluding the REIT bridge projects and special case shows that the gross profit margin for FY11/15 is higher than the previous fiscal year and suggests overheating in the real estate investment market.

Revitalization Business Revenue and Gross Margins



Note: Forecasts issued by the company. Breakdown of revenue is not shown.

b) Rental Business

Results for the segment were revenue of ¥4.13bn, down 1.8% YoY and operating profit of ¥1.73bn, down 28.4% YoY. Initial forecasts were for reduced revenue and profits with initially projected revenue of ¥3.88bn, down 7.7%, and operating profit of ¥1.81bn, down 25.0%. This was due to: 1) the provision of 12 high occupancy properties worth ¥17.4bn to REIT in November 2014 and the acquisition of a large number of low occupancy properties offering significant opportunity to add value; and, 2) Tosei had concluded a fixed-rent master lease agreement for a suburban office property provided to Tosei Reit Investment Corporation in order to assure the certainty of REIT distributions as the sponsor. However, the key tenant vacated the property. As a result of steady progress with property acquisitions, revenue was higher than initially forecast, but as there was a negative spread in the sub-leased property mentioned in 2) the company provided an allowance for the projected loss. Consequently, operating profit was slightly lower than forecast.

c) Fund and Consulting Business

Results for the segment were revenue of ¥2.34bn, 2.4 times greater YoY and operating profit of ¥1.37bn, 7.9 times greater YoY, growing rapidly and making a significant contribution to overall performance. The reasons for the rapid growth included: 1) closing an asset management agreement with Blackstone for an approximate ¥200bn fund, which drastically increased asset management fees to ¥0.82bn, 3.1 times greater YoY; and, 2) dividends on minor investments made to funds managed by other companies swelling to ¥0.72bn, about 14 times greater YoY. Nearly all of the dividends in 2) were disposition dividends from a logistics fund in which Tosei made a minor investment in FY11/13. These dividends had not been incorporated in initial forecasts. Traditionally, Tosei has not made many equity investments in funds managed by other companies and this investment was for the purpose of performing business management under contract. The applicable fund completed the disposition of property so there will be no additional dividends paid out going forward.

d) Development Business

Results for the segment were revenue of ¥6.60bn, up 8.1% YoY and operating profit of ¥0.53bn, up 23.7% YoY. Apart from the sale of one income-generating apartment building for ¥0.59bn, all revenue came from detached houses (partly including the sale of a building lot) and there were no condominium sales. The plan was to hand over about 130 detached house units, but this fell slightly below expectations with the handover of 105 units (from 14 projects) as some projects extended their sales periods. As a result, revenue was ¥1.83bn less than initially projected and operating income fell short by ¥0.26bn. The policy will be to take time and achieve sales without discounting.

(4) Purchase Status

The total acquisition amount of revitalization and development properties in FY11/15 was ¥45.1bn on expected disposition values, down ¥3.8bn YoY. The breakdown was ¥38.1bn for revitalization and ¥7.0bn for land for development. Acquisitions centered on revitalization continued on from FY11/14 with 14 office building properties at ¥26.3bn (of which two properties were acquired as investment properties for ¥3.7bn). Another 12 properties were income-generating apartment buildings acquired for ¥9.5bn. Of the land for development, stores and offices accounted for about ¥5.0bn of the land to be developed.

Acquisitions during FY11/15 fell below the targeted ¥60.0bn, but the development business included ¥14.5bn in property and land for development for which an acquisition deal had been concluded but the property and land was not handed over by the end of November 2015, and if this is included, the figure would rise to ¥59.7bn, which is effectively achieving the goal considering the overheated competition for acquisitions.

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Maintaining Financial Soundness With a Relatively High Equity Ratio

(5) Financial Position

Total equity as of the end of FY11/15 was ¥36.2bn. The equity ratio was 38.9%, down 1.6 percentage points YoY, which is a comparatively high standard for a real estate company. Unrealized gains on investment property, which is the equivalent of unrealized gains on rental properties in J-GAAP, were ¥10.19bn at the end of FY11/15. This was an increase of ¥6.34bn from the end of FY11/14 due mainly to the lower cap rate. Net asset value, which represents equity adjusted for unrealized gains on investment property (after tax), was about ¥890 per share.

Inventories had a book value of ¥46.1bn as of the end of FY11/15 and estimated revenue of around ¥74.3bn. Expenditures such as construction costs and the cost of adding value will increase the book value of inventories going forward, so the difference of ¥28.2bn will not simply equate to unrealized gains. However, it is probably fair to regard inventories as including more than ¥10.0bn in unrealized gains.

FY11/16 performance expected to be driven by profits from commercial facility development in central Tokyo

(6) Outlook for business performance in FY11/16

In FY11/16, management is forecasting revenue of ¥55.25bn, up 28.5% YoY, operating profit of ¥7.56bn, up 9.7% YoY, profit before tax of ¥6.50bn, up 7.8% YoY, and profit for the year of ¥4.30bn, up 4.1% YoY.

Despite the absence of a dividend from sale of a minor investment fund for around ¥0.7bn in November 2015, earnings are expected to grow overall, driven by earnings from development of two commercial facility properties.

Gross profit is expected to grow briskly to ¥14.8bn, up 25.0% YoY. Nevertheless, operating profit growth is expected to be subdued as SG&A expenses are also expected to increase significantly to ¥7.33bn, up 46.0% YoY. Factors increasing SG&A expenses include 1) a significant projected increase in property selling expenses of ¥2.70bn, up 2.5 times YoY, due to sales of the two commercial facility properties under development and an increase in sales of revitalization projects 2) higher personnel expenses due to raised base salaries as well as an increase in head count ahead of an expansion in the scope of business activities (301 people as of the end of FY11/15 rising to a projected 340 people at the end of FY11/16).

Since property sale prices in the Revitalization Business are estimated conservatively, there is some leeway in the company's earnings forecast. As in FY11/15, some property sales could be postponed to control gains on real estate sales. Conversely, the sales could be advanced depending on the business environment. In this case, the company could outperform its earnings forecasts by a significant margin.

Under a continuing policy of aggressive acquisitions, the company is planning an acquisition amount of ¥70.0bn based on its assumed sales amount (including ¥14.5bn of sales contracts concluded in FY11/15). The ¥70.0bn breaks down as ¥18.0bn for land for development and ¥52.0bn for revitalization properties, a significant increase in both cases. The company intends to strengthen its acquisitions of large properties up to the value of around ¥10.0bn. In land for development, the company intends to acquire land for hotels.

The outlook for the main segments is explained below.

a) Revitalization Business
The segment earnings forecast is for revenue of ¥32.1bn, up 23.7% YoY, and operating profit of ¥3.28bn, down 21.6%. The projected gross profit margin is low at 14.6%, down 5.4 percentage points YoY. The projection reflects expectations for bridge projects for REITs to be the same level or higher than FY11/15, and a real estate investment market that is already overheated, and is therefore considered to have a limited upside. Based on current market conditions, the company's view appears to be overly conservative, the profit margin is highly likely to outperform the company's forecasts.

b) Development Business
The segment earnings forecast is for revenue of ¥12.7bn, up 92.7% YoY and operating profit of ¥2.95bn, increasing 5.5 times YoY. The segment is expected to drive overall performance. Approximately 60% of revenue is attributed to the two commercial facility properties. The company does not intend to sell any other buildings, and the remaining 40% is attributed to sale of detached houses, with planned sales of 123 units. The two commercial facility properties are "T'S BRIGHTIA Minami Aoyama (total floor area 1,418 m2, completed in January 2016) and the Tsunashima commercial facility "T'S BRIGHTIA Tsunashima" (total floor area 597 m2, completed in May 2014). T'S BRIGHTIA Minami Aoyama is the largest of the company's six commercial facility developments to date, and is situated in a highly desirable location just three minutes' walk from Omotesando Station. The earnings from these property developments are expected to drive the segment gross profit ratio to a high level at 40.4%, up 19.7 percentage points YoY. Sales contracts have already been concluded for the two commercial facility properties, which are scheduled to be handed over in Q1 FY11/16 (December 2015 – February 2016).

There were no condominium sales in FY11/15, but the company is currently planning the development of an 89-unit property in Shimouma, Setagaya-ku, Tokyo. Once the development goes ahead, the property should be transferred after about two years. This project plans to develop the former site of a sports club acquired in 2014 through an M&A.

c) Rental Business
The segment earnings forecast is for revenue of ¥5.03bn, up 21.7% YoY and operating profit of ¥2.27bn, up 31.7% YoY. Aggressive acquisition activity is expected to see inventories on a carrying value basis increase from ¥46.1bn at the end of FY11/15 to ¥65.1bn at the end of FY11/16, while the sum of property, plant and equipment and investment properties is expected to increase from ¥22.1bn to ¥26.9bn. In addition to increasing its assets, the segment also expects to increase rental income by continuing to increase the value of its existing properties. For the aforementioned sublease project that has a negative spread, the company recorded upfront losses, so it will act to increase income year on year, even if there is a delay in leasing.

d) Fund and Consulting Business
The segment earnings forecast is for revenue of ¥1.43bn, down 38.6% YoY, and operating profit of ¥0.37bn, down 72.7% YoY. The sharp decline in profit is anticipated due to the absence of ¥0.72bn in dividend from sale of a minor investment fund in FY11/15. At the end of 2015, the start of FY11/16, the company was entrusted with residential asset management for a further 57 properties with a value of ¥53.2bn from Blackstone. The asset management fees associated with this project have been factored into the earnings forecast.

However, given the company's conservative estimates for disposition fees and brokerage fees, the company is highly likely to outperform its forecast for the segment.

Consolidated Statement of Comprehensive Income

(¥mn)

Accounting standard	J-GAAP (Japanese standard)				IFRS					
FY	09/11	10/11	11/11	12/11	12/11	13/11	14/11	15/11 Initial forecasts	15/11 Actual	16/11 Forecasts
Revenue	33,629	26,449	24,759	24,539	24,195	35,070	49,981	56,425	43,006	55,250
Revitalization	9,962	8,149	12,040	5,980	5,980	11,098	34,743	38,844	25,986	32,154
Whole building	9,962	5,255	5,626	2,046	2,046	8,010	32,705	na	23,824	na
Restyling	0	2,894	6,414	3,933	3,933	3,087	2,037	na	2,161	na
Development	16,556	11,682	5,256	11,259	11,259	16,347	6,112	8,443	6,605	12,732
Detached house / land lots	0	0	0	2,239	2,239	5,141	4,483	na	6,014	na
Condominiums	3,977	7,958	3,324	7,307	7,307	5,874	1,629	na	0	na
Offices, apartments, etc.	12,579	3,724	1,932	1,712	1,712	5,331	0	na	591	na
Rental	3,443	2,634	2,507	2,501	2,510	2,703	4,210	3,886	4,135	5,031
Current assets	2,068	1,142	965	1,071	1,086	1,364	2,760	na	2,610	na
Restyling	41	328	596	492	494	390	278	na	199	na
Non-current assets	1,333	1,163	946	937	929	949	1,171	na	1,325	na
Fund and Consulting	937	1,175	1,414	799	799	1,419	958	1,251	2,343	1,439
Asset management fees	795	816	684	450	450	381	266	na	828	na
Acquisition fees	22	11	109	19	19	51	116	na	170	na
Disposition fees	28	25	46	63	63	173	199	na	289	na
Incentive fees	0	0	0	0	0	0	0	na	0	na
Brokerage fees / Other	93	323	575	267	267	666	323	na	326	na
Dividends	na	na	na	na	na	148	53	na	729	na
Property Management	3,061	3,057	3,911	3,856	3,500	3,541	3,459	3,587	3,574	3,819
Alternative Investment	624	170	180	841	844	440	1,078	966	921	590
Adjustment	-955	-420	-551	-698	-698	-481	-582	-554	-559	-517
Cost of revenue	29,449	22,056	19,290	18,291	18,081	26,392	40,018	44,989	31,091	40,353
Gross profit	4,179	4,392	5,469	6,248	6,113	8,678	9,962	11,436	11,915	14,897
Revitalization	-24	553	2,135	742	624	2,112	4,226	5,416	5,192	4,682
Development	776	719	133	2,543	2,422	2,779	1,192	1,639	1,364	5,148
Rental	2,033	1,422	1,320	1,333	1,481	1,671	2,526	1,967	1,916	2,485
Fund and Consulting	856	1,128	1,324	738	738	1,248	889	1,176	2,253	1,390
Property Management	710	649	787	876	812	850	934	972	980	1,056
Alternative Investment	-95	-20	-151	98	119	101	284	333	296	205
Adjustment	-76	-60	-79	-84	-84	-86	-90	-69	-88	-71
SG&A	2,573	2,666	3,080	3,217	3,245	4,777	4,381	5,436	5,099	7,334
Other income	-	-	-	-	17	33	45	na	126	na
Other expenses	-	-	-	-	29	19	65	na	50	na
Operating profit	1,606	1,726	2,389	3,030	2,856	3,914	5,560	6,000	6,891	7,563
Revitalization	-164	408	1,891	390	273	1,398	3,330	4,167	4,187	3,281
Development	635	599	-22	2,318	2,197	1,447	432	800	534	2,959
Rental	1,872	1,295	1,182	1,192	1,340	1,590	2,414	1,811	1,730	2,278
Fund and Consulting	309	500	652	184	181	669	174	325	1,373	375
Property Management	238	120	104	68	-11	123	227	150	146	172
Alternative Investment	-144	-57	-190	59	82	73	213	261	322	132
Adjustment	-1,139	-1,139	-1,231	-1,183	-1,207	-1,388	-1,233	-1,516	-1,404	-1,637
Finance income	40	31	71	22	4	3	3	na	22	na
Finance costs	991	954	886	779	642	695	900	na	874	na
Profit before tax	656	803	1,574	2,274	2,218	3,222	4,663	5,042	6,040	6,508
Income tax expense	200	322	785	766	753	1,215	1,789	1,784	1,904	2,074
Profit for the year	108	421	751	1,405	1,465	2,006	2,874	3,258	4,135	4,305
EPS (¥)	2.9	9.7	16.5	30.8	32.1	43.1	59.5	67.5	85.7	89.2

Source: Earnings Release, company materials

(Note) Forecasts issued by the company.

Tosei has transitioned to IFRS from FY11/13. Results for FY11/12 are both retrospectively restated results and results under J-GAAP.

As an expedient measure, ordinary profit under J-GAAP has been listed as profit before tax, non-operating profit or loss are listed as finance income/costs, and extraordinary gains or loss are omitted.

Dividends in the Fund and Consulting Business for FY11/12 and prior fiscal years are included under brokerage fees / other.

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Consolidated Statement of Financial Position (Consolidated Balance Sheet)

(¥mn)

Accounting standard	J-GAAP (Japanese standard)				IFRS			
FY	09/11	10/11	11/11	12/11		13/11	14/11	15/11
Current assets	47,517	46,059	43,908	49,133	48,744	53,679	59,882	67,888
Cash and cash equivalents	7,890	7,127	8,326	9,430	9,410	14,711	16,100	18,791
Inventories	37,363	37,477	33,735	37,178	37,417	38,040	41,565	46,156
Other current assets	2,264	1,455	1,847	2,525	1,917	928	2,217	2,941
Non-current assets	14,717	16,623	16,059	15,599	16,618	17,603	20,975	25,307
Property, plant and equipment	12,812	14,398	14,599	14,552	3,331	3,304	3,293	3,315
Investment properties	-	-	-	-	11,695	12,703	13,858	18,785
Other non-current assets	1,905	2,225	1,460	1,047	1,592	1,596	3,824	3,207
Total assets	62,235	62,682	59,967	64,732	65,363	71,283	80,858	93,196
Liabilities	39,981	38,226	34,991	38,580	38,819	41,190	48,130	56,967
Current liabilities	18,364	12,474	8,791	11,284	11,283	10,985	9,632	13,819
Borrowings	16,185	10,823	6,170	7,740	7,742	7,587	5,380	9,492
Other current liabilities	2,179	1,651	2,621	3,544	3,541	3,398	4,252	4,327
Non-current liabilities	21,616	25,752	26,200	27,296	27,535	30,205	38,498	43,148
Borrowings	19,107	23,438	23,904	24,654	24,659	27,449	35,024	39,175
Other non-current liabilities	2,509	2,314	2,296	2,642	2,876	2,756	3,474	3,973
Equity	22,253	24,455	24,976	26,152	26,543	30,092	32,727	36,228
(Total borrowings)	35,292	34,261	30,075	32,395	32,401	35,036	40,404	48,668
Equity ratio (%)	35.7	39.0	41.6	40.4	40.6	42.2	40.5	38.9
Net D/E Ratio (Times)	1.23	1.11	0.87	0.88	0.87	0.68	0.74	0.83

Source: Compiled by FISCO based on the company's Earnings Release
Tosei has transitioned to IFRS from FY11/13. Results for FY11/12 are both retrospectively restated results and results under J-GAAP.

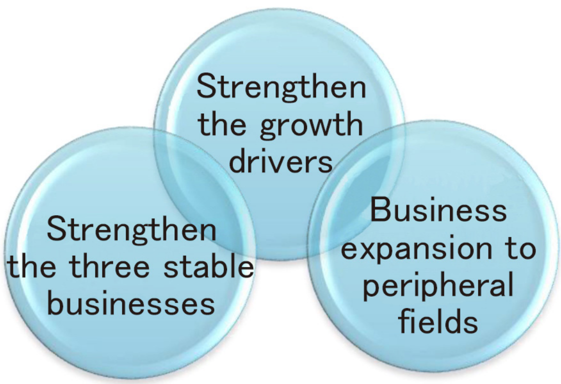
■ Outlook for the Medium to Long Term

Aiming for revenue of ¥100.0bn in FY11/20

(1) Look to advance into peripheral business fields while expanding existing businesses

The Midterm Management Plan Advancing Together 2017 is a three-year plan starting in FY11/15. The plan aims to expand the corporate scale with the basic policy of "Expand the existing business segments and advance into the peripheral businesses."

Advancing Together 2017 - Key strategy -



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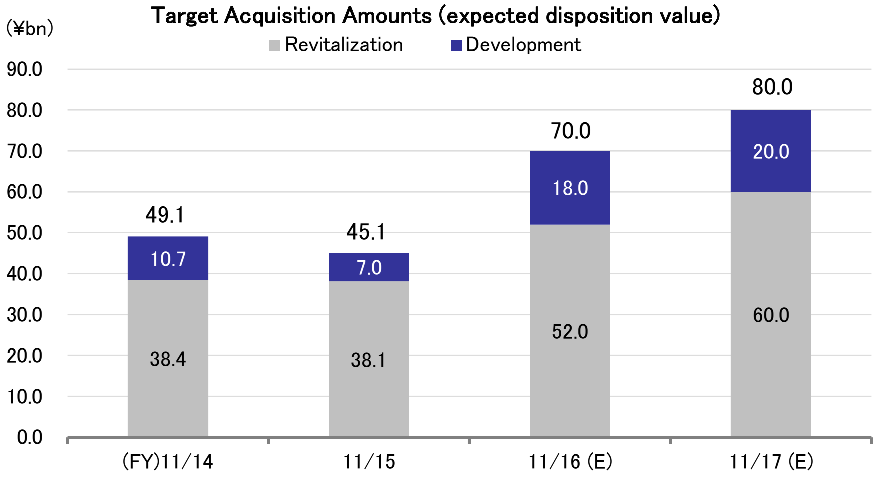
(2) Growth based on expansion of balance sheet through aggressive acquisitions

The company's growth is based on expanding the balance sheet through continued aggressive acquisitions. Through this means, the company will expand the Revitalization Business and Development Business among its three growth businesses, and the Rental Business among its three stable businesses. The company's equity ratio at the end of FY11/15 stood at 38.9%, and its net D/E ratio stood at 0.83 times. Given this favorable debt procurement situation, it has significant scope to increase its financial leverage and plans to expand its asset scale to ¥178.5bn by the end of FY11/20 (up 92% compared with the end of FY11/15). The company's plan does not envisage equity financing; nevertheless, there are no issues with financial soundness as the company forecasts an equity ratio of 33.0% for the end of FY11/20.

The balance of investment properties and property, plant and equipment at the end of FY11/15 was only at ¥22.1bn, because the company's property holdings are mainly inventories. However, the company's policy going forward is to acquire properties that can provide stable rental cash flow over the long-term as investment properties, and it expects to increase the balance of investment properties to ¥49.5bn by the end of FY11/20.



Source: Materials published by Tosei
(Note) Delivery basis

The non-asset Fund and Consulting Business is a growth driver as well as a stable business. In this business, Tosei Reit Investment Corporation started with an asset scale of ¥17.4bn at the time of its listing in November 2014 and aims to expand its assets to ¥100.0bn over the medium to long term. In private funds, Tosei Reit Investment Corporation has two large-scale asset management contracts with Blackstone, and its increasing presence in the market is a positive factor.

While following a path of expansion, the company also seeks to increase business stability. In addition to increasing rental income in association with asset expansion, the company will also aim to increase non-asset fee revenues by expanding assets under management in an effort to increase the gross profit of its three stable businesses to around 50% of its total gross profit (excluding property selling expenses) by FY11/20 (as of the end of FY11/15 it accounts for 47% and is forecast to account for 41% at the end of FY11/16). Moreover, the company also seeks to cover its SG&A expenses and interest, excluding property selling expenses, with gross profit from its three stable businesses (at this point it has generally covered these).

(3) Launch of the hotel business in peripheral business fields

In advancing into peripheral business fields, the company is currently focused mainly on the hotel business. In February 2016, it established the wholly owned subsidiary Tosei Hotel Management Co., Ltd. to undertake planning, operation, and other aspects of the hotel business, and will basically operate the business itself. The company has already acquired a development site for its first project in Uchi-Kanda, Chiyoda-ku, Tokyo. Construction is scheduled to commence in spring of 2016, aiming to open the facility in autumn 2017. The planned facility is a business hotel, which should benefit from inbound travel demand, and is expected to have 111 rooms.

Looking forward, in addition to acquiring further land for development, the company will examine options for converting used buildings into hotels and offering contracted hotel management for third-party facilities. Therefore, the hotel business will be involved with the Development, Rental, Revitalization, and Property Management businesses.

(4) Aiming for consolidated revenue of ¥100.0bn in FY11/20

In its medium-term management plan, the company has not publicly announced its numerical targets for revenue and operating profit for FY11/17, the final year of the plan. However, it has given a target for consolidated revenue of ¥100.0bn in 2020, the year of the Tokyo Olympic and Paralympic Games. This represents a compound annual growth rate (CAGR) of 16% from the projected consolidated revenue for FY11/16 of ¥55.2bn.

The profit target for FY11/20 has not been announced; however, the company's equity is projected to be ¥59.0bn at the end of FY11/20 (CAGR of approximately 10% from the capital of ¥39.8bn projected for the end of FY11/16), and assuming a dividend payout ratio of 20%, the operating profit in FY11/20 can be estimated in the region of around ¥10.0bn.

(5) Negative interest rate at the Bank of Japan likely to be fundamentally positive for the real estate investment market

On January 29, 2016, the Bank of Japan set a negative interest rate. This is likely to be fundamentally positive for the real estate investment market. The key to the real estate investment market is the real estate lending positions of financial institutions. At the end of 2015, there were some reports in the media that the Financial Services Agency was increasing its monitoring of real estate lending of regional banks and other financial institutions. Just as these and other indications suggested that the real estate lending positions of financial institutions would become more cautious, the introduction of negative interest rates may oblige them to become more aggressive in their real estate lending.

The introduction of negative interest rates has brought the risk-return rate (long-term interest rate), a component of the cap rate, virtually to zero. This is also a positive factor for the real estate investment market. However, it is not clear at present whether the cap rate will move down a notch. This is because the risk premium, another constituent of the cap rate, appears to be rising as investor sentiment sours due to a global decline in stock prices since the start of the year and mounting concern over the Chinese and U.S. economies, as well as an excessive decline in oil prices and the yen's appreciation.

There are concerns over the potential impact on rental income from offices and so forth if corporate earnings should deteriorate due to the deceleration of the global economy. However, the market is only just starting to return to growth at last after the sharp fall the followed the Lehman Brothers bankruptcy, and this gradual improvement is likely to continue.

If the yen continues to climb higher, overseas investors could become sellers; however, there appear to be many investors who would switch to become buyers if REIT and real estate prices fall. Therefore, a major drop in real estate prices is unlikely even if prices were to peak out.

The company's original business model is to obtain profit on sales by increasing NOI through value increases. Even if the real estate market condition deteriorates a little (cap rate increases), it is unlikely to cause a major hindrance to the company's business expansion.

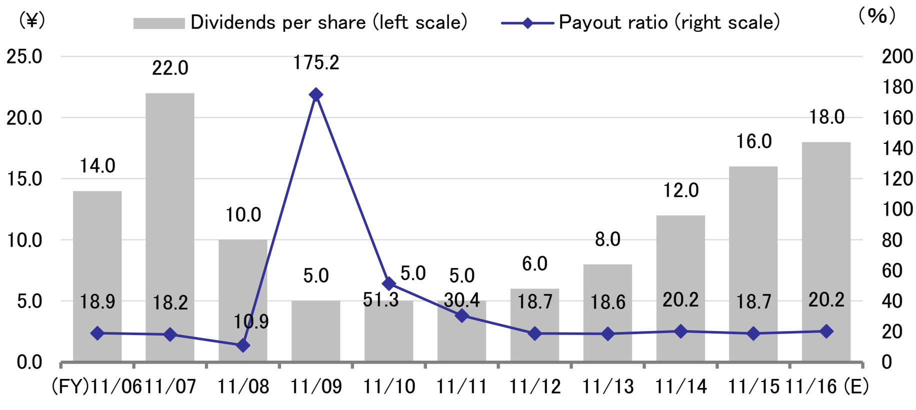
Shareholder Returns

Fifth consecutive dividend increase planned following steady earnings expansion

For FY11/16, the company plans to increase the dividend per share by ¥2 YoY to ¥18. The company has not published a target dividend payout ratio, but in recent years, it appears to have been around 20%. While holding the dividend payout ratio relatively steady, the company plans a fifth consecutive dividend increase driven by its steady increase in earnings.

The reason for the somewhat low dividend payout ratio is that the company seeks to expand its assets through aggressive acquisitions while the business environment is favorable. From a perspective of debt procurement stability, the company requires strong internal reserves due to its policy of maintaining an equity ratio in the 30% level.

Dividends Per Share and Dividend Payout



Source: Earning Release
(Note) Tosei conducted a 100-for-1 stock split in July 2013. Figures for FY11/12 and earlier years have been retroactively restated.
The dividend payout ratio for FY11/12 has been revised based on IFRS.

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