Financial Analysis (Fiscal 2020)

Operating Conditions and an Overview of Results

In fiscal 2020, the Japanese economy continued to face a very difficult situation. The spread of COVID-19 restricted economic activity tightly and decreased consumer spending. Demand fell dramatically due to the decrease in inbound customers. This has affected a wide range of Japanese industries, especially the tourism and restaurant industries, and has greatly reduced corporate earnings.

In the real estate sector, sales of the office building leasing market grew steadily overall, but vacancy rates continued to increase due to factors such as uncertainty around corporate business performance and changes in the workstyles of office workers, including an increase in telework. Sales in the retail facility leasing market decreased due to the effects of closing retail facilities in order to prevent the spread of COVID-19 under the state of emergency declared at the beginning of the fiscal period. However, a temporary recovery in sales was seen for certain facilities, mainly those in the suburbs. The hotel operation market faced a difficult situation, with a significant fall in sales due to a significant decrease in foreign visitors to Japan and restraint in going out or traveling for business. In the property sales market, the number of units supplied decreased due to factors such as the effects of suspending sales operations at the beginning of the fiscal period. The market grew steadily, however, as purchase demand among customers remained high due to growing interest and diversification of needs concerning living environments, as well as continued low interest rates. In the real estate investment market, although a wait-and-see approach was largely taken in the first quarter due to uncertainty over the real economy, the market continued to expand from the second quarter due to the Bank of Japan's monetary easing policy.

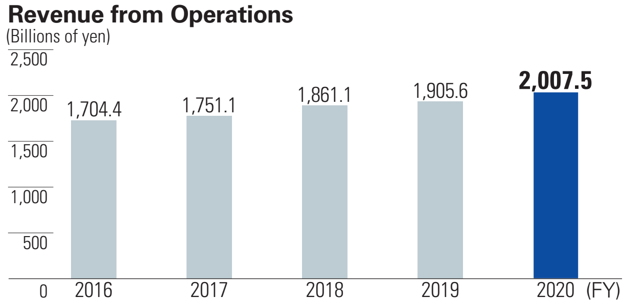
In this operating environment, the Mitsui Fudosan Group has worked to create new value based on our VISION 2025, Group long-term vision. This includes fulfilling our corporate social responsibilities by actively cooperating to prevent the spread of infection and protect lives by closing retail facilities and hotels. Also, to respond to structural changes in lifestyles and workstyles under COVID-19, it includes growing the number of our WORK STYLING, multi-site shared offices for corporate clients, expanding business in our &mall E-commerce mall linked to real stores, and promoting remote working from hotel guest rooms.

The Mitsui Fudosan Group recognizes that it is our social mission as a property developer to contribute to solving a variety of social problems with the aim of achieving a sustainable society through neighborhood creation, and have set new quantitative targets to reduce environmental impact and enable our workforce to thrive. In particular, to realize a decarbonized society, we have set a target of achieving net zero emissions of greenhouse gases throughout the entire Group by fiscal 2050, and have been actively working to conserve energy and promote renewable energy usage. This includes launching the Smart Energy Project that aims to provide a stable supply of electricity and heat in the Toyosu area and the Nihonbashi area, and reducing CO_2 emissions by around 30% and around 20% in service areas in Nihonbashi and Toyosu, respectively. It further includes making office buildings and other properties more green by incorporating renewable energy.

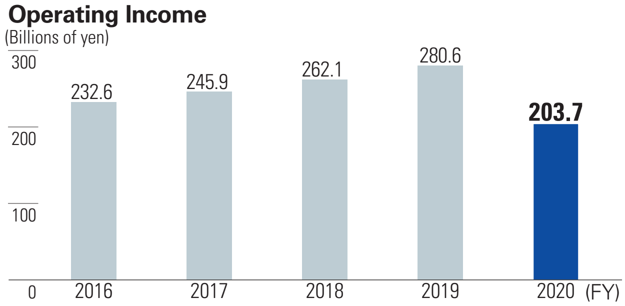
We further promoted environmentally-focused initiatives that include the Smart Energy Project in the Yaesu area and the high-rise office building plan for the 17-storey wooden building in Nihonbashi. Furthermore, we disclosed information based on recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which promotes the disclosure of risks and opportunities for companies in relation to climate change. To respond to changing social needs and realize new value creation, we have set a 10% target by fiscal 2025 and a 20% target by fiscal 2030 for the ratio of women in management positions, and have worked to allow employees with diverse values, talents, and lifestyles to fully realize their capabilities.

As a result of these initiatives, in the Group's consolidated business results for the period, ordinary income decreased by ¥100 million compared to the forecast announced in the middle of the fiscal year. At the same time, revenue from operations increased by ¥57.5 billion, operating income increased by ¥3.7 billion, and profit attributable to owners of parent increased by ¥9.5 billion compared to the forecast announced in the middle of the fiscal year.

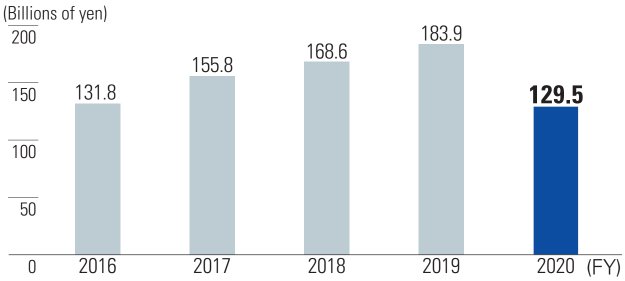
Revenue from Operations



Operating Income



Profit Attributable to Owners of Parent

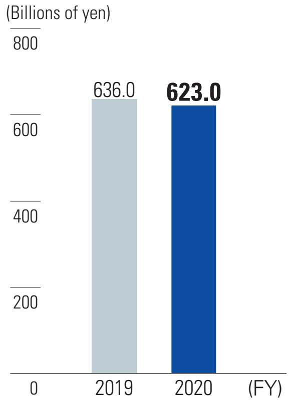


Segment Information

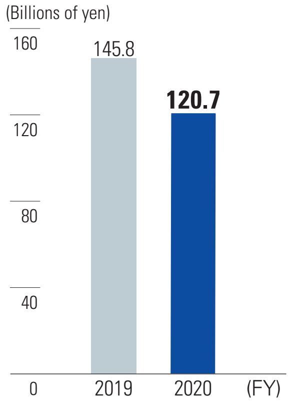
Leasing

In the leasing segment, operating income was ¥120.7 billion, a decrease of ¥7.2 billion compared to the full year forecast of ¥128.0 billion. This was mainly due to a decrease in sales at our retail facilities as a result of the second declaration of state of emergency in the fourth quarter in response to the ongoing COVID-19 pandemic.

Revenue from Operations



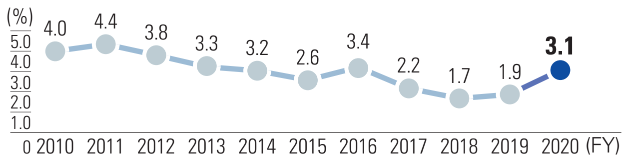
Operating Income



(Millions of yen)

(FY)			2019	2020
Office Buildings and Retail Facilities	Revenue	Office Buildings	¥360,260	¥369,256
		Retail facilities	240,407	208,841
	Total Leased Floor Space (1,000 m^2)		5,462	5,751
	Office Buildings	Owned	2,051	1,955
		Managed	1,207	1,438
	Retail facilities	Owned	1,675	1,825
		Managed	529	533
Other	Revenue		35,388	44,975
Total	Revenue		636,056	623,073
Total	Operating Income		145,893	120,777

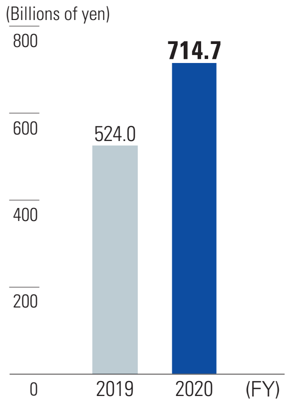
Vacancy Rate for Tokyo Metropolitan Area Office Buildings (Non-Consolidated)



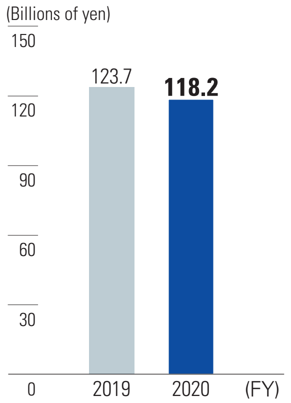
Property Sales

In the Property Sales segment, operating income exceeded the forecast in the Property Sales to Individuals (Domestic) category due to factors including improved profit margins. In the Property Sales to investors and individuals (Overseas) category, as a result of conditions in the real estate market and individual properties, operating income was lower than predicted despite sales exceeding the forecast. Overall operating income from the segment was ¥118.2 billion, an increase of ¥4.2 billion compared to the full year forecast of ¥114.0 billion.

Revenue from Operations



Operating Income



Fiscal Year-End Inventories (Property Sales to Individuals [Domestic])

(Units)

(FY)	2016	2017	2018	2019	2020
Condominiums	321	108	141	128	150
Detached Housing	69	40	30	58	17
Total	390	148	171	186	167

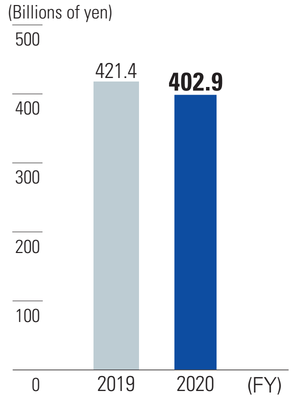
(Millions of yen)

(FY)				2019	2020
Property Sales to Individuals (Domestic)	Condominiums				
		Tokyo Metropolitan Area	Revenue	¥208,144	¥268,854
			Units	2,515	3,332
		Other	Revenue	27,878	21,399
			Units	679	443
		Subtotal	Revenue	236,023	290,254
			Units	3,194	3,775
	Detached Housing				
		Tokyo Metropolitan Area	Revenue	31,896	33,183
			Units	466	482
		Other	Revenue	741	1,927
			Units	15	33
		Subtotal	Revenue	32,638	35,110
			Units	481	515
			Revenue	268,661	325,364
			Units	3,675	4,290
			Operating Income	29,624	40,003
Property Sales to Investors & Individuals (Overseas)			Revenue	255,433	389,374
			Operating Income	94,120	78,209
Total			Revenue	524,094	714,739
Total			Operating Income	123,745	118,213

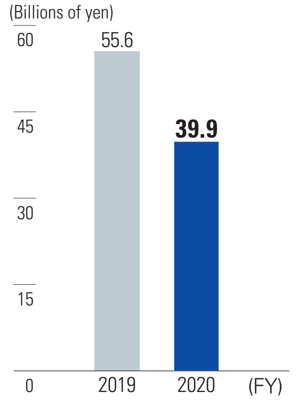
Management

In the Management segment, operating income was ¥39.9 billion, an increase of ¥6.9 billion compared to the full year forecast of ¥33.0 billion. This was mainly due to a higher-than-expected number of brokered contracts for individuals.

Revenue from Operations



Operating Income



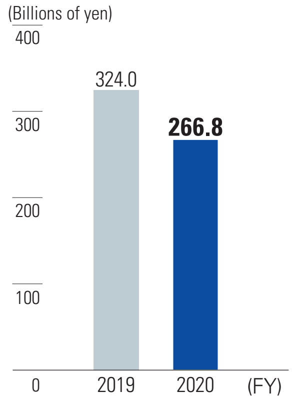
(Millions of yen)

(FY)		2019	2020
Property Management	Revenue	¥316,228	¥309,099
	Operating Income	32,776	21,888
Brokerage, Asset Management, etc.	Revenue	105,261	93,829
	Operating Income	22,894	18,081
Total	Revenue	421,490	402,929
Total	Operating Income	55,670	39,969

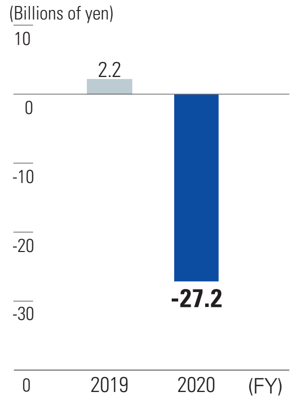
Other

In the Other segment, operating loss was ¥27.2 billion, an increase of ¥1.2 billion compared to the full year forecast of ¥26.0 billion. This was due to factors including a fall in demand for accommodation in the domestic hotels business under the COVID-19 pandemic.

Revenue from Operations



Operating Income



(Millions of yen)

(FY)		2019	2020
New Construction	Revenue	¥165,818	¥147,222
Facility Operations	Revenue	67,448	32,736
Other	Revenue	90,735	86,854
Total	Revenue	324,001	266,812
Total	Operating Income	2,291	(27,215)

Consolidated Financial Position

●Assets

As of March 31, 2021, total assets were ¥7,741.9 billion, an increase of ¥346.6 billion from the end of the previous fiscal year.

This was mainly due to an increase of ¥22.6 billion in real property for sale (including real property for sale in progress, land for development and advances paid for purchases). There was an increase of ¥43.6 billion in tangible and intangible fixed assets mainly due to new investments, as well as an increase of ¥161.0 billion due to fair market valuation of investment securities.

Capital expenditures were ¥565.2 billion and depreciation and amortization was ¥98.1 billion.

●Liabilities

Interest-bearing debt (the total of short-term debt, non-recourse short-term debt, commercial paper, bonds redeemable within one year, non-recourse bonds redeemable within one year, corporate bonds, non-recourse bonds, long-term debt, and non-recourse long-term debt) stood at ¥3,623.4 billion on an overall consolidated basis as of March 31, 2021, an increase of ¥142.3 billion from the end of the previous fiscal year.

Mitsui Fudosan has established committed lines of credit totaling ¥400.0 billion with several financial institutions to ensure access to funds and adequate liquidity. The Company had not accessed these lines of credit as of the balance sheet date.

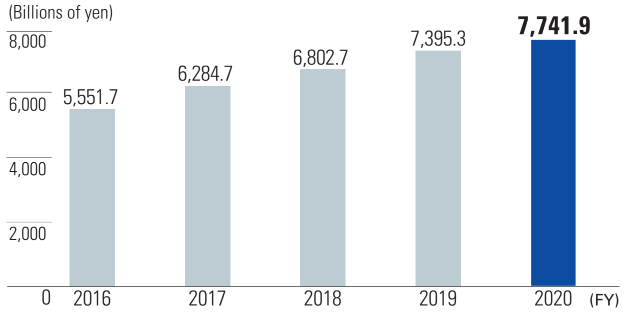
The current ratio (current assets/current liabilities) as of March 31, 2021, was 245%, an increase compared to 230% on March 31, 2020.

●Net Assets

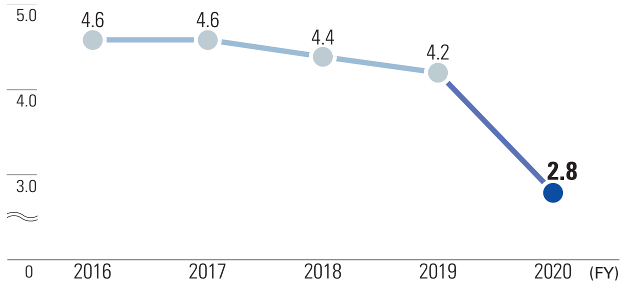
Total net assets as of March 31, 2021 were ¥2,655.9 billion, an increase of ¥169.4 billion compared with the end of the previous fiscal year. This increase was mainly attributable to increases of ¥189.4 billion in retained earnings and in net unrealized holding gains on securities of ¥74.8 billion, despite a decrease of ¥127.6 billion in revaluation reserve for land.

The equity ratio as of March 31, 2021 rose to 33.0% from 32.6% at the end of the previous fiscal year, while the debt/equity ratio decreased to 1.42 times from 1.45 times. Net assets per share increased to ¥2,656.42 from ¥2,480.36 as of the previous fiscal year-end.

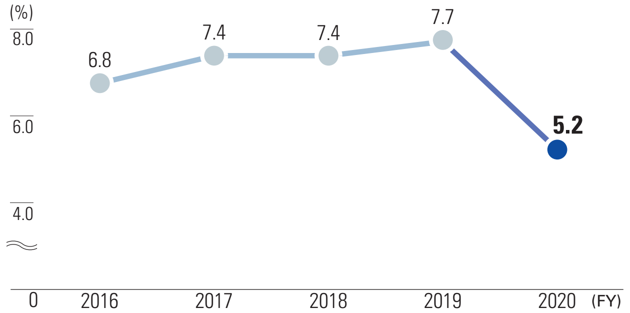
Total Assets
(Billions of yen)



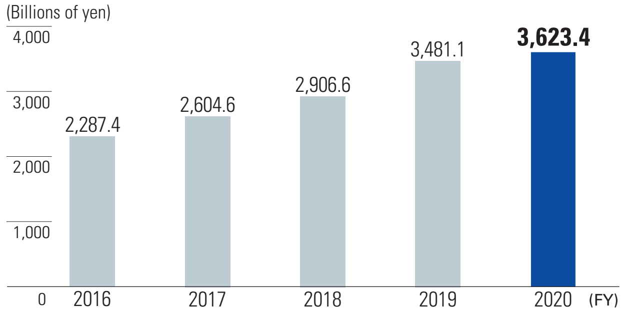
ROA
(%)



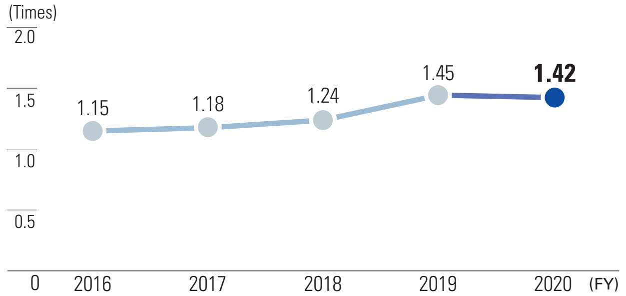
ROE
(%)



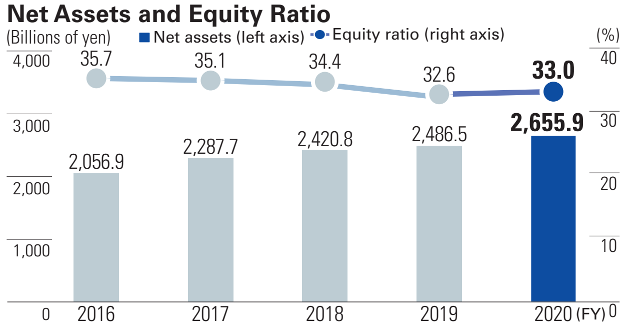
Interest-Bearing Debt
(Billions of yen)



Debt/Equity Ratio
(Times)



Net Assets and Equity Ratio



Consolidated Cash Flows

●Consolidated Cash Flows

As of March 31, 2021, cash and cash equivalents were ¥187.7 billion, an increase of ¥8.2 billion from the end of the previous fiscal year.

●Cash Flows from Operating Activities

Operating activities provided net cash of ¥187.8 billion. Cash provided included income before income taxes of ¥191.8 billion and depreciation and amortization of ¥98.1 billion. Decreases included ¥79.7 billion for income taxes paid.

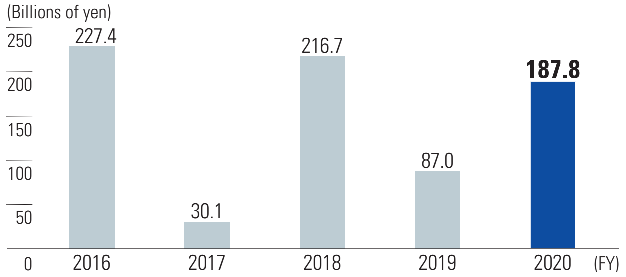
●Cash Flows from Investing Activities

Investing activities used net cash of ¥131.0 billion. Cash purchases included ¥276.3 billion in tangible and intangible fixed assets, ¥65.7 billion in investment securities, and ¥77.7 billion in shares of subsidiaries, which resulted in change in scope of consolidation. Cash provided included proceeds from the sale of tangible and intangible fixed assets of ¥245.9 billion and proceeds from the sale of investment securities of ¥69.5 billion.

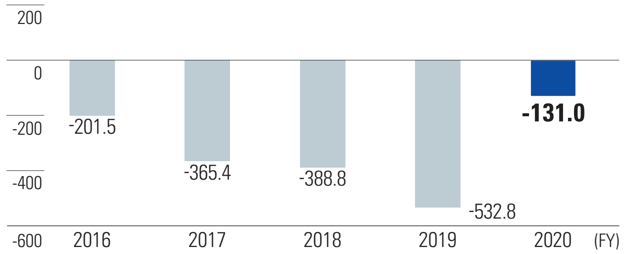
●Cash Flows from Financing Activities

Financing activities used net cash of ¥66.5 billion, primarily for the payment of dividends and repayment of debt.

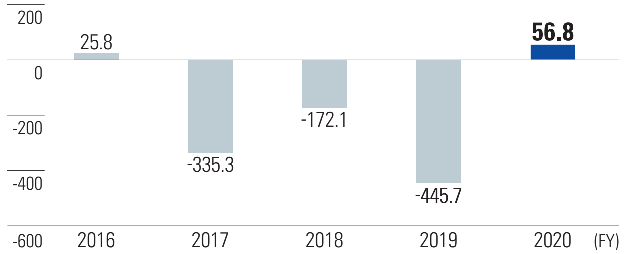
Cash Flows from Operating Activities
(Billions of yen)



Cash Flows from Investing Activities
(Billions of yen)



Free Cash Flows
(Billions of yen)



* Free cash flow =
Cash flow from operating activities + cash flow from investing activities

Rental Properties

Mitsui Fudosan and some of its consolidated subsidiaries have rental properties including office buildings and retail facilities in the Tokyo metropolitan area and other areas. Profit on such properties amounted to ¥137,951 million in fiscal 2019 (leasing revenue is reported in revenue from operations and leasing expenses are reported in cost of revenue from operations) and there was an impairment loss of ¥1,063 million and a loss on disposal of property and equipment of ¥577 million (loss on disposal of property and equipment and impairment loss are reported as extraordinary loss). In fiscal 2020, profit on such properties amounted to ¥118,075 million (with leasing revenue recorded in revenue from operations and leasing expenses recorded in cost of revenue from operations). An impairment loss of ¥29,795 million and a gain on sale of property and equipment of ¥20,668 million were recorded (with impairment loss recorded as an extraordinary loss and the gain on sale of property and equipment recorded as extraordinary income).

The carrying amount recorded on the consolidated balance sheets, the change during the fiscal year, and the market value of these properties are as shown on the right.

(Millions of yen)

(FY)	2019	2020
Rental Properties Carrying Amount Recorded on the Consolidated Balance Sheets		
Balance as of the Beginning of the Period	¥3,024,028	**¥3,171,133**
Increase (Decrease) During the Period	147,104	**-141,505**
Balance as of the End of the Period	3,171,133	**3,029,628**
Market Value at the End of the Period	6,089,553	**5,856,124**
Difference	2,918,419	**2,826,496**

Notes: 1. The carrying amount recorded on the consolidated balance sheets was calculated by deducting accumulated depreciation and amortization and accumulated impairment losses from acquisition costs.
2. Market value at the end of the fiscal year is calculated by the Company's own appraisal team and was based, in principle, on Japan's Real Estate Appraisal Standards.
3. The main increases and decreases in the balance sheet during fiscal 2019 were an increase in real estate acquisition (¥216,117 million) and decreases due to transfers to real property for sale (¥15,043 million).
4. The main increases and decreases in the balance sheet during fiscal 2020 were an increase in real estate acquisition (¥207,677 million), and decreases due to real estate sales (¥198,635 million), and transfers to real property for sale (¥110,141 million).
5. In regard to the fiscal 2019 impact of the COVID-19 pandemic on the market value of real estate, including rents, it was extremely difficult to calculate the impact with a high degree of accuracy at the time these notes were created. Based on certain assumptions upon which consolidated performance forecasts for the next fiscal year are based, the impact on market value has been calculated within the scope possible at the time these notes were created and the result is that the impact on market value of real estate, including rents, at the end of the fiscal 2019 was negligible, and therefore it has not been included in the market value at the end of fiscal 2019.

Shareholder Returns

In fiscal 2020, Mitsui Fudosan took measures such as temporarily closing or shortening the business hours of retail facilities, hotels, and resorts, as well as providing temporary rent reductions for tenant stores at Company-owned facilities, in response to two declarations of state of emergency under the COVID-19 pandemic. In spite of this environment, the Company faces no issues securing financing due to its maintenance of a sound financial standing, and maintains secure employment status for its employees. In consideration of these and other factors, the Company will focus on providing stable and continuous shareholder returns as follows.

•Annual dividend per share for fiscal 2020	¥44
•Own shares being repurchased Repurchasing periods: from May 17, 2021 to December 7, 2021	¥15.0 billion
•Total shareholder return ratio of profit attributable to owners of parent	44.2%

Outlook for Fiscal 2021 (Year Ending March 31, 2022)

The effects of the COVID-19 pandemic, including the spread of virus variants, remain unpredictable.

Mitsui Fudosan Group's businesses have been affected by decreases in operations and visitors to facilities due to people refraining from going out, in addition to closings at some facilities, shortening of business hours, and restrictions on attracting customers following guidance from the national and local governments based on the declaration of state of emergency on April 25, 2021.

In response to this situation, the following forecasts are calculated based on the assumption that despite recovery in the economic environment due to factors such as the progress of vaccination, the speed of recovery will remain unclear and impacts of the COVID-19 will continue throughout the fiscal year.

Based on this, in fiscal 2021, Mitsui Fudosan is expected to report revenue from operations of ¥2,150.0 billion, up ¥142.4 billion year on year. Operating income is estimated to increase by ¥26.2 billion to ¥230.0 billion and ordinary income is estimated to increase by ¥36.1 billion to ¥205.0 billion. Profit attributable to owners of parent is forecast to increase by ¥30.4 billion to ¥160.0 billion.

Actual results may differ due to factors including the state of the pandemic. If revisions to these forecasts become necessary, they will be announced swiftly.

●Segment Forecasts

Leasing: In consideration of the impacts of the COVID-19 pandemic while also considering the improvement in retail facility sales at our retail facilities and contribution to sales from new facilities in operation over the full year, increases of ¥56.9 billion in revenue from operations and ¥7.2 billion in operating income are forecast.

Property Sales: Overall revenue from operations is forecast to decrease by ¥44.7 billion and operating income is forecast to increase by ¥14.7 billion. This is because although the small number of delivered units of large-scale developments for property sales to individuals (domestic) is expected to fall, revenue and income from property sales to investors is expected to rise due to expectations for real estate sales in the strong real estate investment market.

Management: In consideration of the impact of factors such as contribution to revenue from an increase in the number of brokered deals in the brokerage business for individuals and continued improvement in operations and cost reductions in Mitsui Car Park Leasing (car park leasing businesses), increases of ¥17.0 billion in revenue from operations and ¥4.0 billion in operating income are forecast.

Other: In consideration of ongoing recorded losses in the hotels and resorts business due to the COVID-19 pandemic while also considering recovery in operations mainly due to the capture of domestic demand, increases of ¥113.1 billion in revenue from operations and ¥5.2 billion in operating income are forecast.

●Dividends

Taking into consideration a comprehensive range of factors including the outlook for fiscal 2021 and the aforementioned dividend policy, the Company plans to pay a cash dividend of ¥44 per share (including an interim dividend of ¥22 per share) for the fiscal year ending March 31, 2022, the same as in the fiscal year ended March 31, 2021.