

**ITOCHU Advance Logistics Investment Corporation**  
**Summary translation of transcript of investor presentation and Q&A**  
**for the Fiscal Period ended July 2019**

**Date of presentation: September 17, 2019**  
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**ITOCHU REIT Management Co., Ltd.**

*Note: Page numbers in parenthesis indicate corresponding page number of the presentation material.*

**Presentation**

I'm Junichi Shoji, President of ITOCHU REIT Management.

Thank you very much for attending this meeting on earnings results for the second fiscal period ending July 2019 for the ITOCHU Advance Logistics Investment Corporation, or IAL.

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These are my thoughts which I have summarized looking back on the past six months. I would like to keep putting my own thoughts into the earnings report. I hope you will read through it when you have time.

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Our performance is progressing well, with actual NOI being 5.1%, and occupancy remaining at 100%. NAV per unit grew to 113,026 yen from 109,848 yen in the previous period due to a contribution from assets acquired in April 2019. The initiatives we have taken in the 2nd fiscal period are described at the bottom of the page. Some of the initiatives have already been explained, but I would like stress our ESG initiatives described on the right. We acquired 3 green stars in the GRESB only one year after going public. Execution and verification are necessary to get certified, but we made such an achievement thanks to cooperation from our sponsor and the property manager as well as our tenants. We would like to continue to promote ESG activities.

While our unit price softened in March this year, our sponsor ITOCHU Corporation increased its stake in IAL from 5% to 7% to align its interest with that of unitholders, which we call the "same-boat investment."

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DPU in the fiscal period ending July 2019 was 2,311 yen up 2.2% from the forecast 2,262 yen. Variance factors are illustrated on the right of the page. The property acquisition in April 2019 was through a debt finance. This had been factored into the forecast, so there is no big sales variance against the forecast. Major variance factors are a reduction in operating expenses and interest expenses. We started to disclose FFO and AFFO in the 2<sup>nd</sup> fiscal period. I will explain the rationale later.

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DPU in the 3rd fiscal period ending January 2020 will be 2,366 yen, up 2.4% from the 2<sup>nd</sup> period due to top line growth. DPU in the 4th fiscal period shown on the right is 2,310 yen, a bit less than the 3rd fiscal period. This is due to the property tax which will start to be levied on the two facilities acquired in this fiscal period. The impact is approximately 38 yen per unit. In addition, we will have the 1st AGM in the 4th fiscal period and costs for that of approximately 10 million yen has been factored in.

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After the earnings results of the 1st fiscal period were announced, we had opportunities to meet a lot of investors. Quite a few investors made grateful comments saying that the properties in our portfolio and the pipeline are high quality assets located in the Kanto Area, and yet our unit price is low, and that they are expecting us to build track records, realizing a situation where they can value us as on a continuous basis. I would like to work together with our sponsor ITOCHU Corporation to further stress IAL's strengths to investors through IR activities. I will explain the pipeline shortly.

The unit price is rising at the moment, but NAV multiple is about 1 time. As illustrated in the chart on dividend yields on the right, IAL's yield is 4.2% versus the average yield of logistics REITs, 3.6%. Logistics REITs in Japan are currently divided into two groups in terms of dividend yield: a group with 3% to 3.5% dividend yield and a group with 4% to 4.6% yield. IAL unfortunately belongs to the latter group at the moment. Our immediate target, which we consider to be one of our checkpoints, is to build track records by growing our DPU and to improve NAV multiple to at least 1.1 times and the dividend yield to 3.7 to 3.8%. We would like to appeal to investors and encourage them to review their valuation of IAL.

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We believe that IAL currently faces three issues. The first issue is limited foreign investor ownership. The stake held by foreign institutional investors has grown to 4.7% in this fiscal period, but it is still lower than other REITs. Therefore, we would like to promote active IR initiatives focusing on this investor segment.

The 2nd issue is the small size of our assets under management and low liquidity due to the size. As we have quality properties waiting in our pipeline, we intend to implement our external growth strategies at an appropriate timing.

The 3rd issue is that we don't have enough track record because we are a young public REIT. We need to walk the talk to grow our DPU. Although I have explained the ITOCHU group's strong leasing capability since the IPO, some investors may still wonder whether this is true. Therefore, let me share with you what we have done so far later on, including completion of leasing for pipeline properties and successful tenant replacement in one of our portfolio properties. In addition, we continue to work on improving NOI, cost saving and ESG initiatives. We will also keep in mind our current the portfolio NOI yield when we acquire properties.

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This is our strategic roadmap. The asset management company has more detailed chronological

action plans for each initiative, and this page only shows the disclosable elements of the plans. We will make sure to grow our DPU by using undrawn LTV and making the most of external and internal growth opportunities. We hope this will eventually lead to a higher unit price for IAL.

Upon IPO, I mentioned that we would grow our AuM to 200 billion yen within 5 years, and that we would expand our pipeline. But under the current logistics market, which has become even hotter, we and our sponsor believe that it would be wise not to hurry and purchase land at high prices and we would like to make a calm decision to grow our AuM. We do not intend to rush into any actions but will keep moving forward to achieve the goal of 200 billion-yen AuM.

As for internal growth, we are steadily taking initiatives such as reducing the number of empty parking spaces, electricity bills or insurance premiums. Some properties in our portfolio have not had solar panels installed yet, and we are currently working for it.

As for LTV, our figure is below 40% at the moment. We intend to manage it in a firm way and don't intend to raise it without a specific purpose.

As for ESG initiatives, we took 4 initiatives in the 2nd fiscal period. And as I mentioned, we have so far acquired GRESB stars in the 3rd fiscal period. In addition, we are considering acquiring BELS certificates, preparing to issue green bonds, and introducing a cumulative investment plan for senior executives.

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Let's move on to the external growth section. The 6 properties on the right are in the pipeline. Some of them are jointly owned by external investors, but our sponsor ITOCHU Corporation leads the decision-making process to sell these properties. We believe that we can acquire them even more flexibly by using a bridge scheme which I will explain later. Our assets under management will be about 130 billion yen by adding the pipeline properties to the existing portfolio, although this is not an accurate number because we have not scrutinized them yet. Our policy is to first acquire these properties in the pipeline.

ITOCHU Property Development, or IPD will establish a team specializing in land acquisition for logistics facilities in October. This means we will have another powerful engine for property development, on top of the existing ITOCHU Corporation. By this, we believe we will be able to capture more opportunities to acquire land off the market, which is an area where our sponsor group has strength. In addition, ITOCHU Corporation is investigating needs for non-logistics assets owned by corporations including the ITOCHU group companies, and this initiative has gradually started to bear fruit.

In the pipeline properties, *i Missions Park Ichikawa Shiohama* and *i Missions Park Miyoshi* are now fully occupied. I have kept saying since the IPO that we will fully use ITOCHU's resources for leasing, and this is an actual example which exactly shows their capability. Some investors said that they would wait until actual results from the leasing activities became tangible. I believe this outcome has met their expectation.

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This is about bridge schemes that we are establishing for asset acquisition. Although a REIT is ready for public offerings, properties are not always put on sale with perfect timing. In addition, when the market becomes so overheated, property prices released by third parties can be unaffordable for a REIT. In that case, we are ready to use a bridge scheme in collaboration with ITOCHU Corporation with support from financial institutions which have a close relationship with ITOCHU Corporation in the real estate business. Bridge schemes make it possible for us to flexibly adjust the timing and price of acquisitions.

As for capital policy, I mentioned at the earnings results presentation for the 1st fiscal period that it was not time for us yet to think about public offerings, considering the weak unit price. But now with our pipeline properties ready for acquisition and our unit price gradually rising, I would say that probability for a PO is getting high. We would like to pursue external growth opportunities which is well accepted by investors, by paying attention to the whole picture including the DPU growth rate, price-to-NAV ratio, implied cap rate which currently stands at 4.8 to 4.9%, and demand of the equity market. .

Now, let's move on to the internal growth section. Please turn to page 13. Thanks to the ITOCHU group's resources, IMP Noda, our logistics facility equipped with a rampway, had the 3rd and 4th floors of 3,800 tsubo, or 12,500 m<sup>2</sup> reoccupied by a new tenant without any tenant vacancy period. Due to the fact that the leased area was the 3rd and 4th floors and required vertical movement for the transport of goods, and that a competitor's facility in an adjacent area started leasing their space at the same time, the leasing this time around has been considered a challenge. But thanks to our sponsor's strong leasing capability, and as a result of our efforts in carefully and diligently working on the leasing, we successfully found a new tenant, which has handled the ITOCHU group's goods and parcels and has had a relationship with a freight company which is an existing tenant of IMP Noda. I would like to continue emphasizing to investors the ITOCHU Corporation's excellent leasing capability.

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This page describes our efforts of saving operating costs such as insurance premiums and electricity bills. We saved approximately 2.2 million yen in annual electricity bills for the common areas of 2 facilities, Noda and Moriya. Successful cost reduction in the areas occupied by tenants contributed to higher customer satisfaction. This will eventually lead to a higher "tenant stickiness."

In this page, we also would like to touch upon a fund established by ITOCHU Corporation with Mercuria Investment. This fund invests in companies which address next generation logistics businesses involving areas such as robots, material handling and labor saving. We are aware that sponsors of other logistics REITs have also taken similar actions, but ITOCHU's strength is that it has a logistics function within the group, which is a subsidiary ITOCHU Logistics Corp. We believe that this would enable us to put our feet into our users' shoes and identify what services users really need, and to invest in the business with such perspectives in mind. We really hope that current tenants in our facilities as well as our prospective tenants will use and enjoy our services, and the services will cause them to keep staying in our facilities or to decide to move into our properties. Although we haven't made any actual cases yet, we are hoping to form a kind of a fan club of our

properties through these initiatives.

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We would like to walk you through our financial strategy. Our policy is to have long term debts with fixed rates and diversified maturities. We also see to it that an average maturity exceeds 5 years, and we are executing our policy in a steady way. I would like to also mention that we are grateful to have many financial institutions desiring to join our bank formation upon the next PO.

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We also pay close attention to FFO and AFFO which is a source of distribution. We currently have accumulated about 500 million yen of internal reserves and consider using them in the future for various purposes as required, including repair and maintenance of properties, repayment of debts and acquisition of properties. As illustrated in the chart at the bottom on the right showing FFO payout ratio comparisons among logistics REITs, our 70% payout ratio is relatively low. This is because, although having a lot of young buildings in the portfolio, we adopt conservative cash management to prepare for future increase in repair costs. In other words, this is because we intend to provide a steady DPU over the mid to long term. IAL is currently cheaper than other REITs, and especially so in terms of an FFO yield, so hopefully investors will fairly price our value.

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Now, let's take a brief look at a current market. A large supply of 2 million m2 is expected in the Kanto Area in the fiscal year 2019, but supply and demand have been well balanced. One eye-catching incident is that the Ken-O-Expressway Area, which suffered from a high vacancy rate due to oversupply, is now facing a better vacancy rate with less supply. On the other hand, the National Route 16 Area struggled this time due to a large supply. That said, I actually feel that there are still firm needs in the National Route 16 Area.

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E-commerce, which is the key business for our tenants, is growing linearly. It is true that total parcel volume is not increasing due to a declining population in Japan. But, under these circumstances, EC is expanding its share. Also, EC's penetration in Japan is lower compared to overseas countries and is expected to grow further. This is clear evidence that there is a supportive background for IAL to continue to have high occupancy rates.

That's all for the presentation. We believe that our mission remains the same: we need to execute what we have to do to meet your expectations. We will continue to roll up our sleeves and do our best. Thank you very much.

### **Q&A session**

**Q1: Would you share with us basic KPIs when you consider a PO?**

A1: We believe we have to show at least 4% growth of normalized DPU when we acquire properties.

**Q2: You have explained your leasing results for IMP Noda, indicating that you successfully found a new tenant to fill a vacancy by using the ITOCHU group's network. Do you think**

**that the new tenant was selected for securing stable rent, rather than taking rental upside?**

A2: When we started leasing, we tried to get higher rent. But the 2 floors of 4,000 tsubo required a vertical movement of goods and our competitor was also leasing their space at the same time. Given that our AuM is still small, we decided that our priority was to stabilize the NOI and DPU, so finalized a contract with the new tenant whom we expect to be a long term customer.

**Q3: Would you elaborate on the bridge scheme? Do you expect more forward commitment deals in the future because you are ready for bridge schemes?**

A3: Let me stress that we are likely to be able to use bridge schemes under favorable conditions benefitting from good relationship established between ITOCHU Corporation and financial institutions cooperating for establishment of the bridge schemes. As for forward commitment deals, we are practically able to pursue such deal under the Articles of Association. But we have no intention of making a commitment in the year ahead without first formulating any strategies, with respect to a property which, for example, fails to generate stable NOI at the moment.

**Q4: Would you tell us why the tenant left IMP Noda? You stressed the ITOCHU Corporation's leasing expertise throughout your presentation. How did you use their expertise when finding a new tenant for IMP Noda?**

A4: There was an option that the tenant who will leave the facility would renew the contract. But as our current priority is to stabilize the NOI and DPU, we chose a longer contract term over others, and decided to replace the tenant. One of the reasons why the new tenant chose our facility was that they had handled goods and parcels from the ITOCHU group companies, and had a business relationship with the existing tenant at the same facility. Therefore, we expected their retention to be high, which is beneficial for us because stability is very important right now.

**Q5: Do you plan to expand your earnings base by having equity ownership in in bridge schemes?**

A5: We will use funds or leasing companies for bridge schemes on a case-by-case basis. When using a fund for the bridge scheme, we may consider having preferred equity investments in the fund, if it is expected to be profitable, but what we are focusing on right now is to further increase the probability of acquiring properties in the pipeline.

**Q6: What is your plan to further expand your AuM after acquiring properties in the current pipeline? This is necessary to get a higher AuM ranking among logistics REITs, isn't it?**

A6: I keenly believe that we need to get a higher position in the AuM ranking. Our sponsor has also acknowledged that it is important for them to add more properties into the pipeline. That's why ITOCHU Property Development established a specialized team for land acquisition for logistics facilities. We are using various networks to look for opportunities to acquire other assets. Now that we have established a REIT, our ultimate goal to be No.1 hasn't changed.

**Q7: Would you explain once again why ITOCHU Corporation decided on their same-boat investment in IAL?**

A7: ITOCHU Corporation showed their strong will to support IAL as a sponsor when its unit price was cheap, so their intention is not only for returns. I think you could see how committed ITOCHU Corporation is to IAL.

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