

ITOCHU Advance Logistics Investment Corporation
Summary of Financial Results (Unaudited)
For the Fourth Fiscal Period Ended July 31, 2020
(For the Reporting Period from February 1, 2020 to July 31, 2020)
(Translated from the Japanese original)

Corporate Information

Code: 3493 Listing: Tokyo Stock Exchange

(URL: <https://www.ial-reit.com/en/>)

Representative: Junichi Shoji, Executive Director

Asset management company: ITOCHU REIT Management Co., Ltd.

Representative: Junichi Shoji, Representative Director, President & CEO

Inquiries: Keiichi Yoshida, Director & CFO

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Scheduled date to file securities report (Japanese only): October 27, 2020

Scheduled date to commence payment of distributions: October 23, 2020

Preparation of supplementary material on financial results: Yes

Financial report presentation meeting: Yes (for institutional investors and analysts)

(Amounts rounded to the nearest million yen)

1. Financial Results for the Fiscal Period Ended July 2020 (from February 1, 2020 to July 31, 2020)

(1) Operating conditions

(Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal period ended July 2020	2,399	36.4	1,193	42.2	1,047	37.7	1,046	37.8
Fiscal period ended January 2020	1,759	2.4	839	3.6	760	3.7	759	3.7

	Net income per unit	Return on unitholders' equity	Ratio of ordinary income to total assets	Ratio of ordinary income to operating revenues
	(Yen)	%	%	%
Fiscal period ended July 2020	2,161	2.4	1.4	43.6
Fiscal period ended January 2020	2,126	2.1	1.2	43.2

(Note) Net income per unit is calculated by dividing net income by the weighted average number of investment units based on the number of days during the period.

(2) Distributions

	Distributions per unit (excluding surplus cash distribution (SCD))	Total distributions (excluding SCD)	SCD per unit	Total SCD	Distributions per unit (including SCD)	Payout ratio	Distributions-to-net assets ratio
	(Yen)	(Millions of yen)	(Yen)	(Millions of yen)	(Yen)	%	%
Fiscal period ended July 2020	2,138	1,039	287	139	2,425	99.3	2.1
Fiscal period ended January 2020	2,126	759	269	96	2,395	100.0	2.1

(Note 1) Payout ratio = Distributions per unit (excluding SCD) ÷ Net income per unit × 100

As there was the issuance of new investment units during the period, the payout ratio was calculated using the following formula: Payout ratio = Total distributions (excluding SCD) ÷ Net income × 100

(Note 2) The ratio of distributions to net assets was calculated using the following formula:

Distributions per unit (excluding SCD) ÷ [(Net assets per unit at beginning of period + Net assets per unit at end of period) ÷ 2] × 100

(Note 3) Of the entire amount of SCD for the fiscal period ended January 2020, the amount of allowance for temporary difference adjustment is ¥7 million, and return of capital contribution that falls under return of capital distribution under taxation laws is ¥88 million

The entire amount of SCD for the fiscal period ended July 2020 is considered to be a refund of investment, which, for tax purposes, falls under a category of distribution as a reduction in unitholders' capital.

(Note 4) The ratio of (i) reduced retained earnings to (ii) net asset value as of the end of the immediately preceding fiscal period, as a result of SCD (a refund of investment which, for tax purposes, falls under the category of distribution as a reduction in the unitholders' capital), is 0.002 for the fiscal period ended January 2020 and 0.003 for the fiscal period ended July 2020, respectively. The ratio was calculated in accordance with Article 23, Paragraph 1, Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965, as amended).

(3) Financial position

	Total assets	Net assets	Unitholders' equity ratio	Net assets per unit
	(Millions of yen)	(Millions of yen)	%	(Yen)
Fiscal period ended July 2020	88,955	50,728	57.0	104,378
Fiscal period ended January 2020	61,739	36,067	58.4	100,989

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal period ended July 2020	234	(25,479)	25,806	3,098
Fiscal period ended January 2020	1,641	(17)	(1,477)	2,537

2. Forecast of Financial Results for the Fiscal Period Ending January 31, 2021 and the Fiscal Period Ending July 31, 2021

(Percentages represent changes from the previous period)

	Operating revenues		Operating income		Ordinary income		Net income		Distributions per unit (excluding SCD)	SCD per unit	Distributions per unit (including SCD)
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)	(Yen)	(Yen)
Fiscal period ending January 2021	2,456	2.4	1,190	-0.2	1,087	3.9	1,086	3.9	2,236	272	2,508
Fiscal period ending July 2021	2,456	0.0	1,129	-5.1	1,026	-5.6	1,025	-5.6	2,110	310	2,420

(Reference) Expected net income per unit (Forecast net income ÷ Expected number of investment units at end of period) is 2,236 yen for the fiscal period ending January 2021 and 2,110 yen for the fiscal period ending July 2021.

3. Other

(1) Changes in accounting policies, changes in accounting estimates, and retrospective statements

- (a) Changes in accounting policies associated with revision of accounting standards, etc.: None
- (b) Changes in accounting policies associated with other than (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements: None

(2) Total number of investment units issued and outstanding

- (a) Total number of investment units issued and outstanding at the end of the fiscal period (including treasury investment units)
- (b) Total number of treasury investment units at the end of the fiscal period

Fiscal period ended July 2020	486,000	Fiscal period ended January 2020	357,143
Fiscal period ended July 2020	0	Fiscal period ended January 2020	0

Summaries of Financial Results are not audited by a certified public accountant or other independent auditor.

Other special instructions

(Note on forward-looking statements)

Forward-looking statements presented in this document are based on information currently available to ITOCHU Advance Logistics Investment Corporation ("IAL") and on certain assumptions deemed by management to be reasonable. As such, actual operating and other results may differ materially from these forecasts as a consequence of various factors. The above forecast does not guarantee the amount of the distribution.

Assumptions Underlying the Forecast for the Fiscal Periods Ending January 2021 and July 2021

Item	Assumption																																	
Calculation period	<ul style="list-style-type: none"> The fifth fiscal period ending January 2021 (August 1, 2020 to January 31, 2021) (184 days) The sixth fiscal period ending July 2021 (February 1, 2021 to July 31, 2021) (181 days) 																																	
Investment assets	<ul style="list-style-type: none"> It is assumed that, as for the real estate trust beneficiary interests held by IAL as of July 31, 2020 (total of nine (9) properties) (“Currently Owned Assets”), there will be no changes in assets under management (such as acquisition of new properties or disposition of existing properties) until the end of the fiscal period Despite the assumption above, however, there may be changes in assets under management due to acquisition of new properties or disposition of existing properties. 																																	
Operating revenues	<ul style="list-style-type: none"> Forecasted leasing business revenues were calculated taking into consideration the content of lease agreements for the Currently Owned Assets effective as of July 31, 2020, as well as tenant and market trends, among other things. It is assumed that no rent defaults or unpaid leases on the part of tenants will occur during the period of these forecasts. These forecasts are made based on the assumptions that there will be no profit or loss from the sale of real estate or other assets. 																																	
Operating expenses	<ul style="list-style-type: none"> Main items included under operating expenses are as follows: (Millions of yen) <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Fiscal period ending January 2021</th> <th style="text-align: center;">Fiscal period ending July 2021</th> </tr> </thead> <tbody> <tr> <td>Expenses related to rent business</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Facility management expenses</td> <td style="text-align: center;">27</td> <td style="text-align: center;">25</td> </tr> <tr> <td style="padding-left: 20px;">Property management contract expenses</td> <td style="text-align: center;">12</td> <td style="text-align: center;">12</td> </tr> <tr> <td style="padding-left: 20px;">Utility expenses</td> <td style="text-align: center;">29</td> <td style="text-align: center;">28</td> </tr> <tr> <td style="padding-left: 20px;">Repair expenses</td> <td style="text-align: center;">7</td> <td style="text-align: center;">11</td> </tr> <tr> <td style="padding-left: 20px;">Taxes and public dues</td> <td style="text-align: center;">162</td> <td style="text-align: center;">238</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation costs</td> <td style="text-align: center;">654</td> <td style="text-align: center;">654</td> </tr> <tr> <td>General and administrative expenses</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Asset management fees</td> <td style="text-align: center;">295</td> <td style="text-align: center;">273</td> </tr> <tr> <td style="padding-left: 20px;">Sponsor support agreement expenses</td> <td style="text-align: center;">16</td> <td style="text-align: center;">16</td> </tr> </tbody> </table> <ul style="list-style-type: none"> With the exception of depreciation costs, the forecast of real estate leasing business expenses, which are to be IAL’s main operating expenses, were calculated taking into consideration variable factors of expenses based on historical data. Although the amount of fixed property tax and city planning tax in a transaction of real estate, etc., is generally calculated on a pro-rata basis based on the relevant period, and settled at the time of acquisition with the current owner, IAL includes such amount in the cost of acquisition and does not recognize it as expense. Fixed property tax and city planning tax on assets acquired on February 3, 2020 and April 1, 2020 will be recognized as expense from fiscal period ending July 2021. For such Assets to be Acquired, total amount of the fixed property tax and city planning tax to be added to the cost, is estimated at ¥76 million. Forecast repair expenses for buildings were estimated based on medium- to long-term repair plans developed by IRM. Repair expenses could suddenly increase, however, due to property damage caused by factors that are difficult to predict. Furthermore, repair expenses generally differ in amount over a fiscal year and are not incurred at regular intervals. Due to these and other factors, the forecast amounts of repair expenses may differ substantially from results. Forecast depreciation costs were calculated using the straight-line method, and include ancillary and other expenses. 		Fiscal period ending January 2021	Fiscal period ending July 2021	Expenses related to rent business			Facility management expenses	27	25	Property management contract expenses	12	12	Utility expenses	29	28	Repair expenses	7	11	Taxes and public dues	162	238	Depreciation costs	654	654	General and administrative expenses			Asset management fees	295	273	Sponsor support agreement expenses	16	16
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Item	Assumption
Non-operating expenses	<ul style="list-style-type: none"> The forecast of non-operating expenses is ¥106 million in the fiscal period ending January 2021, and ¥103 million in the fiscal period ending July 2021. It is expected that interest expenses and other borrowing-related expenses will be ¥103 million for the fiscal period ending January 2021 and ¥100 million for the fiscal period ending July 2021.
Interest-bearing debt	<ul style="list-style-type: none"> It is assumed that total interest-bearing debt will amount to ¥34,640 million at the end of the fiscal periods ending January 2021 and July 2021. It is assumed that ¥1,513 million in consumption tax loans related to properties acquired in February and April 2020 will be repaid in the fiscal period ending January 2021 with a pending consumption tax refund for said fiscal period. The loan-to-value (LTV) ratio is expected to be around 39.6% at the end of the fiscal period ending January 2021, and 39.6% at the end of the fiscal period ending July 2021. The LTV ratio is calculated by the following formula: LTV = total interest-bearing debt ÷ total assets × 100
Total number of investment units outstanding	<ul style="list-style-type: none"> It is assumed that the total number of investment units issued and outstanding as of the date hereof (i.e., 486,000 units) remains the same until the end of the period ending July 2021. Distributions per unit (excluding SCD) and SCD per unit were calculated based on the expected total number of investment units issued and outstanding at the end of the fiscal period ending January 2021 and at the end of the fiscal period ending July 2021 (i.e., 486,000 units).
Distributions per unit (excluding SCD)	<ul style="list-style-type: none"> The forecast distributions per unit (excluding SCD) was calculated according to IAL's distribution policy described in its Articles of Incorporation, assuming that the entire amount of profits will be distributed. Despite the above, actual distributions per unit (excluding SCD) may differ for a variety of reasons, such as changes in assets under management, fluctuations in leasing business revenues due to tenant movements or other factors, or unforeseen events requiring repairs and maintenance.
SCD per unit	<ul style="list-style-type: none"> SCD per unit was calculated based on the policies stipulated in IAL's Articles of Incorporation and the asset management guidelines contained in the internal rules of IRM. Total SCD are estimated at ¥132 million in the fiscal period ending January 2021, and ¥150 million in the fiscal period ending July 2021. It is assumed that general economic conditions, trends in the real estate market in Japan, and IAL's financial position will not deteriorate substantially during the periods of these forecasts. In principle, IAL plans to pay SCD every fiscal period, and aims to set the total amount of distributions including SCD at an amount equivalent to 70% of funds from operations (FFO). SCD to be distributed in each successive fiscal period, however, shall be capped at an amount equivalent to 30% of depreciation costs in the applicable fiscal period. In addition to the payment of SCD each successive fiscal period, additional SCD may be paid in order to even out the amount of distributions per unit if such distributions are expected to be temporarily reduced at a significant rate due to funds procurement through the issuance of new investment units or other factors. IAL may decide against distributing cash distributions in excess of realizable amounts if it deems such distributions to be unwise in light of economic conditions, trends in Japan's real estate and leasing markets, or the status of its property portfolio and financial position. If appraised LTV (Note) is expected to exceed 60% after cash distribution, IAL does not distribute SCD in order to ensure stable finances. (Note) Appraised LTV = A/B × 100 A = Total interest-bearing debt as of the closing date of the applicable fiscal period B = Total assets on the balance sheet as of the closing date of the applicable fiscal period – amount of book value of owned real estate after depreciation, as of the closing date of the applicable fiscal period + appraised value of owned real estate as of the closing date of the applicable fiscal period
Other	<ul style="list-style-type: none"> Financial calculations and operating forecasts are based on the assumption that there will be no changes in legislation, taxation, accounting standards, regulations imposed on publicly listed companies by the Tokyo Stock Exchange, or rules or requirements imposed by the Investment Trusts Association, Japan, in any way that would impact the aforementioned forecasts. Financial calculations and operating forecasts are also based on the assumption that there will be no substantial changes in general economic and real estate market conditions in Japan.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Thousands of yen)

	3rd fiscal period (as of January 31, 2020)	4th fiscal period (as of July 31, 2020)
Assets		
Current assets		
Cash and deposits	1,196,051	1,233,358
Cash and deposits in trust	2,270,747	3,050,151
Operating accounts receivable	62,873	60,980
Accounts receivable - other	330	—
Consumption taxes receivable	—	1,439,041
Prepaid expenses	33,502	47,426
Other	—	1
Total current assets	3,563,503	5,830,960
Non-current assets		
Property, plant and equipment		
Buildings in trust	34,916,922	49,331,346
Accumulated depreciation	(1,112,548)	(1,677,956)
Buildings in trust, net	33,804,374	47,653,390
Structures in trust	1,235,508	1,752,077
Accumulated depreciation	(89,701)	(135,774)
Structures in trust, net	1,145,807	1,616,302
Machinery and equipment in trust	1,005,404	1,405,699
Accumulated depreciation	(53,156)	(79,439)
Machinery and equipment in trust, net	952,248	1,326,260
Tools, furniture and fixtures in trust	1,751	2,084
Accumulated depreciation	(171)	(323)
Tools, furniture and fixtures in trust, net	1,579	1,760
Land in trust	22,128,070	32,344,067
Total property, plant and equipment	58,032,080	82,941,782
Intangible assets		
Software	4,219	3,662
Total intangible assets	4,219	3,662
Investments and other assets		
Leasehold and guarantee deposits	10,000	10,000
Long-term prepaid expenses	117,749	157,618
Deferred tax assets	15	12
Total investments and other assets	127,764	167,630
Total non-current assets	58,164,064	83,113,074
Deferred assets		
Investment corporation bond issuance expenses	12,338	11,061
Total deferred assets	12,338	11,061
Total assets	61,739,906	88,955,097

(Thousands of yen)

	3rd fiscal period (as of January 31, 2020)	4th fiscal period (as of July 31, 2020)
Liabilities		
Current liabilities		
Operating accounts payable	91,669	16,672
Short-term loans payable	—	1,513,000
Accounts payable - other	7,822	75,008
Accrued expenses	238,948	341,586
Income taxes payable	914	863
Consumption taxes payable	133,923	—
Advances received	319,158	448,662
Other	10,314	4,020
Total current liabilities	802,751	2,399,813
Non-current liabilities		
Investment corporation bonds	1,500,000	1,500,000
Long-term loans payable	22,440,000	33,140,000
Tenant leasehold and security deposits in trust	929,553	1,184,544
Other	—	2,697
Total non-current liabilities	24,869,553	35,827,242
Total liabilities	25,672,305	38,227,055
Net assets		
Unitholders' equity		
Unitholders' capital	35,498,833	49,968,443
Deductions from unitholders' capital		
Allowance for temporary difference adjustments	—	(7,142)
Other deductions from unitholders' capital	(190,714)	(279,642)
Total deductions from unitholders' capital	(190,714)	(286,785)
Unitholders' capital, net	35,308,119	49,681,657
Surplus		
Unappropriated retained earnings (undisposed loss)	759,482	1,046,383
Total surplus	759,482	1,046,383
Total unitholders' equity	36,067,601	50,728,041
Total net assets	36,067,601	50,728,041
Total liabilities and net assets	61,739,906	88,955,097

(2) Consolidated Statement of Income

(Thousands of yen)

	3rd fiscal period (from August 1, 2019 to January 31, 2020)	4th fiscal period (From February 1, 2020 to July 31, 2020)
Operating revenues		
Leasing business revenues	1,730,922	2,366,156
Other leasing business revenues	28,766	33,514
Total operating revenues	1,759,688	2,399,671
Operating expenses		
Expenses related to rent business	683,445	877,123
Asset management fees	201,362	278,081
Asset custody fee and Administrative service fees	6,038	9,455
Directors' compensations	2,640	2,640
Other operating expenses	26,998	38,745
Total operating expenses	920,484	1,206,045
Operating income	839,204	1,193,626
Non-operating income		
Interest income	15	15
Interest on tax refund	75	—
Subsidy income	330	—
Total non-operating income	421	15
Non-operating expenses		
Interest expenses	63,189	78,571
Interest expenses on investment corporation bonds	—	2,225
Investment unit issuance expenses	—	20,687
Amortization of investment corporation bond issuance expenses	425	1,276
Borrowing related expenses	13,232	27,736
Other	2,511	16,088
Total non-operating expenses	79,359	146,586
Ordinary income	760,266	1,047,055
Income before income taxes	760,266	1,047,055
Income taxes - current	916	865
Income taxes - deferred	(1)	2
Total income taxes	915	868
Net income	759,350	1,046,187
Retained earnings brought forward	131	196
Unappropriated retained earnings (undisposed loss)	759,482	1,046,383

(3) Consolidated Statement of Unitholders' Equity

Third fiscal period (from August 1, 2019 to January 31, 2020)

	Unitholders' equity		
	Unitholders' capital		
	Unitholders' capital	Deductions from unitholders' capital	Unitholders' capital, net
Balance at beginning of current period	35,498,833	(97,500)	35,401,333
Changes of items during period			
Surplus cash distribution		(93,214)	(93,214)
Distributions of retained earnings			
Net income			
Total changes of items during period	-	(93,214)	(93,214)
Balance at end of current period	35,498,833	(190,714)	35,308,119

	Unitholders' equity			Total net assets
	Surplus		Total unitholders' equity	
	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	732,274	732,274	36,133,608	36,133,608
Changes of items during period				
Surplus cash distribution			(93,214)	(93,214)
Distributions of retained earnings	(732,143)	(732,143)	(732,143)	(732,143)
Net income	759,350	759,350	759,350	759,350
Total changes of items during period	27,207	27,207	(66,006)	(66,006)
Balance at end of current period	759,482	759,482	36,067,601	36,067,601

Fourth fiscal period (from February 1, 2020 to July 31, 2020)

(Thousands of yen)

	Unitholders' equity				
	Unitholders' capital				
	Unitholders' capital	Deductions from unitholders' capital			Unitholders' capital, net
		Allowance for temporary difference adjustments	Other deductions from unitholders' capital	Total deductions from unitholders' capital	
Balance at beginning of current period	35,498,833	—	(190,714)	(190,714)	35,308,119
Changes of items during period					
Issuance of new investment units	14,469,610				14,469,610
SCD from allowance for temporary difference adjustments		(7,142)		(7,142)	(7,142)
SCD from other sources			(88,928)	(88,928)	(88,928)
Distributions of retained earnings					
Net income					
Total changes of items during period	14,469,610	(7,142)	(88,928)	(96,071)	14,373,538
Balance at end of current period	49,968,443	(7,142)	(279,642)	(286,785)	49,681,657

	Unitholders' equity			Total net assets
	Surplus		Total unitholders' equity	
	Unappropriated retained earnings (undisposed loss)	Total surplus		
Balance at beginning of current period	759,482	759,482	36,067,601	36,067,601
Changes of items during period				
Issuance of new investment units			14,469,610	14,469,610
SCD from allowance for temporary difference adjustments			(7,142)	(7,142)
SCD from other sources			(88,928)	(88,928)
Distributions of retained earnings	(759,286)	(759,286)	(759,286)	(759,286)
Net income	1,046,187	1,046,187	1,046,187	1,046,187
Total changes of items during period	286,901	286,901	14,660,439	14,660,439
Balance at end of current period	1,046,383	1,046,383	50,728,041	50,728,041

(5) Consolidated Statement of Cash Flows

(Thousands of yen)

	3rd fiscal period (from August 1, 2019 to January 31, 2020)	4th fiscal period (from February 1, 2020 to July 31, 2020)
Cash flows from operating activities		
Profit before income taxes	760,266	1,047,055
Depreciation costs	463,069	638,473
Investment unit issuance expenses	—	20,687
Amortization of investment corporation bond issuance expenses	425	1,276
Interest income	(15)	(15)
Interest expenses	63,189	78,571
Decrease (increase) in operating accounts receivable	6,073	1,893
Decrease (increase) in consumption taxes refund receivable	156,796	(1,439,041)
Decrease (increase) in prepaid expenses	5,262	(13,924)
Decrease (increase) in long-term prepaid expenses	17,486	(39,868)
Increase (decrease) in operating accounts payable	73,620	(75,363)
Increase (decrease) in accounts payable - other	(902)	(811)
Increase (decrease) in accrued expenses	13,078	98,246
Increase (decrease) in consumption taxes payable	133,923	(133,923)
Increase (decrease) in advances received	5,783	129,503
Other	7,329	(3,601)
Subtotal	1,705,387	309,158
Interest income received	15	15
Interest expenses paid	(62,572)	(74,180)
Income taxes paid	(893)	(916)
Net cash provided by operating activities	1,641,936	234,076
Cash flows from investing activities		
Purchase of property, plant and equipment in trust	(17,014)	(25,479,253)
Net cash used in investing activities	(17,014)	(25,479,253)
Cash flows from financing activities		
Increase in short-term loans payable	1,500,000	1,513,000
Repayments of short-term loans payable	(3,640,000)	—
Proceeds from long-term loans payable	—	10,700,000
Proceeds from issuance of investment corporation bonds	1,487,236	—
Proceeds from issuance of investment units	—	14,448,922
Distributions paid	(824,336)	(855,024)
Net cash provided by (used in) financing activities	(1,477,100)	25,806,897
Net increase (decrease) in cash and cash equivalents	147,822	561,721
Cash and cash equivalents at beginning of period	2,389,422	2,537,244
Cash and cash equivalents at end of period	2,537,244	3,098,966