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To Whom It May Concern

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Notice Concerning Revision to Earnings Forecasts from Extraordinary Loss

Based on the Board of Directors' meeting held on February 13, 2020, Arealink has made the decision to revise its earnings forecasts announced on July 25, 2019 as shown below.

1. Revised Earnings Forecasts

Revised earnings forecasts for the fiscal year ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(Millions of yen except for per share figures and percentage changes)

	Net Sales	Operating Profit	Ordinary Income	Net Income	Net Income per Share
Previous Forecast (A)	29,000	2,800	2,700	1,500	118.76 yen
Revised Forecast (B)	29,333	3,030	3,000	(1,753)	(138.81) yen
Net Change (B-A)	333	230	300	(3,253)	—
Percentage Change (%)	1.1	8.2	11.1	—	—
(Reference) Previous term results (year ended December 31, 2018)	28,828	2,782	2,536	1,810	145.47 yen

2. Reason for the Revisions

The Company expects to record a total extraordinary loss of approximately ¥5.9 billion, including recording a provision for repurchase loss of ¥5.0 billion due to the possibility of purchasing back from customer’s containers sold by the Company. As a result, net income has been revised from a profit of ¥1,500 million to a loss of ¥1,753 million.

On the other hand, the earnings forecast has been revised due to a net sales increase of ¥333 million from the previous forecast to ¥29,333 million, an operating profit increase of ¥230 million to ¥3,030 million, and an increase in ordinary income by ¥300 million to ¥3,000 million based on steady progress in both the Property Management Service business and the Property Revitalization & Liquidation Service business.

3. Provision for Repurchase Loss

Regarding containers which are sold to customers and are operated as rental self-storage, it is more typical to depreciate the units as “containers” under “Furniture and Fixtures,” on the chart of the useful life of the assets under Japanese Tax Regulations. However, in the first half of the 2019 fiscal year, there has been a case where tax authorities indicated corrections to customer who bought containers from the Company, that with respect to containers for which building confirmation applications were made, our customer should apply useful life as the “Buildings” rather than the “Furniture and Fixtures” basis. Useful life as “Building” is usually much more longer than “Furniture and Fixtures”. Also, even after the case, there have been several cases of customers receiving the same type of comment and having made revised tax returns voluntarily. Arealink had regarded such an indication as a limited, separate and temporary matter based on opinions from tax and legal firms. However, we received a request from tax authority to provide information about the state of selling containers for which there have been applications for building confirmation in relating to our customers depreciating containers for which there are applications for building confirmation as “Furniture and Fixtures.” That made us expect that customers will have this pointed out to them by the authorities will likely increase in the future.

For Arealink, applications for building confirmation are just intended to ensure the safety of storage by containers. It is not anticipated that the useful life of containers for tax purposes will change. Whether the treatment of such containers as “buildings” in the useful life chart is an appropriate and suitable interpretation or not, we believe that, given the opinions of several tax and legal firms, there is plenty of room for discussion and we will continue to actively discuss this matter with the tax authorities.

However, regardless of our future efforts, we may need to take long time until conclusion with tax authority. There may be customers who receive notice from the tax authorities to this effect before that conclusion. In that case, we expect there to be a certain amount of cases where customers who have purchased containers from us on the assumption that they can be depreciated as “Furniture and Fixtures,” desire for us to buy the container(s) back because they have lost one of the major merits of the product. Because of this, we decided at today’s Board of Director’s meeting to respond honestly and sincerely in accordance with relevant laws and regulations, including the possibility that we may purchase containers owned by customers. By operating company-held containers, we can improve profitability in our storage operations, and so we have started a shift away from the business model of selling containers to customers, renting them back, and operating them, to a company-held type business model. Therefore, the purchase of containers owned by our customers is in line with our management policy.

As we have established a policy that includes the possibility of purchasing containers from customers, there will be a temporary loss in the fiscal year ending December 31, 2019 as described below. However, when containers are company-held and operated as Hello Storage, there are no rental fees to be paid to the owners of containers, and only the depreciation of the container and some maintenance costs are required. Because of this we expect that profit from operating storage units will increase, which will greatly contribute to improving the long-term profitability of the Company.

Based on the above response to tax authority and our policy to customers, which includes the purchase of containers, when we purchase containers for which building confirmation has been applied, our basic policy is to purchase containers at an amount that allows customers to recover the amounts invested, and the total amount needed to cover these costs is estimated to be approximately ¥13.1 billion if we purchased all containers that have received building confirmation. However, the book value of a container when it is deemed to be an asset is the value after deducting the amount equivalent to depreciation (including an amount reflecting an amount difficult to recover for some low performing units), assuming that the container has been held from the start of its installation. Since that amount is estimated to be ¥8.0 billion, the difference between the purchase price and the accepted value of the assets is ¥5.0 billion. We will record an extraordinary loss of ¥5 billion, which is the difference between the purchase price and the accepted value of the assets.

Due to posting an extraordinary loss that includes the results of the above process, net income for the fiscal year ending December 31, 2019 is expected to result in a net loss. However, the Capital to Assets Ratio is expected to be approximately 38%, and as such will not have a significant impact on the Company's financial position. Furthermore, in the event that all containers with building confirmation are purchased, we believe it will greatly contribute to improving profitability and growth of the Company over the medium- to long-term due to there being a benefit to pushing up operating profit by ¥1 billion each year.

The Company has set its management policy to be a "Company with profits from its storage management at its core," and aims to boost profits across the Company by improving profitability in every way at every site. At the same time, moving to a model of company-held container storage units will greatly contribute to improving profitability, and is expected to lead to stable operation of our business from the year ending December 31, 2020.

We will continue to build a sincere relationship with our customers while keeping a close eye on developments with the tax authorities.