



Merger of MIRAI Corporation and Sakura Sogo REIT Investment Corporation

Execution of Memorandum of Understanding

- Supplementary Material for the Press Release

Dated July 19, 2019 -

MIRAI Corporation
Security Code: 3476

AM Company: Mitsui Bussan & IDERA Partners Co., Ltd.
<http://3476.jp/en>

Sakura Sogo REIT Investment Corporation
Security Code: 3473

AM Company: Sakura Real Estate Funds Management, Inc.
<http://sakurasogoreit.com/en>

- MIRAI Corporation (hereinafter “MIRAI”) and Sakura Sogo REIT Investment Corporation (hereinafter “Sakura” and together with MIRAI Corporation sometimes collectively referred to as “Investment Corporations”) concluded a memorandum of understanding on the merger of Investment Corporations (hereinafter the “Merger”) today. The Merger will create various synergies. The Investment Corporations consider that the Merger should strengthen the governance and further growth of the entire REIT industry
- Under the “deemed approval system,” which is REIT-specific, unitholders absent from a shareholder meeting without exercising their voting rights are considered to favor all proposals presented at the meeting. This could cause a situation where the will of unitholders may not be necessarily reflected in the consensus even when some unitholders present proposals which could have a conflict of interest
- MIRAI and Sakura herein present our counterproposal against Star Asia Group proposal so that Sakura unitholders can have a clear and tangible option. We would like our unitholders to exercise your rights after deliberating which proposal should serve for continued growth of Investment Corporations and maximizing the value of your investment

1 Provide MIRAI and Sakura unitholders a tangible option to improve unitholder value

- Sakura unitholders will have a tangible option by MIRAI making a “counter offer” to Star Asia while MIRAI unitholders can enjoy additional growth opportunity
- The Merger is expected to deliver enhanced earnings and distributions per unit

2 Strong support from dual sponsors, Mitsui & Co. and IDERA Capital. Experienced management who will be focused on maximizing unitholders’ value.

- After the Merger, Mitsui Bussan & IDERA Partners will be the sole management of MIRAI. Sakura Real Estate Funds, and Galileo Group, a sponsor of Sakura will withdraw from those roles
- Achieve medium and long-term improvement in unitholders’ value based on a strong financial base and governance structure aiming to maximize the benefits of unitholders

3 A quality, diversified REIT focusing on office buildings in the Tokyo area

- A portfolio with stability and growth potential, comprised largely of office buildings in the Tokyo area with stable demand and high profitability potential
- The ratio of offices in Tokyo area is expected to be 46.9% ^(Note 1) after the Merger
- Enhanced diversification by asset and tenant type

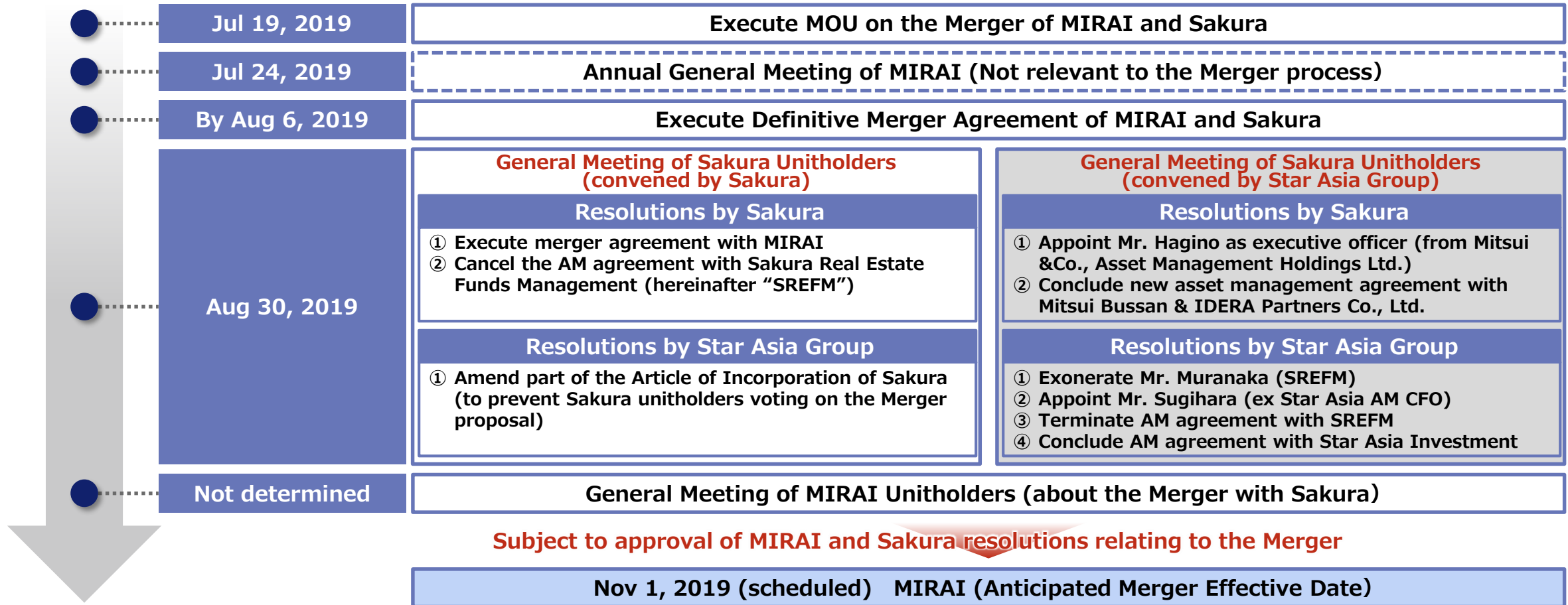
4 Improve the market presence by expanding AUM and improving liquidity through the Merger

- AUM after the Merger is expected to be 200.7 billion yen ^(Note 1), enhancing the presence in the REIT market
- The market capitalization after the Merger is anticipated to be 112.0 billion yen ^(Note 2) which should result in enhanced liquidity, increased demand from institutional investors and potential inclusion in FTSE EPRA/NAREIT Global Real Estate index.
- These factors should result in a lower cost of capital and enhanced growth prospects for MIRAI post Merger

Indicative Timetable for Merger Implementation

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As of July 19, 2019, two respective general meetings of unitholders are scheduled to be held by Sakura and Star Asia Group on the same day. The Merger requires an extraordinary resolution (two-thirds or more) at the general meeting of unitholders of each investment corporation



Note: The above timeline and described propositions at the general meetings of unitholders scheduled on August 30, 2019 are tentative as of the date of this presentation and subject to change. For further details of the general meetings of unitholders, please refer to the convocation notice and reference materials issued for the respective general meetings of unitholders.



Rationale of the Merger

- Enhance the positioning in the REIT market
- Provide a great opportunity to achieve the expanded mid-term management plan “Repower 2020-ER” earlier than expected



- Receipt of a hostile takeover proposal from Star Asia Group
- Limited external growth opportunities than originally planned and higher financing cost

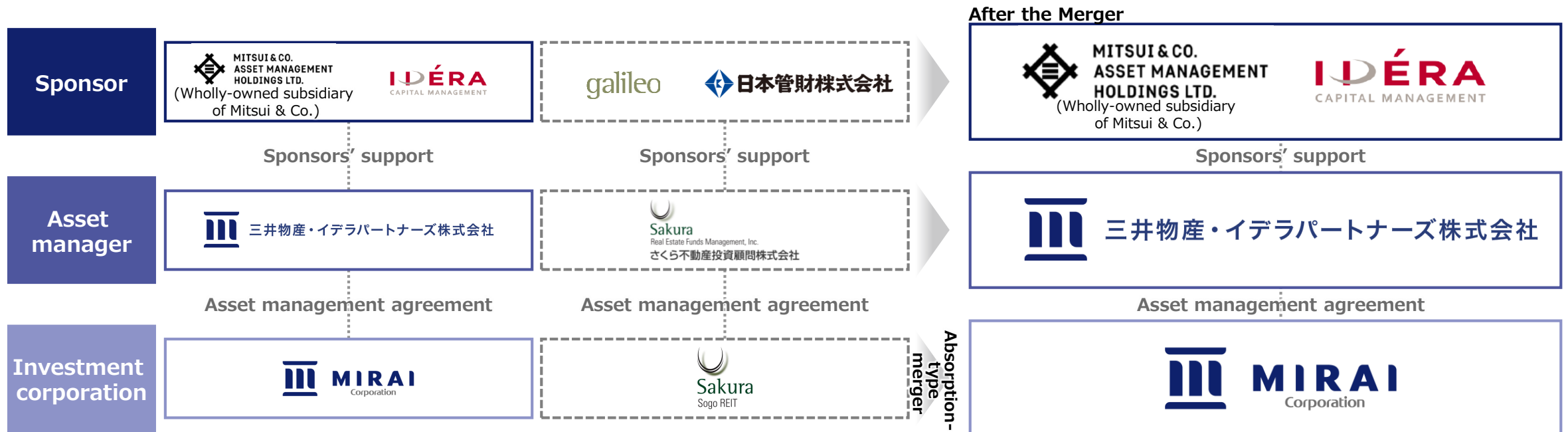
Benefits from the Merger

- Improvement in liquidity by increasing market capitalization
- Enhancement of earnings stability through further risk diversification
- Acquisition of real estate portfolio focusing on the Tokyo area and office
- Expansion of growth potential by improving valuation
- More flexible management by expanding AUM and promoting diversification
- Enhancement of cost reduction effects including lower cost of capital and governance structure backed by Mitsui & Co.'s high creditworthiness
- Room for increasing growth potential through increasing scale

Merger Scheme (Investment Corporation)

Merger method	Absorption-type merger with MIRAI being the surviving entity and Sakura being the absorbed entity after the Merger	Resolution of the general meeting of unitholders	Subject to approval of the proposal relating to the merger agreement at the general meeting of unitholders of each investment corporation (extraordinary resolution ^(Note)) (The Merger is condition on the approvals at the general meetings of unitholders of both MIRAI and Sakura)
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Overview of the Merger



Note: The approval based on the extraordinary resolution requires the attendance of unitholders holding a majority of the outstanding investment units at the general meeting of unitholders and a two thirds (2/3) or more affirmative votes of the voting rights held by such unitholders in attendance. The deemed agreement system shall be applied if no conflicting proposal is submitted.

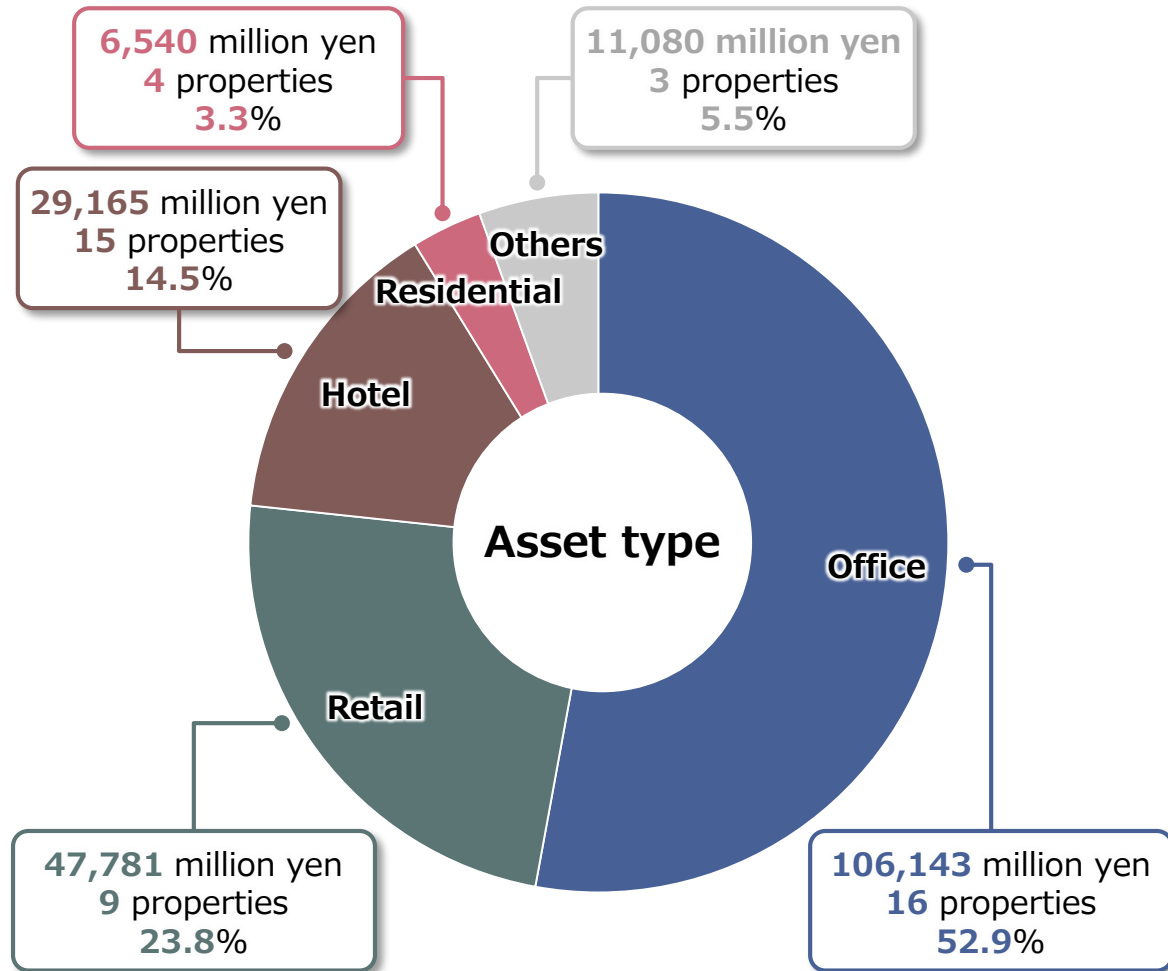
Overview of Investment Corporation after Merger

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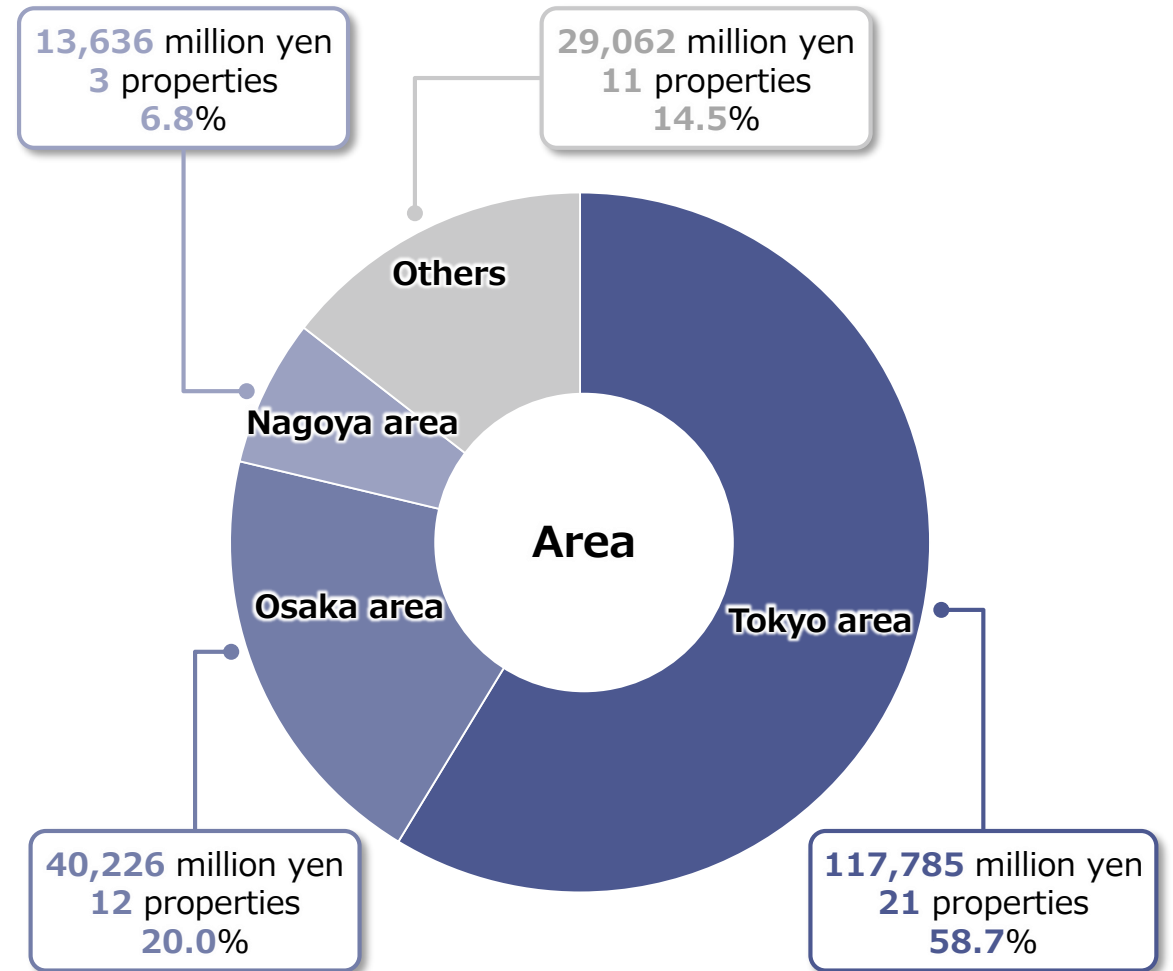
		MIRAI (Note 1)		Sakura (Note 1)		MIRAI (after the Merger) (Note 2)
Portfolio	AUM (Based on acquisition price)	143,129 million yen	+	57,580 million yen	➡	200,709 million yen
	Number of properties	29	+	18	➡	47
	Total assets (As of the end of fiscal period)	152,493 million yen	+	61,643 million yen	➡	214,137 million yen
	Appraisal NOI yield (Note 3)	5.0%	+	5.1%	➡	5.1%
	Average property age	20.5 years	+	22.6 years	➡	21.1 years
	Occupancy rate (Note 4)	99.5%	+	97.5%	➡	98.9%
Financials	Interest-bearing debt	74,700 million yen	+	29,200 million yen	➡	103,900 million yen
	Rating	A+ (Positive) (JCR) A (Stable) (R&I)	+	➡		A+ (Positive) (JCR) / A (Stable) (R&I)
MIRAI						Sakura
						
Shinjuku Eastside Square (Shinjuku-ku, Tokyo)		Shinagawa Seaside Parktower (Shinagawa-ku, Tokyo)	Tokyo Front Terrace (Shinagawa-ku, Tokyo)	Shibuya World East Building (Shibuya-ku, Tokyo)	Hotel Wing International Select Ueno/Okachimachi (Taito-ku, Tokyo)	Takadanobaba Access (Shinjuku-ku, Tokyo)
						
						Seishin BLDG. (Shinjuku-ku, Tokyo)
						
						The Portal Akihabara (Chiyoda-ku, Tokyo)
						
						NK BLDG. (Chiyoda-ku, Tokyo)

Note 1 : Figures for the fiscal period ended April 2019 and as of June 28, 2019 of MIRAI and the fiscal period ended December 2018 and as of June 28, 2019 of Sakura are presented, respectively.
 Note 2 : AUM and total assets are the simple sum of the assets held by MIRAI and Sakura (excluding assets to be disposed), and do not take into account the revaluation accompanying the Merger.
 Note 3 : Appraisal NOI yield of MIRAI (after the Merger) is calculated based on a weighted average of acquisition prices.
 Note 4 : As of the end of May 2019. Occupancy rate of MIRAI (after the Merger) is calculated based on a weighted average of acquisition prices.

Asset type



Area diversification



Post Merger Management Structure Aiming to Maximize Value and Unitholders' Interests

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After the Merger, the management policy on governance for Sakura unitholders will reflect following three aspects.

Aiming to maximize value and unitholders' interests

Management system	<ul style="list-style-type: none">MIRAI's executive director will replace Sakura's executive director if approved at by unitholders on August 30, 2019Major unitholder, director structure, etc. of MIRAI after the Merger will remain unchanged, with investment, management or director involvement by SREFM or Galileo
Handling of merger fee	<ul style="list-style-type: none">Sakura's Articles of Incorporation specify that even if Sakura becomes an absorbed corporation, merger fee shall be paid; SREFM has agreed to waive this fee to support successful implementation of this proposalMIRAI will pay the merger fee stipulated in its Articles of Incorporation (up to 1% of appraisal value on the effective date) to the Asset Management Company, and the amount will be disclosed in presentation materials, etc.
Clarification of cost burden	<ul style="list-style-type: none">MIRAI and Mitsui Bussan & IDERA Partners determine cost burden of the Investment Corporation and the Asset Manager on the basis of burden classification stipulated in the asset management agreementAlthough it depends on the policy and each business agreement, Mitsui Bussan & IDERA Partners confirm that all costs associated with planned acquisition that is not completed will be the burden of the Asset Manager and not the Investment Corporation

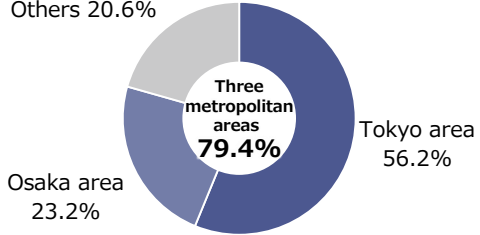
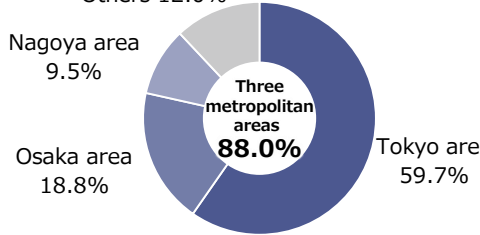
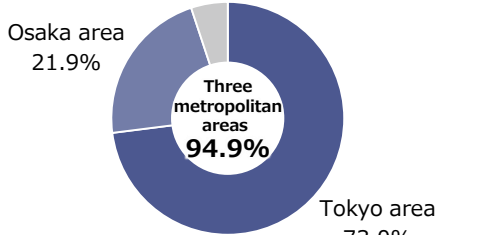
Future management policy

MIRAI aims to achieve quantitative targets, such as maintaining and improving DPU and reducing risk premium, towards achieving the expanded mid-term management plan "Repower 2020-ER" announced in December 2018

Repower 2020 (June 2017)	Stabilized DPU 1,425 yen or more	Achieved
	Top 3 assets Up to 40%	Achieved
	NOI yield after depreciation 4.0% or more	Achieved
	LTV Up to 45%	Move forward
Repower 2020-ER (December 2018)	AUM 200 billion yen or more	Expected to achieve
Effects of the above	Higher credit rating Included in global index	Move forward

Comparison with Star Asia REIT ① Property Metrics

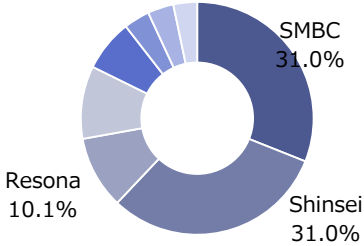
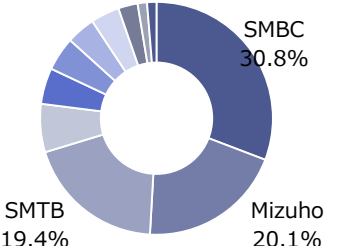
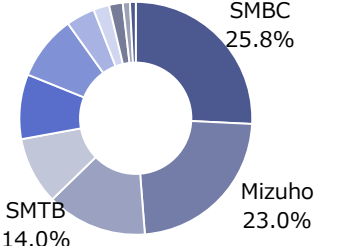
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	Sakura (Note 1)	MIRAI (Note 1)	Star Asia (Note 1)
Area diversification	 <p>Others 20.6%</p> <p>Three metropolitan areas 79.4%</p> <p>Tokyo area 56.2%</p> <p>Osaka area 23.2%</p>	 <p>Others 12.0%</p> <p>Three metropolitan areas 88.0%</p> <p>Tokyo area 59.7%</p> <p>Osaka area 18.8%</p> <p>Nagoya area 9.5%</p>	 <p>Others 5.1%</p> <p>Three metropolitan areas 94.9%</p> <p>Tokyo area 73.0%</p> <p>Osaka area 21.9%</p>
Tokyo area office ratio	45.4%	<u>47.5%</u>	18.4%
AUM (Based on acquisition price)	57,580 million yen	<u>143,129 million yen</u>	102,315 million yen
Appraisal value	60,901 million yen	151,554 million yen	111,375 million yen
Total amount of acquisition price after listing	3,100 million yen	<u>56,037 million yen</u>	48,420 million yen
Actual NOI yield / Actual NOI yield after depreciation (Based on acquisition price)	5.5%/4.6%	4.9%/4.1%	4.9%/4.1%
Tenant diversification (Top 10 ratio based on rent)	Not disclosed	43.5%	Not disclosed
Occupancy rate (Note 2)	97.5%	<u>99.5%</u>	98.1%
Average property age (Weighted averages based on acquisition price)	22.6 years	20.5 years	20.6 years

Note 1 : Figures for the fiscal period ended April 2019 and as of June 28, 2019 of MIRAI, the fiscal period ended December 2018 and as of June 28, 2019 of Sakura and the fiscal year ended January 2019 of Star Asia Investment Corporation are presented, respectively.
 Note 2 : Occupancy rate of MIRAI and Sakura are as of the end of May 2019.













Comparison with Star Asia REIT ② Financial Metrics

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	Sakura (Note 1)	MIRAI (Note 1)	Star Asia (Note 1)
			
Ratio of loans from the 3 mega banks + related trust banks + government-affiliated (DBJ)	34.2%	81.9%	67.6%
Commitment line	-	3.0 billion yen	-
LTV based on total assets	44.8%	49.0%	47.1%
Financing cost (interest rate)	0.83%	0.53%	0.57%
Average remaining maturity	4.3 years	7.2 years	4.0 years
Fixed interest debt ratio (Note 2)	76.4%	100.0%	83.3%
Rating	-	JCR : A+ (Positive) R&I : A (Stable)	-
Expense ratio (based on total assets)	0.81%	0.57%	0.62%
Unit price fluctuation (Closing price on the day of listing vs 2019/5/10)	9.2%	15.8%	10.4%
Average trading value (2018/5/11~2019/5/10)	69 million yen	466 million yen	182 million yen

Note 1 : These figures are based on IR presentation materials of MIRAI for the fiscal period ended April 2019, Sakura for the fiscal period ended December 2018, and Star Asia Real Estate Investment Corporation for the fiscal period ended January 2019, respectively.

Note 2 : Figures represent floating-rate borrowings, including those with interest rate swap agreements.

	MIRAI	Star Asia
Disclosure	<ul style="list-style-type: none"> Established the mid-term management plan "Repower 2020" in June 2017 Actively disclose IR information via streaming movie and VR technology <p>Online video (You Tube) VR of properties owned Summary manga of financial results</p>   	<ul style="list-style-type: none"> No disclosure of the interim management plan Start video streaming since January 2019
"E"nvironment Action	<ul style="list-style-type: none"> Continue to disclose the details on the IR materials since April 2017 Environmentally certified over the asset portfolio: 18.6%     <p>MIUMIU Kobe Shinagawa Seaside Parktower</p>	<ul style="list-style-type: none"> Disclosure started in the fiscal year ended July 2018 Acquisition of DBJ Green Building Certification for 3 properties <ul style="list-style-type: none"> Iwatsuki Logistics Baraki Logistics Honmachibashi Tower
"S"ocial Action	<ul style="list-style-type: none"> Disclose concrete social activities    <p>Nursery in Mi-Nara Co-sponsor of IBSA Blind Soccer WGP 2019 Mottainai Campaign Supported by Tokyo Metropolitan Gov. Bureau of Environment (Shinagawa Seaside Parktower)</p>	<ul style="list-style-type: none"> Disclosure of Conceptual Efforts <ul style="list-style-type: none"> Local: Aiming to contribute to local communities through property holdings and tenant Business partners: Building mutual trust based on fair trade Employees: Support individual growth by accepting gender, nationality, ethnicity, race and generation Investors: Aiming to maximize unitholders' profits based on the principle of "principle of investor profit first" Borrowers: Seek to share information to build relationships of mutual trust
"G"overnance Action	<ul style="list-style-type: none"> Same-boat investment by the sponsors   <ul style="list-style-type: none"> Basic Policy on REIT-Oriented Business Conduct <ul style="list-style-type: none"> Itemize and quantify the AM fees and its upper limit 	<ul style="list-style-type: none"> Same boat investment by sponsors "Basic policy on the principle of customer-oriented business operations" <ul style="list-style-type: none"> Clarify the upper limit on the level of fees

VS

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Monetary amounts are rounded down to the nearest unit.

Percentage figures are rounded off to the first decimal place.

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