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Main Q&As at Financial Results Briefing for the Fiscal Period Ended October 2015 (3rd Fiscal Period) of Nippon Healthcare Investment Corporation

Date and Time: December 21, 2015 (Monday) 17:00 – 18:00

Presenter: Akira Yamanouchi, President and Representative Director, Daiwa Real Estate Asset Management Co., Ltd.

*Questions are listed according to the order they were asked.

Q1. As to rent-paying capacity, although it is said to have decreased to 1.4 times with the recent public offering and secondary offering, the data for the end of the 3rd fiscal period on page 33 of the presentation materials indicates it as 1.5 times. Is this difference due to not including properties acquired through the public offering and secondary offering in the data for the end of the 3rd fiscal period?

(Answer)

Yes, that is correct.

Q2. What is the reason for the decrease in rent-paying capacity to 1.5 times from 1.8 times in the previous fiscal period?

(Answer)

The decrease is the effect of those, among existing properties, which saw occupancy rates fall, as well as of those, among properties acquired in the 3rd fiscal period, which bear large cost burdens.

Q3. The parent company of Watami No Kaigo Co., Ltd. was recently changed. Will the lease agreements with backup operators of facilities which had been operated by Watami No Kaigo be changed in line with this change?

(Answer)

It is not necessary to change the contents of the agreements with backup operators just because the parent company of an operator was changed. If the management status of the facilities is good, it is possible that other operators may take over. Or if the credibility of the new parent company is low, there could be rent negotiations.

Q4. Can we expect rent-paying capacity to improve going forward?

(Answer)

Yes, that is correct.

Q5. What asset size of healthcare REIT is needed for the asset management company to gain profits?

(Answer)

As an example, if the asset size is 50 billion yen and the asset management fee is 50bp, profits will be around 250 million yen. An asset size of such a scale would be enough to bring profits.

Q6. Are you withdrawing the target of “achieving an asset size of 100 billion yen in three years” upheld at the time of IPO? Or is it going to be pursued going forward? What is the status of discussions regarding the acquisition of hospitals?

(Answer)

The target of “achieving an asset size of 100 billion yen in three years” has been withdrawn. The reasons include,

- (1) the number of candidate properties for acquisition that did not pass due diligence in terms of the facility’s hardware was greater than expected; and
- (2) the number of competitors for property acquisition, including operating companies, has increased.

We would like to acquire properties aiming for an asset size of 100 billion yen in the next four years. However, we will not acquire just any property, but will also carefully make acquisitions to create a platform for the country.

As for hospitals, we are discussing possible acquisitions of properties that are on sale, securitized properties and such. However, we are first focusing on deepening the understanding of the REIT by people at medical institutions. By explaining the merits and demerits of the REIT and communicating with medical institutions, we believe we should be able to acquire hospitals in the future. However, the situation is not one in which we will have acquired a hospital in six months.

Q7. Is there a difference between negotiating for the acquisition of homes for the elderly and for hospitals?

(Answer)

Since operators of homes for the elderly are often listed companies or subsidiaries of listed companies, they have sufficient understanding of finance. On the other hand, as medical institutions do not yet have thorough understanding of diversified finance, we try to explain in more detail than when explaining to operators of homes for the elderly.

Q8. Although there do not seem to be any particular regional disparities, what are your opinions on the cap rates? What do you emphasize as the determining factors for cap rates?

(Answer)

We believe the important points are that the facility suits the area in which it is located and that the facility matches the marketing of the area. As long as the operator can conduct operations suitable for

the area, it is acceptable even if the cap rate is low to a certain extent.

Q9. Ratios of distribution in excess of earnings to depreciation were 38% in the previous fiscal period and 32% for the current fiscal period. Is there consistency in the distribution policy?

(Answer)

Distribution in excess of earnings is obtained by subtracting CAPEX from depreciation and referring to the leverage status to calculate a distributable amount. After such calculations, the actual amount of distribution in excess of earnings is determined. We may raise the ratio to 40% or higher in the future, but that would be only temporary.

Q.10. Is the operation of healthcare REITs greatly difficult considering the degree of operational expertise required and organizational structure? Photos of the faces of the management team are included in the presentation materials of DOI. What level of experience does the Healthcare Management Team possess?

(Answer)

The challenging part of healthcare REIT operation is different from that of office REIT operation. In operating office REITs, leasing and sourcing are probably the most challenging. On the other hand, communicating well with operators is one of the most difficult aspects of healthcare REIT operation since operators are partners that will be worked with over the long term.

The Healthcare Management Team is currently gaining experience by conducting asset management in collaboration with AIP Healthcare Japan. We believe such accumulation of knowhow will bring advantages to NHI in the future.

Q. 11. You previously answered that a low cap rate is acceptable as long as the operation suits the area. Do you view the appraisal value in the same way?

(Answer)

Cap rates varying in accordance with the times applies to other types of assets as well. From a relative perspective, such a way of thinking applies to the appraisal value as well. Appraisal value could be more conscious of business investment. But we believe appraisal value is also affected by implied cap rates of existing healthcare facilities.

Q12. Concerning page 20 of the presentation materials, the arising of problems at operators seems to be caused by the exhaustion of workers on site. Are the interviews at facilities conducted with all workers?

(Answer)

The interviews are not conducted with all workers, and we have no plans to do such. It is not certain that we receive honest replies even if we directly ask them questions. Rather, there must be something we can sense by actually seeing the sites while at the same time interviewing the facility directors. We would like to brush up our sense of operation to be able to catch issues from the atmosphere of the facility and such.

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