FY2023 Second Quarter Results : Main Questions and Answers

November 9, 2023

TOKYU CORPORATION

* Please note in advance that this is not a transcription of the entire Q&A session, but a brief summary prepared by the Company.

Q1. You explained ROA. What are your thoughts on ROA in the next Medium-term Management Plan? What are the topics of the discussions you are having within the company, including discussions of capital policy?

A1. Within the company, we are considering how to express ROA while developing the Medium-term Management plan. Since our business model relies on assets, we are planning to focus on ROA in each area where we operate various businesses and to increase efficiency and yield in addition to verifying ROA by business segment.
We are also targeting the increase of ROE after increasing ROA. To increase ROE, we need to consider the relationship with financial leverage and the balance with capital accumulation. We will aim for optimal numerical targets for ROE and EPS with implementing our capital policy.
We will seek to increase ROE by combining the expansion of fee businesses and other businesses with low invested capital.

Q2. You forecast operating profit to be about 100 billion yen before the COVID-19 pandemic. What are the numerical targets for operating profit and other items in the next Medium-term Management Plan? Please tell us what you can about this.

A2. Following the decline in our financial results caused by the COVID-19 pandemic, our first goal was to restore our performance to the level in FY2018, including operating profit of 82 billion yen and profit attributable to owners of parent of 57 billion yen. We expect to achieve a recovery to these levels this fiscal year. I also feel that our previous targets of 100 billion yen in operating profit, 60 billion yen net income, and 100 yen EPS that were set before the COVID-19 pandemic are now within sight. While our business is not a type of business where profit can increase exponentially, we are developing discussions within the company to ensure solid and sustainable corporate management. In light of the impact of the continued inflation and rising interest rates, we are aiming to further increase the top line from the current fiscal year's level of over 1 trillion yen.

Q3. In contrast to other railway companies, it is expected that there will continue to be a population inflow into the areas served by Tokyu lines. Considering the declining birth rate and the aging of the population, the population decline will be seen also in the areas served by Tokyu lines sooner or later. What do you think about that?

A3. Concerning the issue of the population in the areas served by Tokyu lines, we think we have an advantage as a result of our conventional efforts to create more livable communities compared not only to the suburbs but also to the city centers, by increasing convenience through the formation of a transportation network that connects our trains and buses. By further increasing the convenience of the areas we serve, we expect continued growth in the residential population as well as preventing a population outflow. Our target residential population includes foreigners, and we plan to consider measures to increase the number of foreign residents in line with the improvement of convenience.

Because current condominium prices in central Tokyo are soaring and becoming less affordable, we are also implementing measures to supply relatively affordable condominiums in areas with convenient secondary transportation services such as buses that connect to train stations. The high-rise condominium in front of Minami-Machida Gandberry Park Station is made relatively affordable with the leasehold to a 70-year fixed-term lease instead of ownership.

In addition, we are anticipating an increase in people’s interactions through the mutual direct train services with the Sotetsu Line following the opening of the Tokyu Shin-Yokohama Line.

From the perspective of the aging population, we think it is also important to take measures to encourage Japan's energetic elderly to be more active in the areas served by Tokyu lines. For example, special tickets could be offered for travel and enjoyment within the area served by the Tokyu Line. In terms of job creation, we should consider a system that enables the elderly to participate in the workforce so that they can spend the money they earn in the areas served by Tokyu lines, thereby promoting increased economic activity in the areas.

Q4. What do you think about the scalability and potential for Q SKIP in your railway business? In addition to special tickets, can we expect to retain point users, improve services through data analysis, etc. by combining Q SKIP with other businesses such as life services? What is the potential for business expansion?

A4. Q SKIP will make it much easier for us to offer special event tickets, and we have high expectations for it. We think the point system needs to be drastically reformed and we are seeking to link transportation points to Tokyu points. The current

service called Noruleage is inferior in some respects to other companies. We think that by producing a more attractive service and linking Q SKIP to it, we can create a more user-friendly system.
By connecting the Tokyu Point system to facilities outside of the areas served by Tokyu lines, we will work to link Q SKIP to other businesses, such as the use of points accumulated through Q SKIP at Tokyu Hotels.

Q5. I have a question about rents in the Shibuya area. The office vacancy rate in the Shibuya area remains 1%, suggesting continuously high occupancy. As noted on page 19, more than 90% of the tenants for Shibuya Axsh, which is scheduled to open next year, have already reserved their units, indicating steady progress in the development plan under way. The office vacancy rates in the Shibuya area remain low in the overall market. Is it possible that rents will rise in the future?
Are you able to charge high rents to the tenants of Shibuya Axsh that have already signed leases?

A5. Demand for office space in Shibuya continues to grow and the vacancy rate remains low. The office supply in Shibuya is still behind other places in the five wards of central Tokyo. We will continue to supply office space in the Shibuya area to meet the demand generated by potential tenants and the demand for office expansion generated by the current tenants.
We will aim to create a virtuous circle – regularly supplying properties, meeting the potential demand and accumulating offices, creating new opportunities for communication among those companies, increase the value of the area, and stimulate more demand to have office in Shibuya.
Regarding rent increases, renewed rents are rising more steadily than previous rents, and many properties have a positive gap between the rents paid by conventional tenants and those paid by new tenants.
Since costs are rising at present, we plan to start raising rents with properties that may allow price pass-through while balancing supply and demand.
Shibuya Axsh is scheduled to be almost fully occupied when it opens. While we are unable to show specific figures, we have been able to sign contracts with tenants under terms better than the rents at the time the business was planned.

Q6. Regarding cyclical investments, you mentioned the realization of unrealized gains of 500 billion yen. What are the targets for the sale of properties you own? I understand that the properties with unrealized gains have high book-value ROA but low market-value ROA, making them difficult to dispose of, and selling them would not be easy. Do you plan to sell some of them even in the Shibuya area if buyers, including Tokyu REIT, are ones you can be involved to some extent? If you have an image of who the buyers might be other than Tokyu REIT, I would like to know.

A6. Our idea regarding the realization of unrealized gains on properties in the cyclical reinvestment is to sell a part of the equity in properties which have begun to be stably operated after development and the completion of construction, recover the invested capital, and invest again in development projects in Shibuya and the other areas served by Tokyu lines, resulting in the realization of unrealized gains. The idea is to turn the capital around in Shibuya and the areas served by Tokyu lines, and through this, additional profit on development is earned by realizing unrealized gains and investing the profit in new redevelopment projects.
While a REIT cannot take on the risk of development and inevitably purchases properties whose yield is at the same level as the properties it holds, we can secure future profit on development by investing in profitable projects.
Regarding the sale of the property, while we cannot give you the specific property to be sold due to a conflict with the landowner, it is safe to assume that it is a property that we have developed. Of course, we will not sell all but will retain some of them for a fee business and other businesses that contribute to earnings.
Potential buyers include, for instance, real estate companies affiliated with life insurance companies and foreign real estate funds in addition to Tokyu REIT. We are seeking buyers that share our goal of increasing the value of Shibuya together with us and wish to jointly implement the development of the Shibuya area.
In view of balance sheet control, we believe we have come to a point where we must inevitably use the mechanism of cyclical reinvestment in Shibuya and the areas served by Tokyu lines, in which demand for redevelopment is high, in light of the expectation the cost of construction and interest rates are expected to rise steeply.
Balance sheet ratios will be specifically incorporated into the next Medium-term Management Plan, including quantitative figures. Please look forward to this.

Q7. Regarding shareholder returns for the current fiscal year, the year-end dividend will be 17.5 yen, which is still lower than the pre-COVID-19 level. What are your plans regarding shareholder returns?

A7. We decided to increase 2.5 yen, forgoing a dividend increase to the pre-COVID-19 level of 20 yen for the current fiscal year. The reason is to allocate funds to support

our employees. They are some of our stakeholders and they have shared in the considerable burdens of the COVID-19 pandemic. We plan to increase dividends and, at the same time, increase employee salaries, which have yet to returned to the pre-COVID-19 level. In particular, hotel employees are restoring financial performance in a very difficult environment. We will reward them and prepare them as a foundation for ensuring the next stage of growth. Regarding future shareholder returns, we will consider ways to raise the total payout ratio, including share repurchases since the number of shares issued is considered to be large, in addition to restoring dividends to the pre-COVID-19 level.
We seek to combine shareholder returns and capital policy with a view toward the growth of EPS, dividends, ROA and ROE. Please note that I should be able to discuss this more specifically and in detail in the next Medium-term Management Plan.

Q8. In the hotel business, both occupancy rates and ADR increased in the first half of the fiscal year thanks mainly to meeting the demand generated by foreign visitors in Japan. What is your vision of the occupancy and ADR levels in the second half of the fiscal year and the following fiscal years? What are your future business plans?

A8. In our future outlook for the hotel business, while both occupancy and ADR are recovering steadily, the effect of inbound tourism varies in different areas. Demand is recovering in central Tokyo, including Shibuya, while some regional hotels are still struggling. By brand, low-priced hotels such as Tokyu REI Hotels are competing with other hotel chains that specialize in accommodations. We will likely need to improve these hotels in the future. We advertise our food services in the hotel business and hotels providing satisfactory restaurant services are recognized both domestically and internationally. We will continue to provide services commensurate with ADR by increasing merchantability and service levels. As announced in April, we will also expand our management contract business in the future. Accordingly, we have reorganized our brands and changed the brand lineup suitable for management contract business. In addition to the three conventional brands Tokyu Hotel brand, Excel brand, and REI brand, we will establish the Stream Hotel brand under the new brand group, Distinctive Selection, and rebrand Shibuya Stream Excel Hotel to Stream Hotel, which is planned to open in December. The new hotel to be opened in Sapporo will be operated under the Stream Hotel brand. The brand lineup allows a wide range of forms of commissioning. We can offer the Stream Hotel brand without the Tokyu name to clients who prefer not to have the Tokyu color at the forefront, or we can undertake clients' existing brands without changing them. We hope to be sure to capture the upside of the hotel business, including these aspects of the business, while keeping risk factors under control.

Q9. My vision of cyclical reinvestment, is increasing ROA while increasing the value of rail service areas by increasing sales based on asset turnover. At the same time, other companies are increasingly undertaking high-rise condominiums and other projects in the areas served by Tokyu's railway lines that are currently developed. Have you made the decision not to participate in these projects from the perspective of improving the value of the Tokyu area? What are your positions, if any, on these projects being carried out independently?

A9. First, the sales business must be promoted to increase ROA in the real estate business. In combination with this, we seek to achieve the internal growth of the existing portfolio, which has a market value of over 1 trillion yen, to raise ROA.
We think it is best to supply condominiums in the areas served by Tokyu's railway lines that we have owned at the timing that we consider best. Recently, we have been offering our own brand, the Dresser series, in Shin-Yokohama, coinciding with the opening of the Tokyu Shin-Yokohama Line. Meanwhile, the purchase of condominiums in the areas along the Tokyu lines is very competitive and difficult as a business due to not only our own aggressive purchasing activities, but the activities of many other companies. However, in view of attracting a population in the areas served by Tokyu's railway lines, condominiums offered by various companies under various brands in a wide range of prices are attracting a wide range of customers to the areas served by Tokyu's railway lines, and we perceive this as a positive development.
While we have been building relationships with landowners along the areas served by Tokyu's railway lines mainly along the Den-en-toshi Line, our relationships with landowners in the areas along the Tokyu Toyoko Line have not been sufficiently maintained due to the passage of time since its development. We will seek to engage in the development of collaborative businesses with landowners and business operators in the areas along the line in various ways by rebuilding relationships with them. We are aspiring to implement Urban and Community Development that is not possible for other developers by establishing deep business relationships in each area from a long-term perspective.