Conference Call on Third Quarter FY2023 Financial Results - Main Questions and Answers

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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. Regarding the Real Estate Leasing Business, while office vacancy rates remain low, rent levels appear to be unchanged. Can we expect rents to rise in the future?

A1. While the office vacancy rate remains low, rent levels have remained flat due to the lack of recent major tenant turnover. The company, however, recognizes that Shibuya continues to have an advantage over other areas in Tokyo, as SHIBUYA AXSH, scheduled to open in the first half of next fiscal year, is already almost fully occupied. The company is considering raising rents from feasible properties.

Q2. As for the status of inbound customer attraction, is it correct to understand that the duty-free transaction volume is recorded in several segments such as Real Estate Leasing and Retail Business? How is the inbound demand situation compared to pre-Covid19?

A2. The inbound customer attraction was previously reported as duty-free sales in the department store business before Covid-19, but since the situation has changed with the closing of the Headstore and Toyoko store and the opening of Shibuya Scramble Square, etc., duty-free transaction volume for the "overall Shibuya area" is reported this time. As you are aware, the portion of duty-free transaction is recorded into several segments; for example, the portion handled by the shopping center is reported as commission-based rent in the real estate leasing segment. In the Shibuya area, in addition to duty-free sales, various businesses have been able to capture inbound demand such as Shibuya SKY at Shibuya Scramble Square, which has been performing well.

Q3. The FY2023 forecast has been revised upward by 20 billion yen in operating profit from the beginning of the fiscal year. In the next medium-term management plan starting next fiscal year, is the company in a situation where it can aim for further upside from the previously targeted level of "operating profit of 100 billion yen"?

A3. We would like to refrain from discussing profit levels for the next fiscal year and beyond at this point, as we are still in the process of developing a medium-term management plan.

The operating profit forecast for the current fiscal year increased 20 billion yen from the May forecast, and the recovery in demand in the Railway Business and Hotel Businesses in addition to the 9.2 billion yen decrease in electricity costs contributed to this increase. In the next fiscal year, the Real Estate Sales Business is expected to see a reactionary decline from this fiscal year, when condominium sales were high, while the full effect of fare revisions and the removal of opening costs at Tokyu Kabukicho Tower are also expected. In addition to these, costs for maintaining and improving competitiveness in the future and costs related to human capital will be taken into account as well.

Q4. Is the company considering postponing real estate sales to the next fiscal year or bringing forward expenses that were scheduled to be incurred in the next fiscal year to the current fiscal year?

A4. As for real estate sales, most of the deliveries in the fourth quarter are condominium sales, so there will be no postponement of sales to the next fiscal year. In response to the upturn in business performance, the company has been working on thorough cost enforcement, which is reflected in the forecast figures released today. As it is already mid-February, it will be difficult to expect a large increase in costs during this fiscal year.

Q5. Regarding the Hotel Business, what are the reasons for operating profit declining from 2.5 billion yen as of the third quarter to 0.5 billion yen for the full year? Also, what is the trend of ADR for hotels from the third quarter to the fourth quarter?

A5. There are three major reasons for the profit decline in the Hotel Business in the fourth quarter. First, profits tend to fall in the fourth quarter, as occupancy rates usually decline in January and February. Indeed, the occupancy rate for this January was lower than the third quarter. Secondly, the opening cost of the Sapporo Stream Hotel, opened in January, at approximately 1 billion yen is reflected. Thirdly, it tends to expect more expenses at the end of the fiscal year than in other quarters, such as repair costs and an increase in personnel expenses associated with business recovery. Regarding ADRs, the fourth quarter (January-March) is expected to be in the 20,000-yen range. Although not extremely lower than the cumulative total through the third quarter, due to seasonality, the fourth quarter period alone will see a slight decline from the second and third quarters.

Q6. There have been references to streamlining the balance sheet, but is it correct to assume that, in the next mid-term plan, the liquidation of real estate properties will include the announcement of properties to be sold?

A6. The medium-term management plan is currently under consideration, and we would like to refrain from mentioning it at this time.

Q7. How are the performances of the hotels at Tokyu Kabukicho Tower compared to expectations?

A7. They, especially HOTEL GROOVE SHINJUKU, are performing well, exceeding the initial plan. Occupancy rates are also on an upward trend as awareness of the hotel is gradually increasing.

Q8. As for Tokyu Kabukicho Tower, is it correct to understand that since the opening cost will be removed in the next fiscal year, the portions of the hotels and other businesses that exceeded the initial forecast will contribute to the business result?

A8. There is no problem with that understanding.