

# President's Small Meeting - Main Questions and Answers

September 4, 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.

## Meeting Summary

**Date and Time** September 4, 2023

### **Speakers**

Masahiro Horie, President and Representative Director

Hirohisa Fujihara, Director and Senior Managing Executive Officer

Kyosuke Toda, Executive Officer and Manager of Financial Strategy Office

Hiroaki Nishimura, General Manager of Accounting and IR Group of Finance and Accounting Strategy Headquarters

Greetings from Masahiro Horie, who became President in June, introducing his career history and aspirations (see attached "President's Message") at the beginning, followed by questions and answers.

## Main questions and answers

**Q1.** Please tell us the areas in which you would like to leave your stamp now that are president.

You have extensive experience of working at subsidiaries. Looking at the Tokyu parent company from the outside, in what aspects did you feel that Tokyu was lacking?

**A1.** I intend to carry on along our current path and focus on further improving the profitability of existing businesses.

When I was in charge of operating the REIT, the REIT does not have property development capabilities and so I was constantly thinking about how I could enhance the value of our existing portfolio and maximize our performance. Similarly, at Tokyu Corporation, I intend to allocate resources such as capital and human resources to the areas of our existing businesses I feel have insufficient resources.

**Q2.** How do you envisage balance sheet control under the next medium-term management plan? Please also tell us your thought on interest-bearing debt and ROE targets.

**A2.** We are going to discuss the actual levels of KPIs over the coming months; however, I do intend to focus on balance sheet control that will give us the leeway to be able to make "contrarian investments" when business has slowed down and real estate prices have dropped. We will also implement the cyclical investment model and create a flow whereby the capital raised from the sale of existing properties is used to fund future developments in areas served by Tokyu's railway lines and Shibuya, further increasing the resilience of areas served by Tokyu's railway lines. I believe we need to be more aware of efficiency indicators and have begun ensuring that we are also asking for explanations about efficiency including ROA internally. When it comes to investment in the real estate business, the higher quality the project, the lower the cap rate and so we need to implement initiatives to improve overall efficiency such as increasing the profitability of existing fee business. And since our business model is to enhance the value of areas served by our railway lines, we also need to start looking at return not just for each business but also for each area.

**Q3.** Unrealized gains on real estate are around 500 billion yen. Do you have any intention to realize these unrealized gains?

Will your properties in the Shibuya area also become available for sale as part of implementation of the cyclical business model?

**A3.** We will realize unrealized gains to some extent based on the cyclical investment model in the future. We have yet to identify specific properties but the cyclical investment model also applies to the Shibuya area. In the case of prime properties with low cap rates, the return from sale is greater than the NOI relinquished as a result of sale and so we will apply the recovered capital to investment in categories with higher added value.

I think that the areas served by Tokyu's railway lines still need to be upgraded and there are also some areas recognized by government as issues in terms of disaster management. I aim to speed up enhancement of the value of areas served by Tokyu's railway lines through use of the recycling investment model, including making investment in collaboration with the areas.

**Q4.** What is your approach to continuous enhancement of the value of areas served by Tokyu's railway lines? As for the population in areas served by Tokyu's railway lines, these areas are presumably also being impacted by falling birth rates and population aging. How will you respond to this?

**A4.** We intend to carry out surveys in the future to understand the needs of those living in areas served by Tokyu's railway lines.

The population in areas served by Tokyu's railway lines currently stands at around 5.3 million, switching and changing by around 5~7% each year. We need to implement measures to encourage new inflows of people and the return of people who have left.

We will find out what other popular cities and areas besides those served by Tokyu's railway lines have that we don't have.

**Q5.** Tell us about additional initiatives that will be necessary in the future to increase the population in areas served by Tokyu's railway lines.

**A5.** The population in areas served by Tokyu's railway lines includes foreign nationals, and we recognize that there is not enough high quality rental housing in the Shibuya area and other areas to meet the needs of foreign knowledge workers.

With house prices also rising, the supply of affordable housing is also necessary.

I intend to consider initiatives to integrate Tokyu rail and bus services and increase the convenience of bus services from stations in these areas as well as housing initiatives such as fixed-term-land-lease condominiums.

**Q6.** Regarding Shibuya redevelopment projects, what is the impact of rising construction costs, and will there be any change in the schedule as a result?

**A6.** We assume that we will continue to participate in multiple development projects in the area surrounding Shibuya Station in the future but most are projects on which detailed decisions have yet to be made and so I expect these projects will be impacted by rising construction costs.

Redevelopment is not something that we undertake alone and agreement needs to be reached with land lease right holders and so there will probably be projects which progress as planned and those that are more "wait and see." Especially in the case of properties with many stakeholders, consideration takes time and we recognize, therefore, that there is some risk of such projects being moved back. Since these are

projects that will be carried out over many years, I believe it is important to attach importance to the supply-demand balance in the real estate market when building our portfolio.

**Q7.** What is your outlook for the department store business including Tokyu Department Store Co., Ltd. and the retail business?

**A7.** I believe that department stores will still be necessary to enhance the value of Shibuya and areas served by Tokyu's railway lines.

In commercial operations, it is important to balance four approaches: leasing, outsourcing, ownership and franchising. Operations based solely on leasing will limit tenants to those who can afford the rent and will result a similar lineup of stores. Tokyu Department Store Co., Ltd. operated continuously for 20 years through a mix of ownership and leasing and we will continue to make good use of the business format and discernment that are unique to department stores in the future. I also believe that other functions such as out-of-store sales business are also still necessary

**Q8.** How will you approach shareholder returns?

**A8.** We will need to assess our performance in the future but, personally, I would like to quickly return dividends to pre-COVID levels.

**Q9.** How do you view your relationship with Tokyu Fudosan Holdings Corporation?

**A9.** There are no plans to change the relationship between Tokyu Fudosan Holdings Corporation and Tokyu Corporation at the moment as we have different business models and business timeframes.

Also looking at reorganization of the Group in the past, we made the likes of Tokyu Department Store Co., Ltd. and Tokyu Store Chain Co., Ltd. into wholly-owned subsidiaries but this has not changed our relationship with Tokyu Fudosan Holdings Corporation.