FY2022 Results : Main Questions and Answers

2023.05.12

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 shareholder returns, when do you expect dividends to return to the pre-pandemic level of 20 yen per share?
Additionally, at the Q2 financial results briefing in November last year, you mentioned that the time to consider and implement the purchase of treasury shares was approaching. Are there any updates on the timing for this?

A1. For FY2023, leaving dividends as they stand at 15 yen per share may give the impression of weakness in shareholder returns, but we are aware of providing a total payout ratio in addition to a dividend payout ratio.
As for the acquisition, we are still at the stage of carefully looking at profit and financing trends as we explained in the previous fiscal year, and will look for opportunities, including within this fiscal year. Regarding our dividend policy from the next fiscal year, which will fall within the term of the next medium-term management plan, we are currently giving the matter thought internally, and we should also be able to make announcements on this topic within this fiscal year.

Q2. You cited the effects of increased operating revenue from fare revisions in the FY2023 forecast for Tokyu Railways, while also expecting costs to increase. What is the breakdown of these cost increases?

A2. Costs at Tokyu Railways were reduced on the order of 10 billion yen compared with the pre-pandemic period during FY2020, under which we have had severe financial results, but as those cost reductions include some cuts that were made on an emergency basis, some costs re-emerged from FY2021 onward, and in real terms our cost reductions in FY2022 and FY2023 are around 6 billion yen compared with pre-pandemic levels.
However, the cost burden has risen by around 3 billion yen due to the sharply rising power costs, and this has driven operating profit at Tokyu Railways below the 20 billion yen mark.
From a marginal profit perspective, the marginal profit ratio in FY2018 was 89-90%, and that is now around 86%, a three-point drop.
In our FY2023 forecast, although we expect that fare revisions will help revenue from

fares recovery to FY2016 levels. However, as the number of passengers carried will remain at about 1 billion, around the same as FY2006, our hopes are that the Tokyu Shin-Yokohama Line entering service in March will have a positive effect on passenger numbers. As the Tokyu Shin-Yokohama Line has only just entered service, we need to look at the situation for a little longer, but at this stage the number of passengers carried across all Tokyu lines is strong strong performance that is largely exceeding our expectations.

(Supplementary information from the administrative office)

Regarding the number of rail passengers carried, the number of passengers who passed through ticket gains in April was about 14% below pre-pandemic levels, largely in line with expectations.

While the number of passengers carried is strong, for commuter passes the revenue bases is slightly below expectations, due to advance purchases that were made ahead of fare revisions.

Additionally, for our costs in FY2013, personnel expenses are also on the rise in addition to power costs. Even so, we have steadily implemented overall cost management, and expect to reduce costs by 450 million yen with the introduction of single-person operation on the Toyoko Line, which has started in the current fiscal period.

Q3. Are we correct in understanding that if the number of passengers carried exceeds expectations, that profit will recover in line with the marginal profit ratio?

A3. That is correct.

Q4. To reach the operating profit level of almost 100 billion yen that you had been targeted before the COVID-19 pandemic, do you have any thoughts at the moment regarding operating profit targets that will be in the next medium-term management plan?

A4. We believe that we can achieve the operating profit level of almost 100 billion yen in the next medium-term management plan. However, as interest-bearing debt is on the rise and we believe it will be necessary to boldly replace assets over the term of the next medium-term management plan, we are looking to pursue a more careful balance between financial health and growth in business results while ensuring that what we are currently considering will be firmly materialized in the next medium-term management plan.

Q5. Regarding the announcement of the change of president, what was the background leading up to the decision?

A5. Consideration of the next medium-term management plan will enter full swing from around July 2023, and we believed it would be best to have the person who will be responsible for implementing the plan from FY2024 onward playing a central role from the planning stages, which led to this timing of the announcement.

Q6. Regarding inbound demand, do you expect to capture demand in areas other than the Hotel business, such as the Retail business, Railway business and Tokyu Kabukicho Tower?

A6. From early autumn last year we started to see a recovery in inbound demand centered around the Shibuya area, and as noted, in addition to the Hotel business, this inbound demand has contributions to various businesses, including the airport management business. As we hope to see a further recovery in inbound demand from China, we are currently making improvements to our operational structure in anticipation.

Regarding Tokyu Kabukicho Tower, since its opened in April it has been attracting between 30,000 and 40,0000 visitors daily. In addition to visitors who are foreign nationals living in Japan, we expect that the number of visitors will further growth as inbound demand recovers in the future.

Regarding the number of rail passengers carried, inbound demand has gradually started to contribute to passenger numbers on non-tourist-oriented lines as micro-tourism takes root among foreign passengers, and over the Golden Week period we saw an increase of 20-30% compared with the previous year.

(Supplementary information from the administrative office)

Due to the gradual recovery of inbound tourism from December onward, recently the ratio of foreign to Japanese hotel guests has been nearly 30%, the same level as before the COVID-19 pandemic. The Capitol Hotel and Shibuya area hotels in particular have a ratio of over 60% foreign guests, with the ratio over 80% at some hotels depending on circumstances, and ADR rises as a result.

Q7. Are there any changes to the scale of profit levels or other progress in the overseas business?

A7. Housing demand has been very strong overseas. There have been political concerns and rising interest rates in Vietnam, a key area of our operations overseas, but there continues to be strong demand for home purchases by individuals. We supply about 600 housing units annually in Japan and overseas, and around 50% of those are condominium sales overseas.

A recent development is that an Aeon Mall location plans to open as part of a development project in Binh Duong New City. This indicates that a population cluster that allows large-scale commercial facilities to open has begun to form. We are pursuing development in Binh Duong New City from a medium- to long-term perspective, and are promoting the development of a model that can ensure stable revenue.

Q8. Regarding improvements to capital efficiency, ROE was 8-10% pre-pandemic. Are there any changes to where you will aim for the future?

A8. We recognize improving ROE as a challenge. Since ROE was over 10% in FY2016 and FY2017, which were the best operating conditions, we believe that we must at least restore ROE to the 8% level demanded by the market in general. To do that, we need to restore EPS. For FY2023 we forecast EPS to be around 65 yen, and want to improve that to 100 yen in the future.

To restore ROE to 8%, we will be implementing the treasury share acquisitions mentioned earlier, and also implement various measures such as revising our asset portfolio.

Q9. Regarding growth strategies for the railway business, are there any tactics or strategies for Tokyu Railways?

A9. First of all, we expect fare per passenger to increase in the future due to the shift from commuter to non-commuter usage.

Additionally, even if the number of passengers carried recovers, it is only expected to reach around 90% of pre-pandemic levels. However, as we have gradually started to see a post-COVID demand trend, we will continue to closely monitor demand forecasts while considering action on fares and other measures.

For the Tokyu Shin-Yokohama Line, it will take 1-2 years before the effects of the line entering service start to fully contribute, and this is another area where we will keep a close watch on demand while considering future strategies in the next medium-term management plan while keeping network expansion in mind.