Conference Call on Second 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. In real estate leasing, while the office vacancy rate is kept low, inquiries for the Shibuya area remain active. Can we expect to see rents increase going forward?

A1. In office leasing in the Shibuya area, we continue to maintain a low vacancy rate. We have been steadily determining the tenants for Shibuya Axsh, which is scheduled to open in the first half of the next fiscal year. There is also persistent demand for moving into properties with higher specifications in the Shibuya area. We recognize that Shibuya continues to hold advantages even among areas in Tokyo. As for an increase in rents, we must pay attention to the vacancy rate in Tokyo, which remains above 5%, taking overall market conditions into consideration. Since costs are rising, we want to respond first to properties whose prices can be raised to pass through the increase in costs while balancing supply and demand.

Q2. In a newspaper article, President Horie In a newspaper article, President Horie commented on the manifestation of 500 billion yen in unrealized real estate gains. What are your future plans for the business of trading income-earning properties such as increasing the sale of income-earning properties?

A2. First, the assumption is that the unrealized gains of approximately 500 billion yen are based on the disclosure of lease properties. Not all unrealized gains are set to be recognized. We have for some time been continuously working to redevelop Shibuya and areas served by Tokyu's railway lines and our lease property portfolio has grown to a certain volume. Various redevelopment opportunities are expected to be available in the future, and we are considering the securitization of properties as a means of recovering invested capital and financing. However, as mentioned in the article, our real goal is to use the proceeds from the sale to reinvest in the Shibuya area and areas served by Tokyu's railway lines and to continuously increase the value of rail service areas rather than simply selling the real estate.

Q3. As the thinking behind the revision of the full-year forecasts, am I correct to understand that as of August, I think it mainly reflected the upward swing in the first quarter, but while the revision in this upward revision reflects trends not only in the first half of the fiscal year in the second half. In the revision of the earnings forecast, were there any real estate sales postponed to the next fiscal year or expenses to be incurred in the next fiscal year brought forward?

A3. The full-year forecasts are revised on a full-year basis, taking into account the conditions in the first half of the fiscal year. We do not expect major transactions postponed to the next fiscal year. On the cost side, we are accumulating repair expenses in real estate leasing, etc. in line with the recovery in business performance. We think it is a phase in which implementing appropriate price pass-through in response to increases in costs caused by inflation and other factors is important. We must work to increase and maintain our competitiveness by investing in and repairing existing businesses. Meanwhile, on the side of receiving orders, there is a shortage of human resources for construction. We will pay close attention to whether the construction will be carried out as planned.

Q4. Operating profit and net income are expected to recover to the pre-COVID-19 level. Why did you not increase dividends to the pre-COVID-19 level? Am I correct to understand that the reason is the current level of dividends is high considering the total payout ratio due to your repurchase of treasury shares during the current fiscal year?

A4. First, as an assumption for shareholder returns, there is no change in our plan to aim for a dividend payout ratio of 30% in the medium to long term. We then repurchased treasury shares of approximately 30 billion yen in June of this year. Since the total return ratio is at a reasonably high level of approximately 75%, the annual dividend is set at 17.5 yen per share.

Q5. What is the reason for the year-on-year decrease in the earnings forecast for the hotel operations when compared only to the second half of the year?
There is an increase in extraordinary income. Are you assuming the sale of hotel properties, etc.?

A5. In the hotel operations, we have factored in a reasonable amount of repair expenses and many other expenses such as the business commencement expenses for SAPPORO STREAM HOTEL in the second half of the current fiscal year. We therefore expect a decrease in profit when comparing only the second halves. On the other hand, current operating conditions remain strong from the first half, and we will continue to strive to achieve a recovery and growth in net sales. The sale of hotel assets has not been factored in at this time.

Q6. In the full-year forecast for the number of passengers carried by the railway business, the number of passengers carried has already recovered to the level of the FY2025 plan at the time of the application for fare revision. Do you expect that the number of passengers carried and operating profit in the railway business will continue to grow steadily from the next fiscal year?

A6. The number of passengers carried was revised upward following the August revision as the recovery in demand exceeding the assumptions. Meanwhile, sales of fixed-term passes, particularly those for commuters, remain significantly lower than the pre-COVID 19 levels. While the recovery is faster than the plan made at the time of the fare revision, we have not changed the upper limit set at around 90% of the pre-COVID 19 level. From the next fiscal year, we hope to increase profitability through continued efforts to promote demand for transportation and raise management efficiency.