

President's Small Meeting - Main Questions and Answers

June 12, 2024

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 June 12, 2024

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

Yuki Osawa, Senior Manager of Accounting and IR Group of Finance and Accounting Strategy Headquarters

Q1. When formulating the latest Medium-term Management Plan, did you consider updating or revising the Long-term Management Initiative?

A1. The Long-term Management Initiative was also discussed in passing on formulation of the Medium-term Management Plan. Since the Long-term Management Initiative, announced in FY2019, sets out a vision for FY2030 based on a set of invariable assumptions and given conditions, its basic stance is also adhered to in the Medium-term Management Plan.

Our policy of continuing growth investment and aiming for expansion in business scale remains unchanged. However, in light of changes in the external environment such as soaring construction costs and rising interest rates, we believe we need to be more aware than ever of efficiency and to become leaner, and so under the Medium-term Management Plan, we have positioned improvement of efficiency, especially improved capital efficiency, as a major policy.

Q2. In the results announcement for FY2023, the plan figures for FY2024, which is the first fiscal year of the latest Medium-term Management Plan, were revised but there were no revisions to the second and third year figures. In the results briefing, there was also mention of adopting the rolling forecast technique but what will you do about the financial targets for FY2025 and FY2026, the final fiscal year under the plan?

A2. The Medium-term Management Plan has been formulated through the buildup of numerical targets based on discussions of the priority measures and growth strategies in each business. Therefore, while we believe now is not the time to change the target performance indicators, the plan figures are not going to be maintained for three years and we are also considering making disclosures on a rolling basis going forward. The adoption of a rolling plan is currently being discussed internally but our aim is to disclose our numerical targets for FY2027 at the time of the FY2024 results announcement. Looking at the most recent conditions in each business, the number of passengers carried in the railway business is in an upward trend in conjunction with the inbound demand and the improvement of economy. We can also expect to see the effects of railway network expansion, including Shinkansen users following the opening of the Tokyu Shin-Yokohama Line, leisure demand via the Sotetsu Line, and the use of our railway lines by the residents along the Sotetsu Line. As for the Life Service Business, our forecast is comparatively high but this business, including Tokyo Department Stores, has gotten off to a decent start in FY2024. Projections about the hotel business are difficult because it is easily affected by inbound demand but, at the start of FY2024, the occupancy rate and the average daily rate (ADR) are both higher than forecast. Going forward, we intend to thoroughly capture not only tourism demand but also business demand and repeaters.

Q3. The movement in the stock price after announcement of the latest Medium-term Management Plan was harsh. What do you think caused it? And if some of the content of the Medium-term Management Plan was not properly understood by the market, which parts do you think were not understood?

A3. The fall in the stock price after our announcement of the Medium-term Management Plan can be attributed to several factors but we believe that our stock price had been rising from late February, prior to the announcement, on expectations for the Medium-term Management Plan and that it, therefore, entered a period of adjustment. As for the disclosed contents of the Medium-term Management Plan, firstly, the three-year business targets ended up being projected weakly to investors. On the page showing the numerical targets in the Medium-term Management Plan materials, alongside overall operating profit, we also disclosed "operating profit excluding real estate sale business", but we think it was not appealed effectively to investors. We also recognize that the policies and targets disclosed with respect to the sale of assets and shareholder returns were perceived as inadequate by investors. The Medium-term Management Plan positions "internal growth" as a basic policy, and this is an important point because it is the first time for us that a policy to achieve "internal growth" has been set forth in a management plan.

Q4. The positioning of the Shibuya area is relatively strong in terms of office leasing. With large-scale developments on the horizon in Shinagawa, Shinjuku and other areas, can this strong position be maintained?

A4. Among Tokyo's central 5 wards, the Shibuya area still lacks office supply and yet there is also strong demand from those who wish to set up offices in Shibuya, and the vacancy rate remains low. Shibuya is attracting a great deal of attention, for example, SHIBUYA AXSH scheduled to open in July will start operating with 100% occupancy. Moreover, we consider this to be the early days in terms of the effects of the concentration of office buildings in Shibuya, and we believe there is huge potential for Shibuya to develop further as a city in the future. There are also other redevelopment projects on the horizon we haven't released details about yet and we plan to push ahead with these.

Q5. Given that construction costs are currently in an upward trend, will there be any impact on the schedule for redevelopment of the Shibuya area, the profitability after opening, etc.?

A5. We started bearing rising construction costs in mind early on and have been prioritizing construction projects, etc., accordingly. Rising construction costs may make projects unprofitable in areas where rent levels are low, but in the Shibuya area, the vacancy rate has also stabilized at a low level, so a significant decline in profitability is unlikely. We also believe that the development plans of other developers will also proceed more slowly than the market anticipates, and if the external environment remains constant and no new properties come on the market, then the vacancy rates of existing properties could fall even further and rents could also rise. We, therefore, intend to properly invest in our existing properties to bolster profit. Furthermore, if other developers fail to supply new properties, then it will benefit the new projects we push ahead with in this environment and so we intend to proceed with the development projects we are planning and implementing in the Shibuya area, whilst considering the project timeframes. Moreover, since Tokyu Corporation is involved not only in the Real Estate Business but also the Transportation Business, which includes railways and buses, and the Life Service Business, including department stores and supermarkets, the income gain profit is also expected to expand due to the increase in the working population from the newly opened offices contributing to our other businesses.

Q6. In the Medium-term Management Plan materials, business portfolio management was mentioned. Please give details including your policy and issues to be addressed.

A6. The Tokyu Group included 15-16 listed group companies in the early 2000s but we carried out group restructuring from the standpoint of the business portfolio needed for urban and community development and created our current portfolio; however, we believe we must constantly review the portfolio according to the times. A review of the business portfolio is not conducted in company units; rather we split operations into smaller business units, for example, further dividing the business of a subsidiary into segments. Also, for the judgment criteria used on reorganization, we do not discard businesses based on an assessment of returns alone; rather our management approach is to actively intervene to turn businesses around, clarifying the reason for the low return and if too little capital is the reason, then allocating resources.

Q7. Do you have any concrete projections regarding the replacement of assets in the asset portfolio?

A7. We carry out the replacement based on an overall assessment of the asset portfolio to make the portfolio stronger. On this basis, assets to be sold are selected based on consideration of whether or not they are in areas where we can demonstrate our strengths. While we will not mention specific properties, we consider mainly properties in areas where our strengths cannot be demonstrated and also old properties with a comparatively high cap rate. At the same time, we plan to reinvest in areas where growth can be expected in the future such as Shibuya and areas where our business is concentrated. In addition, generating capital gain through the partial sale of mixed-use properties is also being considered.

Q8. How will you improve capital efficiency in the future, given that your core businesses - railway and real estate - are businesses where it is generally difficult to improve capital efficiency?

A8. We believe capital efficiency, such as ROA, tends to vary by business portfolio, and, as you pointed out, dramatic improvement in capital efficiency is unlikely in businesses like the railway business that can generate stable cash flow over periods of 10-15 years. On the other hand, we do not believe that return is necessarily low for the overall Real Estate Business. In the Real Estate Business, we should think in terms of total return. The running ROA of the lease business may seem low; however, by taking part in good projects and generating development profits, it is possible to secure a return including profits when selling some of the properties. We also intend to ensure total return by combining the lease business with the sales business. In addition, promoting the cyclical reinvestment model will lead to the increase in the area value and the decrease of the

capitalization rate. Through these initiatives we will increase capital gains and improve total return.

Q9. There has also been an increase in companies aiming to liquidate real estate. If an attractive property with name value outside of the Tokyu areas comes up for sale, would you consider acquiring it?

A9. Our basic policy on property acquisitions is to attach importance to whether there would be any concentration effects or ripple effects for our businesses other than the Real Estate Business, unless it was a very good property in terms of price expectations, etc.

Q10. What is your policy on balance sheet control moving forward?

A10. First, given that there will continue to be substantial future investment chiefly in redevelopment projects going forward, with investment of 500 billion yen in the Shibuya area and around 200 billion yen in areas served by Tokyu lines, we consider balance sheet control to be an important issue. Moreover, we do not plan to increase financial leverage by further increasing interest-bearing debt from its current level. In addition to reducing our interest rate burden in an interest market stress scenario, we intend to secure some spare capacity for investment in case of future investment opportunities. More specifically, a real estate market downturn is also an opportunity for a company like us that conducts business from a medium- to long-term perspective to buy up properties and so we intend to spare capacity for future growth and investment by improving our balance sheet, including ensuring financial soundness and improving capital efficiency.

Q11. Please explain your approach to shareholder returns again, including details that could not be fully understood from the materials.

A11. Our medium- to long-term goal for shareholder returns has long been stated as a 30% payout ratio and this policy remains unchanged. Moreover, the Medium-term Management Plan includes an in-depth description of share buybacks in addition to the keyword “total return ratio” and is conveying the message that we will promote shareholder return with both dividends and share buybacks. Given that the purchase of our own shares is also a type of investment, we will proceed in consideration of the stock price level.

Q12. In view of future interest rate increases, what is your approach to an appropriate level of interest-bearing debt?

A12. Our interest-bearing debt stands at around 1.3 trillion yen and we are monitoring the impact of interest rate increases. At the same time, we are working to limit the rise in borrowing rates, for example, around 70% of our interest-bearing debt is long-term fixed-rate debt, and a substantial increase in our overall borrowing costs in the future is unlikely. Assuming the long-term interest rate rose to 1.0% and the short-term interest rate rose to 0.5%, we estimate our interest rate expenses would increase by around 2 billion yen per year. Our current borrowing rates are around 0.6% on average and we will continue working to minimize borrowing costs by limiting the rise in borrowing rates through a higher share of fixed-rate loans and longer loan maturities and by using market borrowing.

As for the scale of interest-bearing debt, we are not planning to increase financial leverage by further increasing our interest-bearing debt from the current level and we intend to establish a financial position that will enable us to make solid contrarian investments when the interest rate market is stressed in the future.

We believe that, focusing on the business side, in phases of rising interest rates, the businesses that are highly sensitive to economic conditions can also be expected to drive growth in revenue.

Q13. What is Tokyu's policy for dealing with labor shortages?

A13. Labor shortages are an important issue that cannot be avoided, though the situation differs depending on the industry as we have a wide range of businesses. In terms of measures to address labor shortages, in the Transportation Business, Tokyu Railways is steadily implementing measures to further improve efficiency, including introducing one-man driving on the Toyoko Line to coincide with the opening of the Tokyu Shin-Yokohama Line. Meanwhile, Tokyu Bus Corporation implemented a merger with TOKYU TRANSSÉS on April 1 and, besides promoting the integrated operation of sales offices, has set wages at an attractive level to secure drivers. In the Transportation Business, especially the railway business, there is a shortage of engineers to work night shifts, etc. and so we will implement a wide range of recruitment activities and offer wage incentives to improve the situation. Meanwhile, in hotel operations, we are stepping up recruitment and also promoting multitasking by employees.