

Q&A from IR Presentation (IR Meeting for FY2023)

< Long-Term Management Plan >

Q. How do you evaluate the Long-Term Management Plan so far? What is your future plan for strategy development based on that evaluation?

A. At the moment, we do not plan to revise KPI targets, which are our final goals in the Long-Term Management Plan. After thoroughly reviewing our progress thus far, we would like to reconsider the way to achieve goals. We also would like to emphasize that capital recycling business and fee business have been improving well.

Q. Have you been discussing any mid-to-long term measurements in order to achieve KPI targets in the Long-Term Management Plan?

A. As for ROE and EPS, we plan to improve final profit and execute share buybacks to achieve targets. Profit growth is expected to be accelerated as a result of future increase in capital gains from both domestic and international capital recycling businesses as well as increase in rental profits, such as Torch Tower to be completed in the late 20's.

Q. Do you plan to make an earlier announcement on the probability of achieving KPI targets by increasing capital gains and accelerating share buybacks?

A. We recognize that continuous discussion needs to be held for executing share buybacks when stock price level is taken into account. As for property sales, in consideration of losing income gains followed by disposing properties, we decided to move forward with the current pace based on the long-term strategy.

< Stock Price >

Q. How do you see factors for weak stock price? If the uncertainly condition of domestic office market is one of them, it may affect the whole industry. Are there any specific reasons related to your company?

A. A decrease in rental profits from buildings to be closed in Marunouchi area is a concern for profit growth from a short-term perspective. While profit growth based on the Long-Term Management Plan has been under way, perception gaps might affected for the stock price.

Q. How do you analyze factors for weak stock price while profit level has been significantly growing over the last ten years?

A. As the stock market's view on real estate business has been changing, we believe that it is important to explain our real estate business to the stock market in more clearly. We would like to discuss future direction on capital policy and shareholders return with taking shareholders opinions into consideration.

< Shareholders Return >

Q. Do you have any plans to increase payout ratio?

A. We experienced reactions of stock market when dividends were decreased. Therefore, we plan to consider increasing returns while maintaining a certain level of flexibility in line with our current policy. On the other hand, we are also aware of opinions from the stock market that it is difficult to predict the timing of returns. We will take it seriously for our further discussion.

Q. When can we expect profit growth gets on the track and shareholders return level improves?

A. Capital gains from capital recycling business and profits in investment management business are expected to be able to accumulate more. Significant improvement in rental profits from Marunouchi area is also expected after the completion of redevelopment buildings in the late 20's. As for shareholders return, we will make a flexible judgement by considering factors, such as stock price level.

< Financial Strategies >

Q. What are your views on future investment, return, and the optimal level of interest-bearing debt by taking account of interest rates increase as well as geopolitical risks?

A. As a company-wide direction, we plan to maintain financial soundness by controlling net interest-bearing debt and EBITDA ratio. Investment opportunities will be determined individually within the overall budget by considering geopolitical risks and inflation factors. Interest-bearing debt is expected to increase as profit grows, however, we understand that the balance between profit growth and interest-bearing debt needs to be controlled.

Q. D/E ratio looks conservative. How do you see the optimal level of leverage?

A. Considering the current conditions, such as increase in interest rates overseas, we are concerned that leverage increase involves a greater risk. Therefore, at the moment, there is no change in our policy to maintain current level of credit rating.

Q. Would it be better to increase leverage and improve efficiency if you continue owning quality assets with lower yield in market value?

A. We understand that lower cap rate in Marunouchi area is the cause of lower yield in market value. Due consideration needs to be given if we take risks under the current uncertain conditions.

< Domestic Office Building Business >

Q. What kind of strategies are you considering for improving rent unit price in the future?

A. We have been implementing some measures, such as renting with higher unit price by improving specifications for some floors. We would like to take various measurements more, including implementation of flexible contract styles for instance, in order to maximize profits.

Q. The vacancy rate of Marunouchi is at lower level. How do you see this in regard to the balance with rent? Is it difficult to set higher rent?

A. It is not easy to increase the average rent more than the current level. However, we would like to take various measurements, such as renting premium floors with higher unit price, by analyzing the balance with the vacancy rate.

< International Business >

Q. The U.S. is facing uncertain financial environment. Do you expect any buying opportunities including M&A?

A. As for property acquisitions, we are closely monitoring real estate market trends at the moment. While some U.S. companies struggle with financing, we would like to leverage our financial strength to capture quality investment opportunities in assets with higher growth potentials, particularly logistic facilities, rental apartments, and data centers.

< Non-Asset Business >

Q. What do you think the probability of achieving new targets in investment management business? Could you also share your views on the progress and future prospects of new businesses?

A. In regard to investment management business, as the expansion of global platforms has been successful, we aim to expand AuM not only in the U.S. such as TA Realty, but also in Europe and Asia. In addition, profits are expected to extend after completing amortization of goodwill from companies that we acquired in the past. Some new businesses are getting on the track; however, concrete results have not been produced yet. We think that it may be necessary to revise our strategies after reviewing the progress thus far.

< Capital Gains >

Q. Do you expect further profit growth in FY2024 through accumulation of capital gains?

A. We are making comprehensive judgements by considering conditions of the market as well as the our profits. As we move forward, it is possible to change assumptions based on future market conditions.

(End)