Mitsui Fudosan Co., Ltd.

Q&A Summary: New Long-Term Vision "& Innovation 2030" Briefing

Q. Please elaborate on the strength of your commitment to the quantitative FY2030 targets of annual EPS growth of 8% or higher and ROE of 10% or higher. Also, please explain your risk assumptions during the Long-Term Vision period.

A. Underpinned by an equal focus on growth, efficiency and shareholder returns, the targets reflect a comprehensive consideration from a long-term perspective of: 1) higher Leasing income from properties to be developed in future and existing properties; 2) improved Property Sales income from an acceleration of asset turnover; 3) financial soundness based on an appropriate balance between liabilities and capital; and 4) strengthened shareholder returns reflecting a balance between profit growth and capital.

Achievement of the targets assumes that added value created by the Mitsui Fudosan Group will be reflected in rent levels, on the back of a transition to an inflationary environment with positive interest rates. We believe that the elements that will make this possible are falling into place.

There are a variety of possible risks, but in addition to the strength that the Mitsui Fudosan Group has built up in the form of resilience in the face of risk, senior management and each of the business divisions were united in their aim to ensure the formulated plan incorporates sufficient buffers related to various expenses.

Q. Please share specifics on your image of the challenges you anticipate in tackling new business areas and your sense of the probability of success.

A. We are already promoting a wide range of initiatives in tackling new business areas. This is exemplified by the development of communities in life sciences and the Aerospace-related business. These communities are composed of a diverse group individuals with highly specialized expertise including academics (both Japanese and foreign), heads of corporate R&D teams, leaders of businesses including start-ups, and policy makers. By working with such communities, we believe that we can identify new business opportunities.

We already have a track record of investments in start-ups exceeding 50 billion yen, and are plugged into networks in many markets, including overseas, which has allowed us to establish a presence.

In the new Long-Term Vision, we are expanding and elevating our investment budget to more than 100 billion yen. On top of the robust networks we have in our core businesses, we are making solid preparations to invest in leading edge areas that will boost the competitiveness of Japanese industry going forward, such as the field of nuclear fusion. We will continue to consider promising areas of investment that will capitalize on our strengths.

Through the Innovation Promoting Division newly established this fiscal year, we aim to identify new business by tapping into multiple networks.

Q. How are you thinking about risks in investment and investment recovery up to FY2030?

A. We will identify the right time to sell by globally monitoring changes in macroeconomic and financial environments and market conditions for the real estate transaction and leasing markets for each country, area and asset class. With regard to investments, our investment decisions have historically incorporated a sufficient risk buffer against surging construction costs. We believe the group's portfolio of assets is strongly resistant to risk.

Q. Please discuss the level of returns you have been seeking on venture investments to this point.

A. In addition to pure investment returns, we believe that venture investments are an effective tool for generating synergies with our core businesses and can make it possible for us to participate in communities in promising industries. With regard to returns, it is difficult to generalize given there are a number of potential scenarios for each project, such as IPOs.

Q. Please elaborate on the strength of your commitment to achieving the FY2026 ROE target of 8.5% or higher.

A. The real estate business is a long-term business by nature. Given this, we already have good visibility for the 3 years to FY2026. Regardless of changes in the external environment, we are firmly committed to achieving our target.

Q. With regard to the annual EPS growth target of 8% or higher, do you expect to achieve 8% every year or would you expect to see some volatility in individual years?

A. For the new plan, we think the key point will be to achieve growth by accelerating asset turnover while being mindful of maintaining a good balance between leasing income and property sales income.

During the Long-Term Vision period, there will be some variance in individual fiscal years depending on whether there are disposals of large-scale properties. As such, rather than achieving 8% growth every single year, there will likely be some volatility around this level in individual years.

Q. Are we correct in understanding that the reason you have set a quantitative ROE target of 10% or higher around FY2030 is because you expect to improve the profitability of existing businesses, on top of the acceleration in asset turnover?

A. In addition to the acceleration of asset turnover, we will focus on generating added value that is attractive to customers in order to increase the profitability of the existing business and thereby achieve the target.

Q. In aiming to elevate asset efficiency, do you expect the proportion of developments that tap into third-party funding to increase?

A. There are many different ways to elevate asset efficiency. Using third-party funding for development projects from an early stage is one possible choice that we will consider going forward.

Q. Please discuss the expected increase in real estate valuation gains on development up to around FY2030.

A. While there will be an increase in valuation gains from new development projects, given we will also be accelerating asset turnover, we do not expect overall valuation gains as of FY2030 to diverge significantly from levels as of the end of FY2022.

Q. Please discuss your pricing strategy in the event of further continued advances in inflation.

A. Our aim is to reflect the added value we create in prices. I will use office buildings as an example. Providing attractive offices that people want to work in, in neighborhoods that they want to visit, will push up the proportion of employees working in offices. This, combined with unique intangible services such as WORKSTYLING and & BIZ consulting, will allow us to create a compelling value proposition for overall office life, which will make it possible to decouple from general market trends.

Q. Why are there no quantitative targets for the overseas business?

A. Under VISION2025, we promoted initiatives to evolve into a global company. We believe we have had a level of success in terms of business scale and presence. The significance of the overseas business is unchanged but it is important to view the overall portfolio of both domestic and overseas assets. Therefore, we felt that it was not necessary to set a standalone quantitative target for the overseas business.

Q. Please discuss how you think about shareholders' cost of equity.

A. If calculated using CAPM, our cost of equity is around 7% but I believe what is important is to widen the spread between shareholders' cost of equity and ROE. As a consequence of engaging with the capital markets and deepening investors' understanding of Mitsui Fudosan's corporate value, we aim to lower our cost of capital.