Financial Strategies

Message from the CFO

By promoting management with an equal focus on the three key objectives: enhance growth, efficiency, and shareholder returns, I will strive to raise corporate value by advancing balance sheet control and improving our asset and capital efficiency as well as by continuing to engage in active dialogue with investors.

Chiharu Fujioka Executive Managing Officer

Fiscal 2023 Business Results and Future Outlook

In fiscal 2023, revenue from operations reached a record high for the 12th consecutive period, while operating income, ordinary income, and profit attributable to owners of parent (hereinafter net income) reached record highs for the second consecutive period.

We also decided to apply our new strengthened shareholder return policy (total payout return ratio of 50% or higher each period, dividend payout ratio of around 35% each period) under & INNOVATION 2030, the Group's new long-term vision announced on April 11, 2024, ahead of schedule from the fiscal year ended March 2024 and revised our annual dividend upward to ¥84 per share (up ¥22 per share from the previous fiscal year). In addition, as a result of the decision to repurchase own shares worth ¥40 billion, the total shareholder return ratio is scheduled to come in at 52.7%, based on net income of ¥224.6 billion.

For fiscal 2024, revenue from operations and net income are expected to again reach record highs. These forecasts factor in increased profit from accelerated asset replacement, after taking into account a comprehensive view of fixed assets, real property for sale, and investment securities, as well as further earnings and profit growth from the thriving hotel and resort business.

Under & INNOVATION 2030, we have newly established an item called business income. An indicator comprising the total value of equity in earnings/losses of affiliates and gain/loss on sales of fixed assets added to conventional operating income, business income directly expresses the added value created by our core businesses. This indicator has been established as an expression of management's intention to actively replace assets, including not only real property for sale but also fixed assets.

The business income forecast for fiscal 2024 is ¥370 billion, an increase of ¥23.8 billion compared with the previous fiscal year.

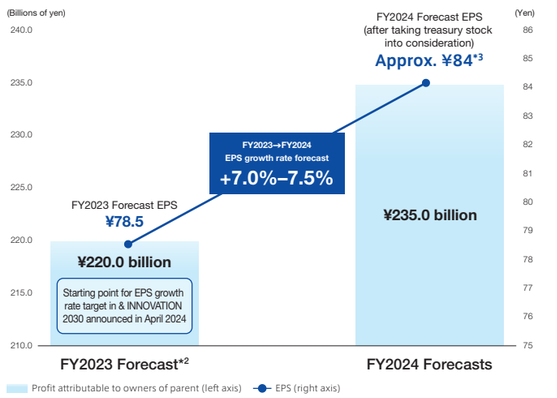
In addition, we expect net income to increase ¥10.3 billion year on year to ¥235 billion.

To deepen two-way dialogue with investors and other stakeholders, under & INNOVATION 2030, we have set numerical targets for growth, efficiency, shareholder returns, etc. for fiscal 2026 as milestones toward our vision for fiscal 2030. The profit targets adopted for fiscal 2026 are business income of more than ¥440 billion and net income of more than ¥270 billion. I believe that, as expected, fiscal 2024 has gotten off to a good start toward achieving these profit targets.

As far as the EPS growth rate is concerned, under & INNOVATION 2030, we have set an EPS CAGR target of +8% or more for fiscal 2026. However, as stated under & INNOVATION 2030, assuming forecast net income of ¥220 billion for fiscal 2023 as the starting point, the EPS growth rate for the forecast net income of ¥235 billion for fiscal 2024 will be in the 7.0%–7.5% range (after taking into account the previously announced ¥40 billion repurchase of own shares). It is my belief that we are off to a good start in terms of our EPS growth target for fiscal 2026.

By bringing about the realization of growth through the three business strategy paths outlined in & INNOVATION 2030 and adopted by the entire company, we will work to achieve the profit targets, including business income, net income, and EPS growth rate, as well as the efficiency targets. In my capacity as CFO, I will support these efforts, particularly in terms of cash allocations and finances.

■ & INNOVATION 2030 (announced April 2024)
Progress toward EPS (CAGR) growth rate of +8% or higher/year*1



*1 FY2023 (forecast) → FY2026 (forecast)
*2 FY2023 results: Profit attributable to owners of parent ¥224.6 billion / EPS ¥80.2
*3 Tentatively calculated based on the number of shares minus the number of shares equivalent to the planned share buyback of ¥40 billion announced in April 2024

Cash Allocation Plan for Promoting Management with Equal Focus on the Three Key Objectives: Enhance Growth, Efficiency, and Shareholder Returns

Under & INNOVATION 2030, we have outlined our cash allocations for the next three years to help investors understand, for example, how the Company plans to generate cash and the cash generated will be put to use, our thoughts on financial management, and our efforts to deepen communications.

I believe that the following three points are essential to the cash allocations we have disclosed at this time.

The first point is to maximize core operating cash flow over the next three years.

Historically, cash flow from operating activities has fluctuated dramatically from period to period due to the large scale of investment in real property for sale and recovery, making it difficult to see the stability and continuous growth of cash flow from our core businesses externally.

Therefore, we have now excluded "increase/decrease in cash from investment returns from real property for sale" from cash flows from operating activities and newly established "basic cash flow from operating activities," which is cash flow minus changes in such items as working capital (including increase/decrease in real property for sale) from operating cash flows, plus gains/losses on asset turnover. Over the next three years, we will generate basic cash flow from operating activities of approximately ¥1 trillion through (1) Stable and continuous leasing income from the development of new properties and existing property top-line growth, and (2) Enhancing our cash-generating capabilities via our core businesses, such as the realization of development added value from the stable and continuous turnover of assets, while focusing on growth through both leasing income and sales profit.

The second point is to recover approximately ¥2 trillion in assets over the three-year period through the turnover of assets.

While taking into consideration increases in leasing income and sales profit, we will promote balance sheet control, which includes the sale not only of real property for sale but also of fixed assets and securities, and aim to recover approximately ¥2 trillion.

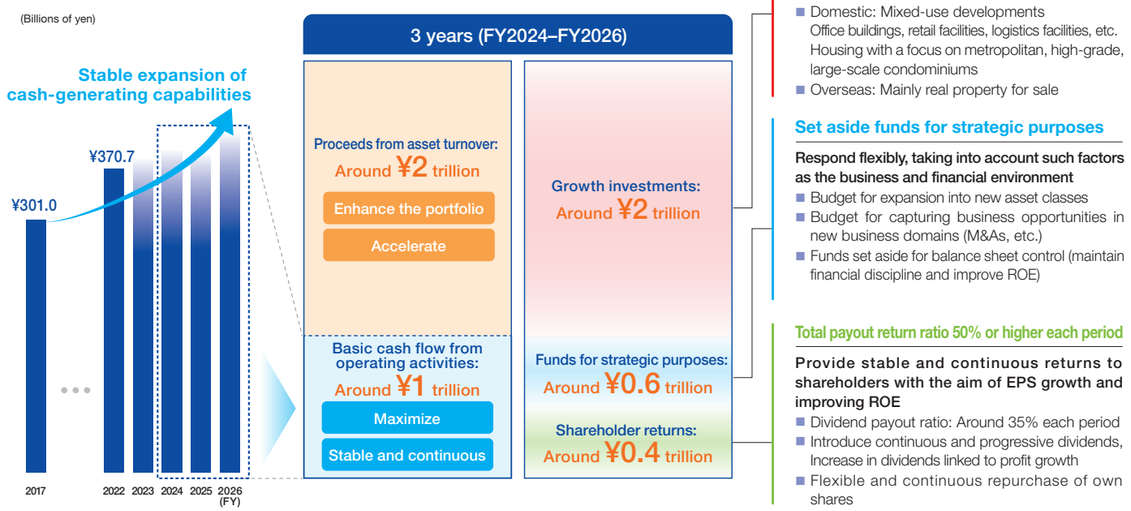
This figure is equivalent to 1.4 times the amount recovered over the past three years (fiscal 2021 to fiscal 2023), with half of the funds expected to be from domestic residential sales, and there is already a growing number of properties for which contracts have been concluded. As we have many assets suitable for sale both domestically and overseas, I believe that we will be able to fully achieve our goal of property sales to investors.

The third and final point is capital allocation of approximately ¥3 trillion in cash inflows over the three-year period.

From a cash outflow perspective, we will use the total of ¥3 trillion from the basic cash flow and asset recovery to appropriately allocate funds for growth investments, strategic funds, and shareholder returns while limiting any increase in borrowings.

In specific terms, we will allocate approximately ¥2 trillion to growth investments in our core businesses, approximately ¥600 billion to M&A investments and balance sheet control to extend our future business domains by establishing a new strategic fund framework, and approximately ¥400 billion to shareholder returns, which we have recently enhanced.

■ Enhance cash-generating capabilities (FY2024–FY2026)



Message from the CFO

Balance Sheet Control and Maintenance of a Sound Financial Position

Real estate development and neighborhood creation–type businesses are characterized by the heavy long-term use of the balance sheet.

However, due to the acquisition of excellent business opportunities and steady results from growth investments in recent years, combined with the impact of recent exchange rate fluctuations, from a balance sheet perspective, we recognized that total assets would stand at approximately ¥9.4 trillion and interest-bearing liabilities would total approximately ¥4.4 trillion at the end of fiscal 2023, amounts that were higher than expected.

For this reason, under & INNOVATION 2030, we will promote balance sheet control over the medium to long term, with the aim of maintaining total assets at approximately ¥9 trillion and interest-bearing liabilities at approximately ¥4.5 trillion in fiscal 2026, by accelerating asset turnover and realizing added value (valuation gains), while keeping in mind growth from both leasing income and sales profit.

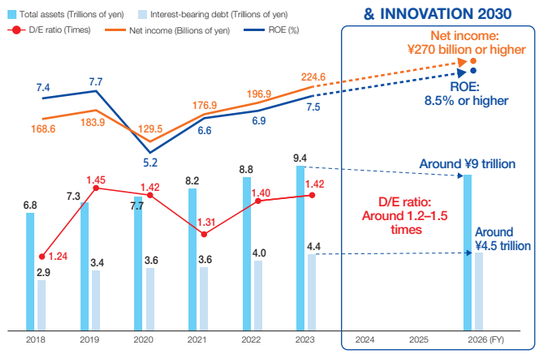
To accelerate asset turnover, we will not only sell off all fixed assets and real property for sale without exception but also take an overall view of investment securities.

As far as strategic shareholdings are concerned, which are included in investment securities, we had previously adopted a sales policy. Under & INNOVATION 2030, however, we have clearly stated that we will reduce these holdings by 50% from fiscal 2024 to fiscal 2026 and continue to actively pursue a reduction policy from fiscal 2026 onward.

In the case of shares held purely for investment purposes, we have decided that "reflecting our track record to date, we will continue to take a flexible and sustainable approach to selling over time, allocating proceeds to invest for future growth while also taking the share price into account." Moving forward, we will undertake sales at the opportune time.

By promoting these initiatives, we will strengthen our portfolio and, without increasing our assets or liabilities, achieve profit growth while bringing about improvements in efficiency.

■ Current status and future outlook for net income, ROE, total assets, and liabilities



In addition, taking into consideration the high level of interest rates overseas, and the transition to a positive interest rate environment in Japan in the future, I recognize the importance of maintaining and building a sound financial base on a continuous basis and curbing our net interest burden in order to ensure the stable continuation of our business.

For this reason, I aim to maintain A ratings from the major rating agencies. I will also promote appropriate financial leverage control. This includes keeping the D/E ratio at around 1.2 to 1.5 times, and paying close attention to maintaining financial soundness.

■ Credit ratings

Rating agency	Long-term	Short-term	Outlook
Moody's	A3	—	Stable
Standard & Poor's	A-	A-2	Stable
Fitch Ratings	A	—	Stable
Rating and Investment Information, Inc.	AA-	a-1+	Stable
Japan Credit Rating Agency, Ltd.	AA	J-1+	Stable

Note: As of August 2, 2024

In addition, with expectations that interest rates would remain high due to the prolonged tightening of monetary policy in Europe and the United States in response to the rise in global inflation, our initial earnings forecast for fiscal 2023 projected that the net interest burden would come in at ¥80 billion (a year-on-year increase of approximately ¥26 billion from ¥53.9 billion).

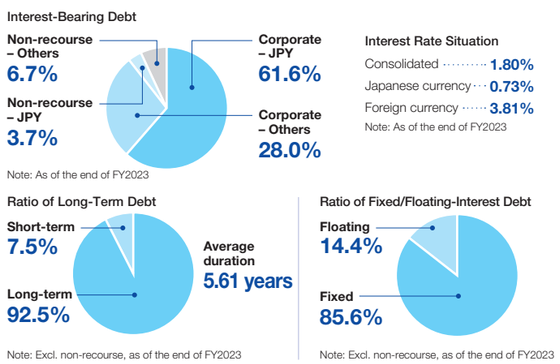
In response, we took flexible measures to reduce interest rates. This included taking advantage of the interest rate differential between the yen and the dollar and carefully selecting funding sources and methods. As a result, we were able to improve our net interest burden by approximately ¥8 billion from the ¥80 billion forecast at the beginning of the fiscal year to ¥72.3 billion.

Going forward, we anticipate that steps will be taken to lower interest rates in the United States. Notwithstanding, I expect interest rates to remain high for the time being.

However, as approximately 90% of our yen-denominated borrowings are long term and fixed, I do not anticipate any significant impact as a result of interest rate hikes. However, I expect interest rates to gradually rise domestically as well.

In this manner, I believe it is necessary to closely monitor interest rate trends in Japan and other countries. In my capacity as CFO, I will respond flexibly to each situation, and pursue a variety of measures, including adjusting borrowing maturities and methods, to control interest rates and maintain and improve financial soundness.

■ Fund procurement and credit rating situation



Raising Corporate Value by Steadily and Sustainably Improving ROE to a Level That Exceeds the Cost of Shareholders' Equity

From an ROE perspective, while we were able to recover to the pre-COVID-19 level of 7.5% at the end of fiscal 2023, I believe that there are still issues to be addressed. Under & INNOVATION 2030, we have therefore set ROE targets of 8.5% or higher for fiscal 2026 and 10% or higher around fiscal 2030.

To achieve these targets, we will work to grow net income, as the numerator, and control shareholders' equity, as the denominator, by strengthening returns. Turning specifically to the numerator, net income, we will do the following:

(1) First, increase business income from ¥346.1 billion in fiscal 2023 to ¥440 billion in fiscal 2026 through income growth in each business segment. We will achieve increased income in each segment through the following initiatives:
- **Leasing:** Increase in leasing income due to the completion of new properties and increased rents from existing properties
- **Property sales:** Sales of fixed assets and real property for sale without exception, with an eye toward increasing both property sale and leasing income
- **Management:** In doing so, we will consider proactively utilizing third-party funds (borrowed capital) in the case of large-scale developments from the start-up stage as well as raising business efficiency through earning management fees, which we classify as non-asset income, in addition to our share of revenues.
- **Facility operations:** Further improve hotel resorts ADR, increase in the numbers of Tokyo Dome customers, etc.

(2) At the same time, we will proceed with the sale of investment securities.

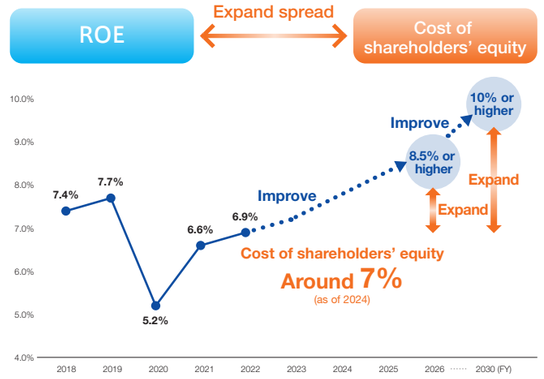
The aforementioned will increase net income from ¥224.6 billion in fiscal 2023 to ¥270 billion or more in fiscal 2026.

We will control shareholders' equity, as the denominator, by increasing our total return ratio from the previous level of approximately 45% to 50% or higher.

I am aware that there are various discussions regarding the cost of shareholders' equity, but based on the CAPM, which is the most commonly used calculation method, I believe that the cost is around 7%.

It is my belief that to raise our corporate value and increase our share price, we need to expand the equity spread between our ROE and the cost of shareholders' equity. Accordingly, I will continue to make every effort to improve our ROE.

■ Steadily and sustainably improve ROE to a level that exceeds the cost of shareholders' equity



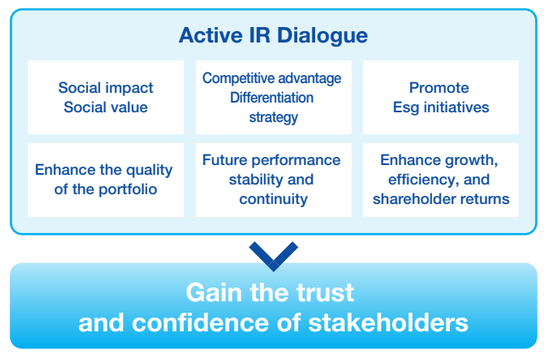
Continue to Engage in Proactive IR Dialogue

I recognize that in raising our corporate value and increasing our share price it is essential that investors have a deep understanding of our company.

For that reason, I consider dialogue with investors to be one of my most important tasks as CFO.

Since becoming CFO last year, I have kept mutual dialogue very much in mind, holding numerous meetings with investors, listening directly and frankly to their opinions, and explaining the Company's thinking.

The content of these dialogues was actively provided as feedback within the Company, leading to discussions within management, and was reflected in & INNOVATION 2030.

To help investors better understand its content, I am currently spearheading efforts to explain & INNOVATION 2030. Having said this, I will continue to strengthen our communications, particularly about the Company's social value, competitive advantage and differentiation strategy, efforts to improve ESG, the resilience of our asset portfolio, and the stability and continuity of our future performance. I will steadily promote management that integrates the three key objectives—enhance growth, efficiency, and shareholder returns—set out in & INNOVATION 2030 and improve each of the KPIs to achieve our numerical targets. By proactively engaging in IR dialogue, I will work diligently to gain and maintain the trust and sense of security of our investors and other stakeholders, thereby contributing to raising our corporate value and increasing our stock price.

■ Communication aimed at deepening engagement with capital markets