

Mitsui Fudosan Co., Ltd.  
2Q FY2018 Analyst Meeting Q&A Summary

- Q. In the Group Long-term Vision: VISION 2025, Mitsui Fudosan does not disclose a specific target for ROE. How much of an improvement do you expect by FY2025? Could you also discuss the measures you are implementing to achieve this?
- A. Assuming we achieve the targets for profit growth and ROA (around 5%) set out in VISION 2025, the ROE level would be in line or slightly higher than the FY2017 level. FY2017 earnings include one-off profits, which pushed up ROE. *(NB. FY2017 ROE 7.4%)* We believe the primary measure to improve ROE should be to concentrate on raising profit levels. We recognize it is possible to improve ROE by enhancing shareholder returns or raising leverage. We are discussing and considering a variety of alternatives while we continue our efforts to improve ROE.
- Q. Under the VISION 2025 plan, Mitsui Fudosan aims to raise the profit contribution from overseas businesses to 30% of consolidated operating income. Can you discuss the level of contributions you are assuming from the Leasing and Property Sales segments respectively to achieve this target?
- A. In order to achieve our goal, we believe it will be important to generate profits from not only the Leasing segment but from condominium sales in the US and Southeast Asia, property sales to investors and funds currently in development, in a well-balanced manner.
- Q. On capital allocation, hypothetically speaking, if financial leverage did not rise as much as you expect as a result of a relatively limited number of opportunities for large-scale investments, is it possible that Mitsui Fudosan might undertake share buybacks over and above the level set out in your stated total shareholder return policy in order to boost ROE?
- A. Given the robust development pipeline already in place for our domestic and overseas businesses, we expect our D/E ratio will rise over the longer term. With regard to shareholder returns, we just set our total shareholder return target at 35% of profits attributable to the owners of the parent in May. For now, we will continue to distribute profits in line with this policy.
- Q. On the back of rising investments, Mitsui Fudosan's interest-bearing debt level will likely also increase. Would you consider not limiting sales to J-REITs to just real property for sale, but also selling tangible asset holdings to maintain financial leverage at an appropriate level?
- A. We recognize that interest-bearing debt is on a rising trend relative to previous levels. We believe that it is important for management to focus not only the absolute level of debt but to retain the ability to control financial leverage appropriately in the event of financial

market moves. We will continue to monitor financial market trends while maintaining appropriate levels of financial leverage to ensure we optimize our fund raising activities.

Q. Could you disclose your exposure to Southeast Asia and the scale of profit contributions you expect from your investments in the region? Also, please comment on your policy for investments in Southeast Asia going forward.

A. We do not specifically disclose regional exposure but total outstanding assets for China and Asia as of the end of September were around ¥150 billion yen. Southeast Asia is a high-growth market with an expanding middle class where we expect to see further urbanization. Stable profits in China and Asia will be key in order to achieve our VISION 2025 target of generating 30% of consolidated operating income from our overseas business. From the perspective of risk diversification, we aim to win business opportunities in many asset classes, not just residential property for sale or retail facilities.

Q. Please tell me the percentage of Mitsui Fudosan's total leasable floor space currently accounted for by Work Styling, your shared office business. Also, please discuss your expectations for the profitability of this business going forward.

A. Currently, the floor space for Work Styling is around several thousand tsubo (3.3 m<sup>2</sup>), accounting for only a small percentage of our total leasable floor space. However, we believe the future potential for the shared office business is very high. In addition to providing working space for start-ups and freelancers, we are seeing rising demand to accommodate diverse range of working styles, driven by initiatives for work style reform. We are still exploring how best to structure our business model in order to capture evolving demand but we hope it will develop into a new business distinct from our traditional office business.

Q. You have plans for significant supply in your office pipeline in 2022 and beyond. Please discuss your outlook for the leasing market. Do you think you can continue to lease at favorable conditions?

A. It is challenging to predict what the office market might look like in the longer term at this point in time. However, we would expect to see a certain level of office demand maintained beyond 2022 given the robust near-term demand for office space. Also, in redevelopment projects we would expect to see demand exceed the demand from existing landowners and tenants, as there would likely be additional demand to consolidate affiliates in a single location. Additionally, we believe it is important to manage our business based on rent assumptions at levels which ensure we have the flexibility to respond appropriately in the event of market volatility, rather than assuming favorable market conditions.

- Q. With regard to inventory for the Property Sales to Investors business, how should we think about the trend for inventory levels going forward?
- A. Inventory levels are rising on the solid progress we have been making in winning business opportunities and the addition of new asset types, such as logistics facilities. At the same time, we are also focusing on selling properties to lock in capital gains as appropriate, on the back of the strong real estate investment market. As such, we would not expect inventory outstandings to rise excessively going forward.
- Q. Please discuss your view of strategic equity holdings.
- A. We provide a breakdown of our strategic equity holdings into 4 categories, reflecting the reasons for maintaining each holding, in our Integrated Report 2018 (English) and the Annual Securities Report (*Yuho Financial Report: Japanese*). Also, we have already sold some of our holdings, based on a comprehensive review of the reason for the holding, expected return and other factors, as recommended in the Corporate Governance Code.
- Q. I understand that Mitsui Fudosan is planning to move into the Nihonbashi Muromachi Mitsui Tower in FY2019. Could you talk about the scale of the planned move? Also, what are your plans for developing Ginza 6-chome Square once you have vacated the building?
- A. Mitsui Fudosan's business divisions and some of the Group companies will be moving. However, at this stage, we cannot quantify the scale of the move, as it will be a function of the requirements of other tenants. We will disclose further information once we know. With regard to Ginza 6-Chome Square, we have made no decisions on development plans at this stage.
- Q. Regarding governance of your overseas businesses, please discuss the current situation and your initiatives going forward in order to achieve VISION 2025 targets.
- A. We have made some progress in localization: the CEO of Mitsui Fudosan America is an American. However, we believe there is more to be done in terms of localization, including progress at the local subsidiaries in the UK and Southeast Asia. Alongside our localization efforts, we view the development of enhanced governance and compliance systems as a priority and are focused on addressing these issues with speed.
- Q. Do you view the acquisition of a real estate developer as a viable way of accelerating your investments?
- A. We recognize that acquiring an existing company is one way of accelerating the pace of profit generation. However, Mitsui Fudosan has a robust pipeline of projects, including a number of projects that have yet to be disclosed. Therefore, for the time being, we will focus on generating higher development returns on investments in these promising projects.

Q. Can we expect Mitsui Fudosan's capex to peak in the next few years?

A. Japan experiences a significant number of natural disasters. As such, we would expect to see continued and unchanged demand to build neighborhoods where people can live and work with a sense of safety and security. There are still many old buildings which must be replaced; the need to develop social infrastructure and redevelop neighborhoods continues to rise. Mitsui Fudosan believes there will continue to be strong demand for investment.

Q. Mitsui Home was made a wholly-owned subsidiary through a TOB. Please discuss the synergies you expect to generate going forward. Also, would you consider overseas expansion for the order-made detached home business?

A. We are focused on generating synergies with Mitsui Home, such as pooling customer information and enhancing tie-ups with our residential group companies, to improve management efficiency as quickly as possible. We already have overseas operations in Canada and the US as a production builder, manufacturing and selling wall panels and trusses, as well as undertaking construction work on consignment. However, our immediate priority is to strengthen the existing Mitsui Home businesses, including the domestic 2x4 wood frame order-made detached home business and the renovation and rental residential business.