Mitsui Fudosan Co., Ltd.

FY2020 Analyst Meeting Q&A Summary

Q. Please comment on how the operating environment has changed relative to your assumptions in the Long-term Vision: VISON 2025. Are there areas where you feel you need to make adjustments to your strategies?

A. We have three basic strategies under VISON 2025: to establish a sustainable society through the creation of neighborhoods; to leverage technology to drive innovation in the real estate industry; and to evolve into a global company. These remain unchanged.

With regard to the establishment of a sustainable society and our assumptions when we formulated VISION 2025, we have since newly positioned decarbonization as a key management issue. However, we are still in the process of assessing the quantitative impact of our decarbonization initiatives, so we currently have no plans to change our quantitative VISION 2025 target of achieving operating income of approximately 350 billion yen around 2025.

On leveraging technology to drive innovation in the real estate industry, we will focus on growing both our conventional office offerings and the multi-site satellite office product, Work Styling, in response to the diversification of working styles. In our retail facilities business, we are already working on new initiatives, focusing on both our real shopping centers and our EC site & mall to reflect changing consumer purchasing behavior. We are aligning ourselves with the evolving needs of our customers.

On evolving into a global company, the impact of the COVID-19 outbreak dampened efforts to lock-in new business opportunities over the last 12 months. As a result, it is possible that achieving our goal of generating around 30% of operating income from overseas businesses at around 2025 may be slightly delayed.

Q. Please discuss your assumptions for property sales going forward, as it relates to balance sheet control.

A. In asset sales, we aim to generate development profits by prioritizing the sale of real property for sale. For properties initially acquired as real property for sale that we now would prefer to hold, we will consider transferring such properties to tangible assets. With tangible assets, we will first clearly determine our priorities. Where we hold multiple properties in the same area, we will continue to hold those properties that we feel are necessary for neighborhood creation, and sell the others. We will be flexible on the timing of property sales, based on prevailing market conditions.

Q. Please discuss the leasing conditions for your rental residential properties in the US, as well as your investment stance on rental residential properties going forward.

A. The rental residential properties we own in the US are primarily located on the East and West Coasts. In the rental residential market, we have recently seen progress on a recovery in city center locations, boosting our occupancy rates. As vaccination levels rise, people who had been working from home are gradually returning to the office. City center restaurants and entertainment venues have started to reopen, improving the attractiveness of city center neighborhoods. Based on this, we believe there is no need to change our investment stance.

Q. Please share your thoughts on your future office leasing strategy, given expectations for a continued supply of new office space in the Tokyo area in 2023 onward, while the number of workers in Tokyo is expected to decline.

A. In the midst of the ongoing pandemic, corporates have many concerns including the sustainability of working from home on a prolonged basis. The COVID-19 outbreak has led to a diversification of working styles while also reaffirming the importance of real offices. Going forward, we believe it will be important to be able to offer solutions that are tailored to tenants' needs, based on industry and format.

As well, we expect that tenants will become more selective about location and specs for office space. Corporates selecting fixed office space have a preference for highly convenient locations that can contribute to attracting skilled human resources, or office space that can facilitate innovation. They also require high levels of cyber security, BCP features and other elements, such as being enabled for green power. These elements will be key for differentiation.

In addition, given the expected decline in the number of Japanese workers going forward, we believe it will also be necessary to attract foreign companies. For instance, we are focused on initiatives at Tokyo Midtown Yaesu to create an attractive environment for non-Japanese workers, including an international school and an English-language medical clinic. These measures will enhance our ability to deliver on Real Estate as a Service, which is an important competitive strategy.

Q. You are guiding for operating income of 111 billion yen in the Property Sales to Investors subsegment for FY2021. Do you expect to be able to maintain this level in FY2022 and beyond?

A. The outstanding balance of real property for sale and the need to control the scale of total assets on the balance sheet suggests profit recognition of a similar scale for FY2022. Also, even if profits in segments other than Property Sales recover this fiscal year as a result of expanded vaccination programs, we are committed to executing on our current plan for Property Sales to Investors.

Q. We have seen an increase in real estate developers adopting ROE as a KPI. Please discuss your thoughts on this.

A. We certainly recognize the need to maintain and enhance ROE through stable profit growth and sustained improvements in ROA. However, we do not take a favorable view of tweaking leverage as a way of boosting ROE levels for the real estate industry.

Our ROE in FY2019, prior to the outbreak of COVID-19 was 7.7%. However, frankly speaking, I don't have a firm view at this time on what the optimal ROE level should be in the real estate industry. As a company, we haven't positioned ROE as a KPI because we do not have a fixed view at this time. That said, we are not satisfied with the current ROE level. We are seriously committed to improving ROE through our own efforts.

Q. How are you thinking about the profitability of the overall residential business, looking beyond the condominiums to include detached homes, new home construction and brokerage?

A. Going forward, I believe it will be necessary to look at our business from the perspective of customer behaviors as opposed to product lines. This applies to customer demand for living spaces as well. I feel we need to change how we think about this. Rather than focusing on specific product categories related to living spaces such as new or existing condominiums or detached homes, and, in some instances, hotels as well, we need to consider how best to respond to customers' total needs for living space, taking into consideration methods of handling real estate such as property sales and leasing. We should be thinking about the level of profit we can generate as a consequence of this approach.

Q. With regard to how real estate developers are viewed by investors, what in particular do you want investors to focus on in looking at Mitsui Fudosan?

A. I would like investors to look at what kinds of business opportunities we are winning as a real estate developer. The scale of profit in the real estate industry is highly dependent on the price paid for land and development plans. It is a long-dated business, where in many cases, it can take up to 5 to 10 years to recognize profits. If we look at our developments to date, such as Otemachi One, Tokyo Midtown Hibiya or Coredo Muromachi, as well as future projects such as Tokyo Dome or the Uchisaiwaicho Project, I believe it is important to recognize that we continue to add development plans that are highly likely to contribute significantly to profits in 5 to 10 years. From this perspective, I believe one way of assessing real estate developers is to focus on the success we have in buying prime land and the high growth potential of our acquisitions.

Q. What do you find attractive about Tokyo Dome? Please also comment on the pace we should expect in terms of the timing of redevelopment and value enhancements.

A. One of the attractions of Tokyo Dome is the potential to elevate the profitability of stadium operations by leveraging digital technologies. For example, I believe there is room for upside by moving to digital signage, providing smart phone-based services to visitors and monetizing the online distribution of content such as sporting events and concerts. I also believe that we can improve profitability by leveraging our customer base and facilities management know-how in revisiting the retail facility's tenant composition and hotel management. We can also benefit from collaborating with the Yomiuri Shimbun Group by capitalizing on the compelling content represented by the Yomiuri Giants baseball team.

On the redevelopment plan, our assumption is that we will need several years to secure planning approvals, reflecting the fact that the zoning for much of the land under Tokyo Dome is city planning park land. As the pandemic is highly likely to have subsided by the time approvals are secured, I feel that we should give due consideration to the configuration of facilities based upon what we expect the entertainment market to look like in 10 or 20 years' time, rather than rushing to redevelop. In terms of the pace of value enhancements, we believe that even with the existing facilities, there is much we can do to improve the stadium and associated facilities.

Q. Please discuss the outlook for the D/E ratio going forward.

A. We aim to generally control the D/E ratio in a range between 1.2x to 1.6x. Currently, we are at the mid-point of this range, at around 1.4x. Considering that we will be undertaking capex while also controlling the balance sheet by aiming for total assets of around 8 trillion yen and interest-bearing debt of 4 trillion yen, I believe the D/E ratio will remain at a level of around 1.4x going forward.