Section 3

Sustainable Growth

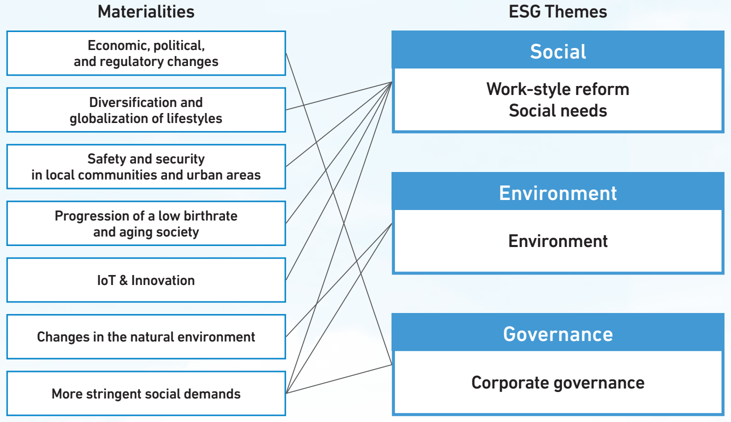
We will solve social issues through our business activities and work with stakeholders to realize a sustainable society and growth.

Financial Capital Strategy

A stable financial base is essential for sustainable growth. We readjusted our Medium-Term Management Plan in May 2019 based on our steady business environment and an increase in capital through public offering. We are aiming to improve earnings per share (EPS) growth and return on equity (ROE) through strengthening our earning power while maintaining financial order aimed at further improving shareholder and corporate value.

ESG Management

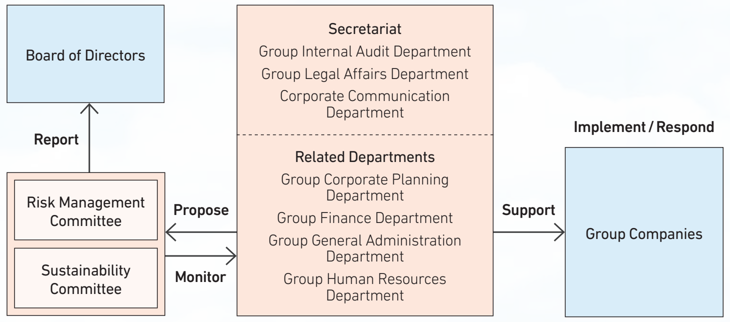
We have established ESG as a significant management issue. In our Medium-Term Management Plan, we specified our Group materiality (key social issues), and formulate four themes from the perspective of ESG: work-style reform, social needs, environment, and corporate governance. We established KPI goals for fiscal 2020 for each of these themes, and we are progressing across the Group with initiatives aimed at achieving these goals, while following the PDCA cycle.



Sustainability Committee

Directors discussion on SDGs

ESG Management Structure



SDGs badge made from timber cut to thin the conserved forest as part of the Midori wo Tsunagu Project

Photo: The view from our new headquarters, SHIBUYA SOLASTA

Sustainable Growth

Financial Capital Strategy

We readjusted the goals of our Medium-Term Management Plan based on our steady business environment and an increase in capital through public offering, and added ROE and EPS goals as indicators of increased shareholder value. We are aiming to improve EPS growth and ROE through strengthening our earning power while maintaining financial discipline aimed at further improving shareholder and corporate value.

Fiscal 2018, the second year in our Medium-Term Management Plan 2017-2020, resulted in an operating revenue of ¥901.9 billion, an operating profit of ¥80.2 billion, and earnings of ¥37.5 billion - updating our record for highest profits ever earned. We readjusted our Medium-Term Management Plan in May 2019 just as we hit the midpoint of the 4-year Plan, based on the active office building market and other robust business environments, the results that exceeded our original Plan, and the increase in capital through public offering in October 2018.

▶ **See page 32, "On Readjusting Our Medium-Term Management Plan"**

First, we upwardly revised our anticipated values. We increased the anticipated operating profit by ¥2 billion and the anticipated earnings by ¥8 billion, and changed the debt-equity ratio from 2.3 to less than 2.3. Second, we added new goal indicators. We added ROE and EPS as indicators of increased shareholder value, with the ROE goal value set at ¥69.53 and EPS set at over 8%.

We are aiming to improve EPS growth and ROE through strengthening our earning power while maintaining financial discipline aimed at further improving shareholder and corporate value as a basic policy. In order to do so, we are working on three missions: to grow earnings, to increase return on assets (ROA), and to maintain financial order **(Figure 1)**. To achieve these missions, it is essential to increase the profitability of each business, and we are going to investigate future portfolio business strategies, categorizing our businesses into three categories: Asset Utilization Businesses, Stock Utilization Businesses, and Strategic Businesses.

In our Asset Utilization Businesses, making up about 84% of our total assets, we are increasing our revenue base and improving ROA through operating large-scale projects under development centered around our Urban Development business, promoting highly efficient business, and continuing cyclical reinvestment. For our highly efficient businesses, we are actively developing our socially-important renewable energy business, our housing redevelopment business, our Tokyu Stay, urban style hotels, and more. NOI Yield for already operating properties accounts for about 5% of the non-current assets in our urban development business. We are anticipating improved ROA in the future through the operation of the Greater Shibuya Area and other redevelopment projects. For our Stock Utilization and Strategic Businesses, with investments remaining at about 16% of our total assets, we are seeing stable growth of profits through improvements in profit margin, etc.

A stable financial base is required for sustainable growth, and maintaining financial order is essential. We will control the debt-equity ratio in the future based on increases in equity through yearly profit. In fiscal 2018, our interest-bearing debt increased through new investments, etc., but our debt-equity ratio fell below 2.3x through the expansion of equity via an increase in capital through public offering. We anticipate that our interest-bearing debt will increase again in fiscal 2019 through continued investments in Shibuya's redevelopment, but we plan for the debt-equity ratio to remain at 2.3x **(Figures 2 and 3)**.

We received a high evaluation for our financial improvements through capital increases through public offering and our high standard of accumulated net income, increasing our rating in January 2019 from A- to A on the Japan Credit Rating Agency's Long-term Issuer Rating Scale.

As a future goal, we are aiming to control the debt-equity ratio so that it is below 2.3x, and keep the EBITDA ratio at the standard 10x **(Figures 3 and 4)**. We have a policy of directing our investment capability, created through an increase in equity, towards excellent properties, including the Greater Shibuya Area.

For our capitalization strategy, we will enrich stockholder returns through the stable growth of EPS, while also establishing an ROE goal of over 8% for fiscal 2020, keeping the cost of capital stock in mind **(Figures 5 and 6)**. Through this readjusting of our Plan, EPS exceeded the anticipated standard before the increase in capital through public offering, and we anticipate that the diluted portion will recover by fiscal 2020 through capital increases.

We are making it a basic policy for shareholder returns to make the dividend payout ratio at 25% or more while also continuing stable dividend payments. We anticipate a record profit for fiscal 2019 as well, planning for a ¥16.0 dividend (per share) – the 7th consecutive increase. We anticipate the dividend payout ratio to be 29.5% **(Figure 7)**.

Figure 2. Changes in Equity and Interest-bearing Debt

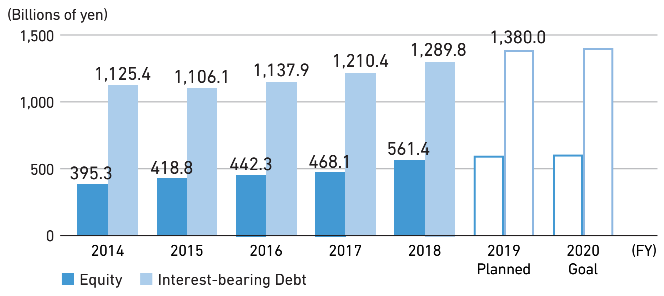


Figure 3. Changes in Debt-Equity Ratio

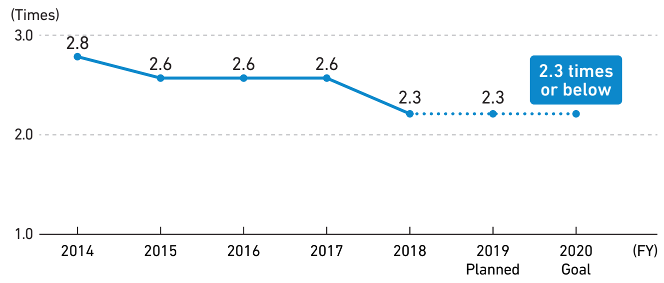


Figure 4. Changes in EBITDA Ratio

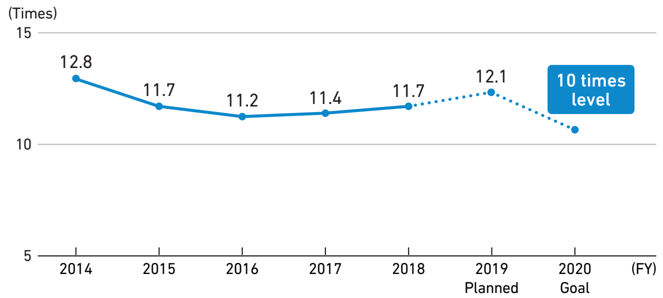
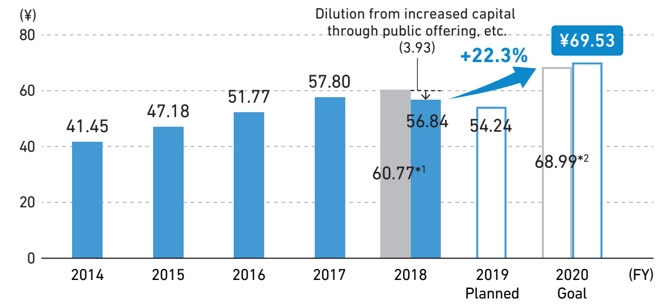


Figure 5. Changes in EPS



*1. Original anticipated value as of May 10, 2018
*2. Original anticipated value as of May 11, 2017

Figure 6. Changes in ROE

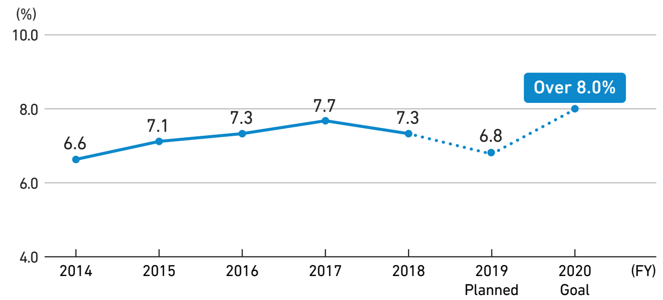
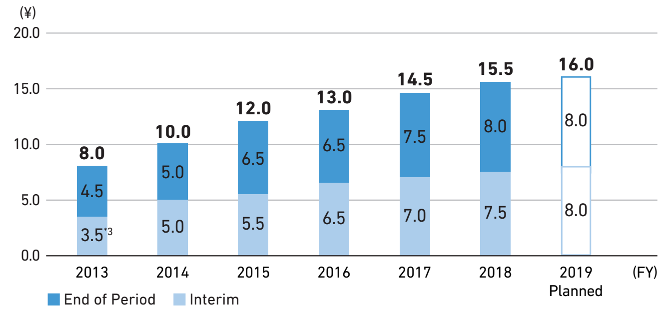
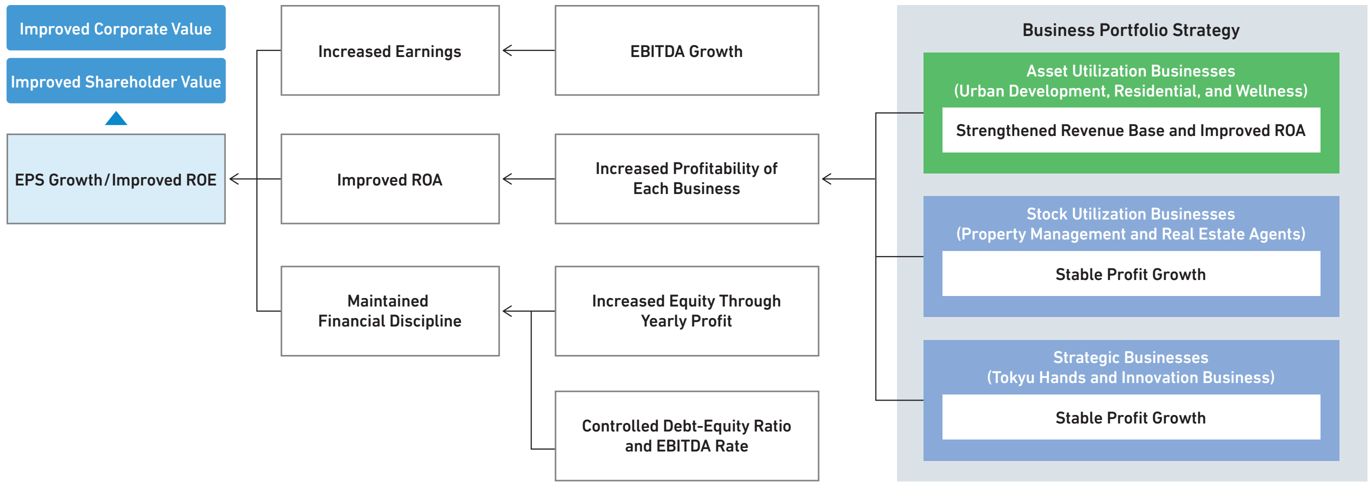


Figure 7. Changes in Dividends (Per Share)

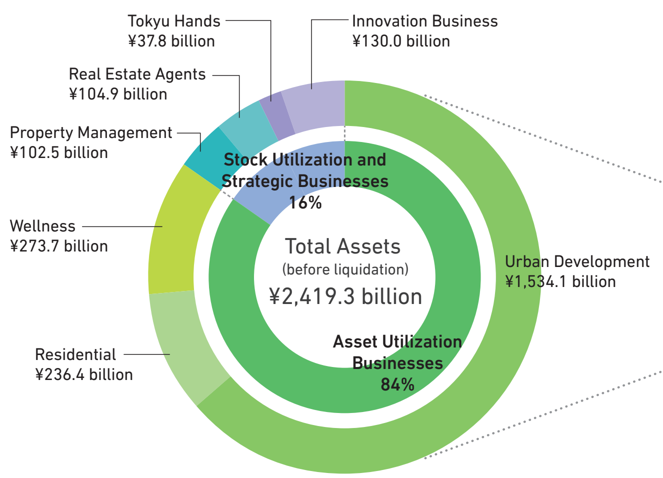


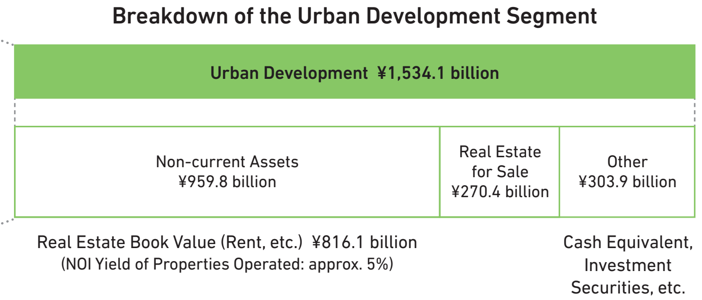
*3. Interim dividends for fiscal 2013 are the dividends for TOKYU LAND CORPORATION

Figure 1. Basic Policies Aimed at Further Improving Shareholder and Corporate Value



Breakdown of Assets by Segment





Sustainable Growth

Financial Analysis

Operating Results

Summary of Results

- The results for fiscal 2018 include an operating revenue of ¥901.9 billion (4.1% increase from previous year), an operating profit of ¥80.2 billion (3.5% increase), an ordinary profit of ¥70.7 billion (3% increase) and a profit attributable to owners of parent of ¥37.5 billion (6.5% increase).
- Following the opening of Tokyu Harvestclub Karuizawa & VIALA, a member's only resort hotel as part of the Wellness segment, co-owned shares were handed over, and there was an increase in sales and profits through the strong condition of the Real Estate Agents segment.
- After shifting to a holdings system, we've achieved an increase in operating profit, ordinary profit, and profit attributable to owners of parent over 6 consecutive terms.

(Billions of yen)

	FY2016	FY2017	FY2018	Comparison
Operating revenue	808.5	866.1	**901.9**	35.8
Operating profit	73.2	77.5	**80.2**	2.7
Ordinary profit	63.6	68.7	**70.7**	2.1
Profit attributable to owners of parent	31.5	35.2	**37.5**	2.3
EBITDA multiple*1	11.2 times	11.4 times	**11.7 times**	0.3
ROA	3.6%	3.7%	**3.5%**	(0.1)P
ROE	7.3%	7.7%	**7.3%**	(0.5)P

Operating Revenue/Operating Profit by Segment

- There were increases in both revenue and Profit for the Property Management, Real Estate Agents, Wellness, and Tokyu Hands segments, a decrease in revenue but an increase in profit for the Innovation Business segment, and decreases in both revenue and profit for the Urban Development and Residential segments in fiscal 2018.

Urban Development Although we started operations at new facilities and improved lease revenues from existing real estates, there was a decrease in both revenue and profit due to a decrease in gains on the sales of buildings to investors, a loss in income from properties sold last fiscal year, and an increase in costs for redevelopment projects.

Residential Although there was an increase in gains for rental housing aimed at investors, there was a decrease in both revenue and profit due to a decrease in the total number of condominiums.

Property Management There was an increase in both revenue and profit due to an increase in construction sales for buildings, etc., in addition to the expansion of management stock for condominiums and buildings.

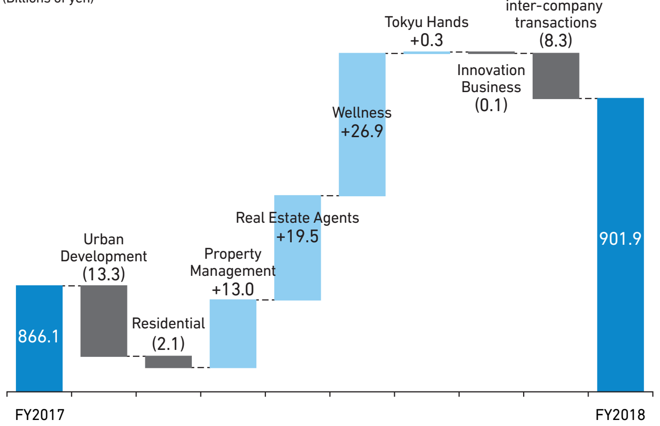
Real Estate Agents There was an increase in both revenue and profit due to sales including purchase and resale and an increase in the number of building residences for investors, in addition to the strong condition of the real estate sales agent retail department against a backdrop of a robust real estate market.

Wellness There was an increase in both revenue and profit due to the start of new facilities operations at Tokyu Stay, an urban style hotel, in addition to the handing over of co-owned shares of a members-only resort hotel and sales of assets.

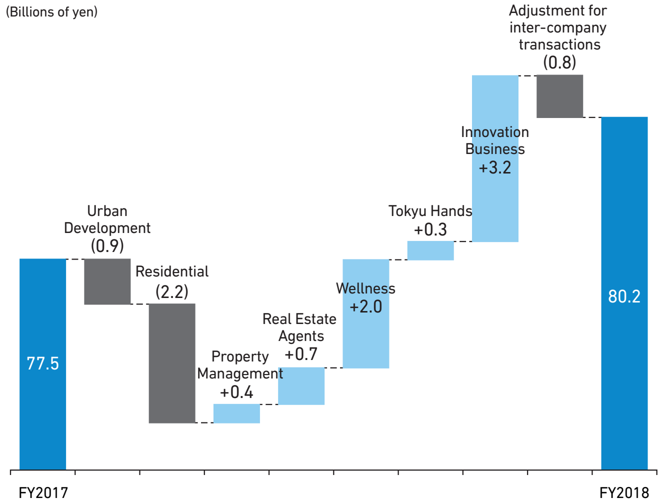
Tokyu Hands There was an increase in both revenue and profit due to the opening of new stores and a decrease in expenses.

Innovation Business Although there was a decrease in revenue due to the impact of transferring part of the renovation business to the property management segment, there was also an increase in revenue due to an increase in sales of properties from overseas operations and the number of condominiums in Indonesia.

Operating Revenue by Segment
(Billions of yen)



Operating Profit by Segment
(Billions of yen)



*1. EBITDA multiple: Interest-bearing debt/EBITDA (Operating profit before depreciation)

Financial Position

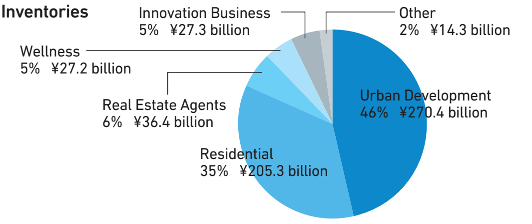
Assets, Liabilities, and Total Net Assets

- Total assets at the end of fiscal 2018 were ¥2 trillion 405.2 billion, an increase of ¥232.0 billion compared to the end of the previous fiscal year. There was an increase in monetary capital (including "Other") from multiple temporary increases, including lags in payment periods and deposits received from subsidiaries. There was also an increase in land and buildings for sale mainly in facilities related to infrastructure and commercial facilities currently in operation.
- Total liabilities were ¥1 trillion 836.6 billion, an increase of ¥138.7 billion compared to the end of the previous fiscal year. Total net assets were ¥568.7 billion, an increase of ¥93.4 billion from the end of the previous fiscal year due to capital increases mainly through public offering.

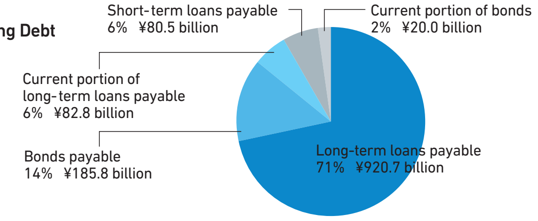
(Billions of yen)

	FY2016	FY2017*2	FY2018	Comparison
Real estate for sale	418.6	473.7	**568.0**	94.3
Property and equipment, Intangible assets	1,164.1	1,165.6	**1,142.4**	(23.3)
Goodwill	88.0	82.6	**77.1**	(5.4)
Other investment	214.7	258.1	**294.4**	36.3
Other	181.8	193.2	**323.3**	130.1
Total assets	2,067.2	2,173.2	**2,405.2**	232.0
Interest-bearing debt	1,137.9	1,210.4	**1,289.8**	79.4
Other	483.0	487.5	**546.7**	59.2
Total liabilities	1,620.8	1,697.9	**1,836.6**	138.7
Total net assets	446.3	475.3	**568.7**	93.4

Breakdown of Inventories



Breakdown of Interest-bearing Debt



Market Value Appraisal for Leased Properties

- The carring value at the end of fiscal 2018 for leased properties, including office buildings and commercial facilities, was ¥816.1 billion, with a fair value of 1 trillion ¥61.5 billion – a difference of ¥245.3 billion. Properties that are planned but not yet opened (¥52.9 billion at the end of fiscal 2018) are not included in year-end fair value or carring value, as it is difficult to determine their value.*3

(Billions of yen)

	FY2016	FY2017	FY2018	Comparison
Carring value	797.5	791.4	**816.1**	24.8
Fair value	928.5	937.1	**1,061.5**	124.4
Difference	131.0	145.7	**245.3**	99.6

Cash Flows

- Cash flows from investing activities in fiscal 2018 decreased by ¥60.4 billion due to the non-current asset investments from office buildings, commercial facilities, etc., but cash flows from financing activities were appropriated the decrease, including cash flows from operating activities, issued shares, and the procurement of interest-bearing debts.
- Cash flows from operating activities increased when compared to the previous fiscal year through consignment sale deposits, as well as profit before income taxes.

(Billions of yen)

	FY2016	FY2017	FY2018	Comparison
Cash flows from operating activities	68.9	12.3	**44.5**	32.3
Cash flows from investing activities	(71.0)	(96.4)	**(60.4)**	36.0
Cash flows from financing activities	23.0	82.4	**139.1**	56.7

Return to Shareholders

- We consider returns to shareholders as one of the most important policies in our Medium-Term Management Plan 2017-2020, comprehensively considering achievements, the future business environment, and capital requirements including medium-term development. We have made it a policy to determine the distribution of profits with a target payout of 25% or more while maintaining stable dividend policies.
- In fiscal 2018, we've achieved an increase in dividends over 6 consecutive terms through a steady increase in profit attributable to owners of parent.

(yen)

	FY2016	FY2017	FY2018	Comparison
Dividends per share	13.00	14.50	**15.50**	1.00
EPS (earnings per share)	51.77	57.80	**56.84**	(0.96)
Dividend payout ratio	25.1%	25.1%	**27.3%**	-

*2. The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) took effect at the beginning of the first quarter of fiscal 2018, and this Accounting Standard was applied retroactively to the main management indexes from fiscal 2017.
*3. The following properties, set to open from fiscal 2019, are included as their market value was able to be determined: SHIBUYA SOLASTA, SHIBUYA FUKURAS, and the Takeshiba District Development Plan (tentative name).