

## Foundations Supporting Our Sustainable Growth

# Financial Capital Strategy

Business conditions have changed rapidly as a result of the COVID-19 pandemic, and it remains difficult to forecast when the situation will end. Under these uncertain conditions, where it is unclear what may lie ahead, having a stable financial base becomes more important than ever. Moving forward, we aim to improve EPS growth and ROE by enhancing our earning power while maintaining financial discipline, with a view to further improving shareholder and corporate value in the future.

In May 2019, which marked the beginning of the third year in our Medium-Term Management Plan 2017-2020, we readjusted our Medium-Term Management Plan based on factors such as the robust business conditions that had existed until that time, business results that exceeded those of our initial plan, and the increase in capital through the public offering carried out in October 2018. The readjustment involved upward revisions to financial target indicators. Although business performance remained steady until the third quarter of fiscal 2019, business conditions changed drastically from the fourth quarter onwards as a result of the COVID-19 pandemic. The Group's business performance has been greatly affected by the pandemic, primarily in BtoC business operations. As a result, we cannot expect to achieve our financial target indicators for fiscal 2020, the final year of the plan.

In the readjustment to our Medium-Term Management Plan, we added EPS and ROE as new indicators for increasing shareholder value (Figures 5 and 6). We have established the policy of aiming to improve EPS growth and ROE through strengthening our earning power while maintaining financial discipline with a view to further improving shareholder and corporate value. Although both EPS and ROE are expected to fall for fiscal 2020 as a result of the drastic changes in the present business environment, the Group's stance of aiming to improve shareholder and corporate value in the medium to long-term remains unchanged. With regard to ROE, we feel that it will be necessary to make a conscious effort to achieve a level of 8%, while keeping shareholder capital costs in mind. In order to improve EPS and ROE, we will continue to work on three missions: to grow net earnings, to increase return on assets (ROA), and to maintain financial discipline (Figure 1).

To achieve these missions, it is essential to increase the profitability of each business. In fiscal 2020, however, we are facing challenging conditions, in which profitability is expected to worsen for all business segments. With respect to our business portfolio strategy going forward, we are planning to discuss dividing the current seven business categories into three: Asset Utilization Businesses, Stock Utilization Businesses and Strategic Businesses. We will advance this

discussion along with the medium- and long-term management plan that we are currently drafting, while carefully determining the impact of With-COVID-19 and Post-COVID-19 conditions on each business.

Achieving sustainable growth requires a stable financial base, and maintaining financial discipline is essential. Under such uncertain business conditions, the importance of these requirements is increasing even further. The Group has adopted debt-to-equity ratio as an indicator of financial discipline, and has set a target of 2.3x for this indicator. In fiscal 2019, we achieved a debt-to-equity ratio of 2.3x as a result of an expansion of capital, partly due to the public offering carried out in fiscal 2018 (Figures 2 and 3). In fiscal 2020, our debt-to-equity ratio will rise since interest-bearing debt is expected to increase, partly due to a decrease in cash flow as a result of worsening business performance. In the medium-term however, we are still considering a guideline level of 2.3x. Moving forward, we will control our debt-to-equity ratio based on increases in equity due to earnings for the period. Our policy for investment capabilities created through increases in equity is to direct them towards excellent properties, particularly in the Greater Shibuya Area. Our current rating with the Japan Credit Rating Agency (JCR)'s Long-term issuer Rating Scale is an A rating. By maintaining this rating, we can achieve stable financing (procurement of capital) and achieve our investment plans with regard to large-scale redevelopments and other projects.

For our capitalization strategy, we will seek to secure shareholder returns by improving ROE and achieving stable growth of EPS. Our basic policy for shareholder returns under the Medium-Term Management Plan is to achieve a dividend payout ratio of 25% or higher, while continuing to maintain stable dividend payouts. Our aim is to deliver shareholder returns through increased dividend payments by steadily growing our net earnings. The dividend payout ratio in fiscal 2019 was 29.8%, which was the seventh consecutive increase (Figure 7). Although net earnings are also expected to decrease for fiscal 2020, we plan to make decisions on dividends from a comprehensive standpoint, such as by maintaining dividend payouts at a stable level.

Figure 2. Changes in Equity and Interest-bearing Debt

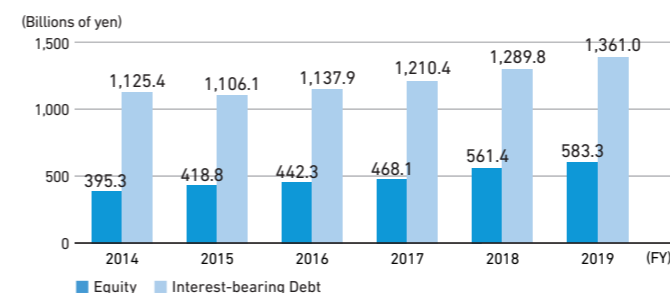


Figure 3. Changes in Debt-Equity Ratio

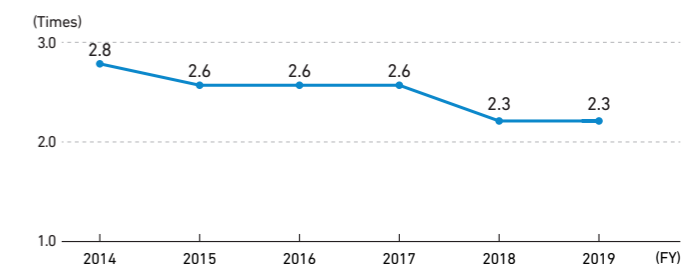


Figure 4. Changes in EBITDA Ratio

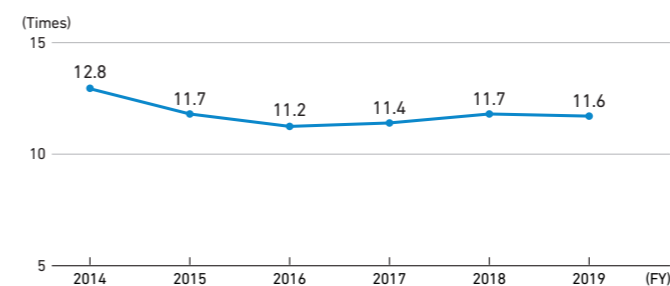


Figure 5. Changes in EPS

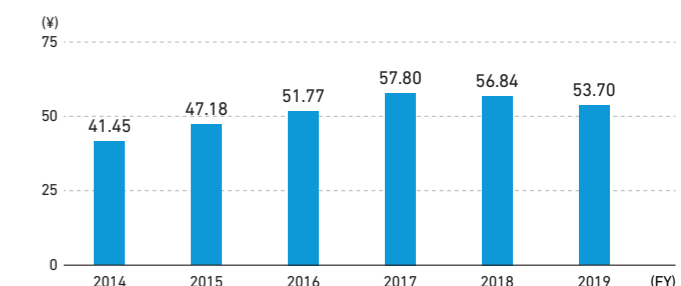


Figure 6. Changes in ROE

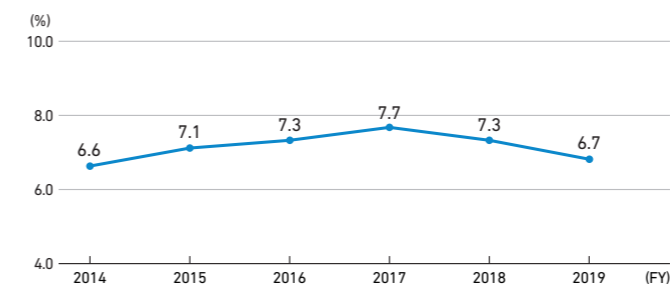
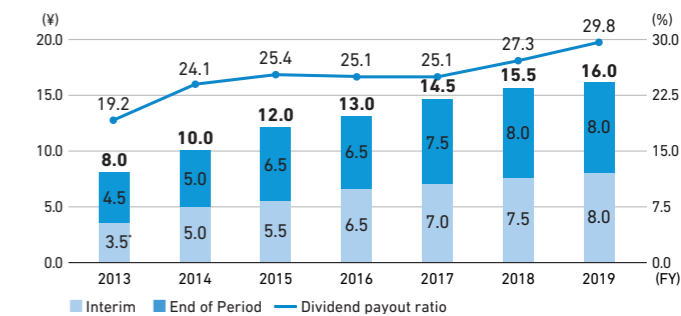
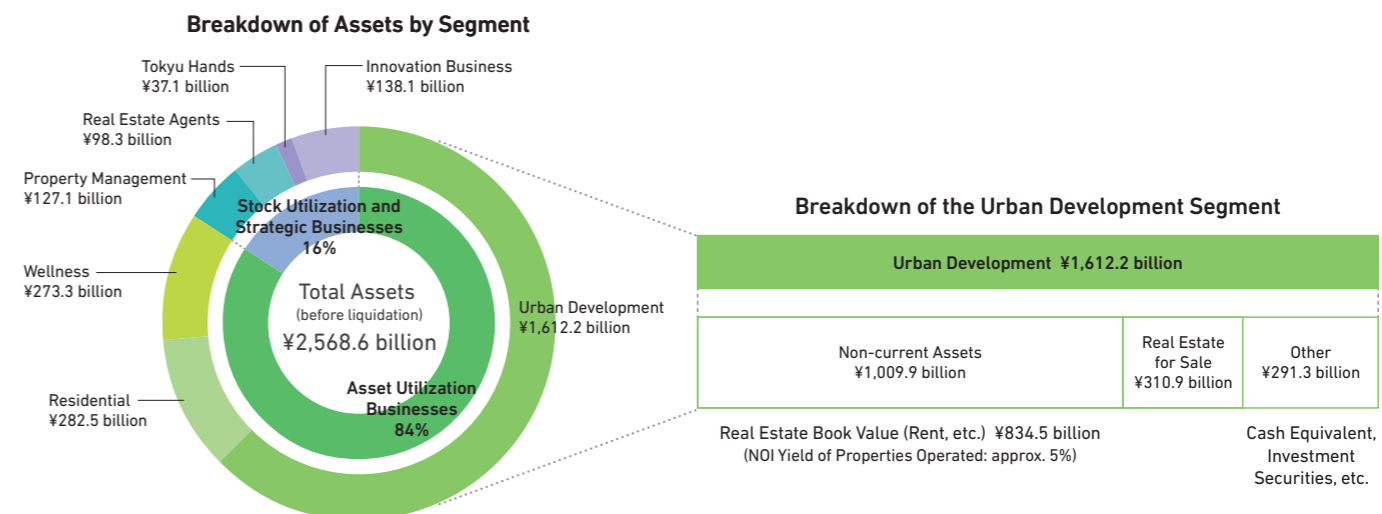
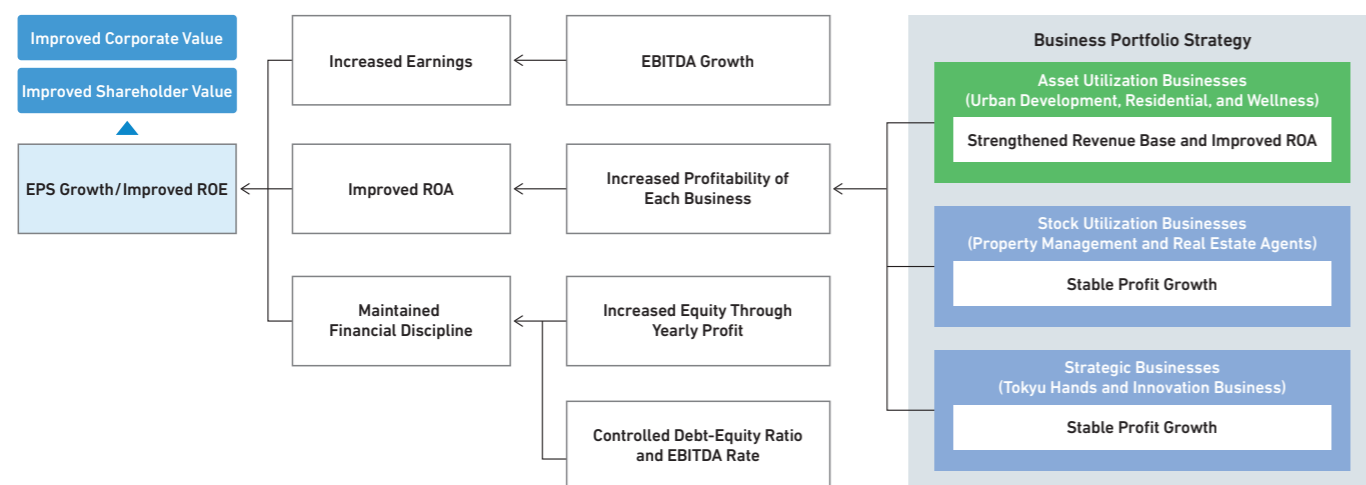


Figure 7. Changes in Dividends (Per Share)



\* Interim dividends for fiscal 2013 are the dividends for TOKYU LAND CORPORATION

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



## Foundations Supporting Our Sustainable Growth

## Financial Analysis

## Operating Results

## Summary of Results

- The results for fiscal 2019 include an operating revenue of ¥963.2 billion (6.8% increase from previous year), an operating profit of ¥79.3 billion (1.1% decrease), an ordinary profit of ¥67.5 billion (4.6% decrease) and a profit attributable to owners of parent of ¥38.6 billion (3.1% increase).
- Performance was solid until the third quarter, as conditions in the real estate market remained robust. In the fourth quarter, however, performance was affected by the COVID-19 pandemic, ultimately resulting in an increase in revenue with a decrease in operating profit.
- Profit attributable to owners of parent increased for the seventh consecutive term since the Group shifted to a holdings system, setting a new record for net earnings.

	(Billions of yen)			
	FY2017	FY2018	FY2019	Comparison
Operating revenue	866.1	901.9	963.2	61.3
Operating profit	77.5	80.2	79.3	(0.9)
Ordinary profit	68.7	70.7	67.5	(3.2)
Profit attributable to owners of parent	35.2	37.5	38.6	1.2
EBITDA multiple*1	11.4 times	11.7 times	11.6 times	(0.1)
ROA	3.7%	3.5%	3.3%	(0.3)P
ROE	7.7%	7.3%	6.7%	(0.5)P

## Operating Revenue/Operating Profit by Segment

- Although there were increases in both revenue and profit for the Urban Development, Residential, Property Management and Real Estate Agents segments for fiscal 2019, there were decreases in both revenue and profit for other segments, including the Wellness and Tokyu Hands segments, which were impacted by the COVID-19 pandemic.

**Urban Development** Commencement of operations at new properties including office buildings such as SHIBUYA SOLASTA and renewable energy power generation facilities, along with increases on gains on the sale of buildings to investors resulted in an increase in both revenue and profit.

**Residential** An increase in the total number of condominium properties sold resulted in an increase in both revenue and profit for this segment.

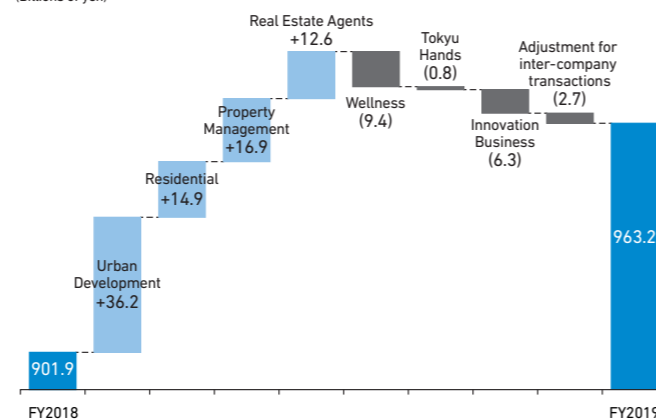
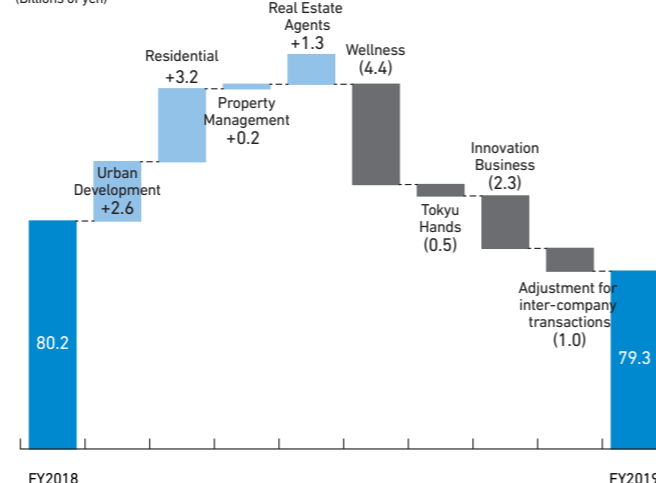
**Property Management** There was an increase in both revenue and profit owing to an increase in construction sales, in addition to an increase in management revenue for condominiums and buildings. As of fiscal 2019, detached housing renovation business has been transferred to this segment from the Innovation Business segment.

**Real Estate Agents** There was an increase in both revenue and profit due to an increase in real estate sales, in addition to increases in the number of transactions taking place in the retail and wholesale departments of the real estate sales agent division.

**Wellness** Although resort facilities and urban hotels were in operation throughout the fiscal year, a reactive decrease due to the handing over of co-owned shares of a membership resort hotel coupled with poor business performance at various facilities owing to the effects of the COVID-19 pandemic during the fourth quarter resulted in a decrease in both revenue and profit.

**Tokyu Hands** While revenue increased primarily at existing stores until the second quarter, the impact of the consumption tax hike from the third quarter onwards compounded with the effects of the COVID-19 pandemic resulted in a decrease in both revenue and profit.

**Innovation Business** Despite an increase in the number of condominium sales posted in Indonesia, other factors such as the transferal of the detached housing renovation business to the Property Management segment and the decrease in sales of properties from overseas operations resulted in a decrease in both revenue and profit for the segment.

Operating Revenue by Segment  
(Billions of yen)Operating Profit by Segment  
(Billions of yen)

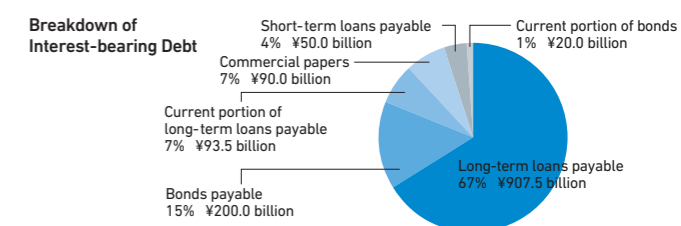
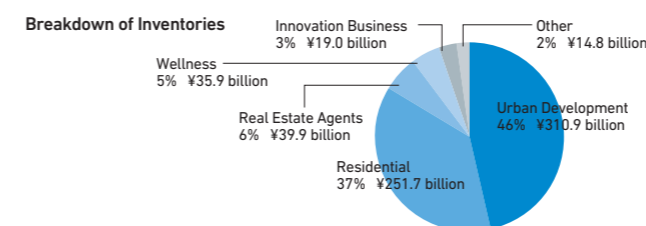
\*1. EBITDA multiple: Interest-bearing debt/EBITDA (Operating profit before depreciation)

## Financial Position

## Assets, Liabilities, and Total Net Assets

- Total assets at the end of fiscal 2019 were ¥2 trillion 487.4 billion, an increase of ¥82.1 billion compared to the end of the previous fiscal year. There was an increase in land and buildings for sale due to investments primarily in the Urban Development and Residential segments, as well as an increase in fixed assets accompanying the progress of large-scale development properties and various other properties.
- Total liabilities were ¥1 trillion 893.1 billion, an increase of ¥56.6 billion compared to the end of the previous fiscal year, mainly due to an increase in interest-bearing debt. Total net assets were ¥594.2 billion, an increase of ¥25.5 billion from the end of the previous fiscal year, chiefly due to an increase in retained earnings.

	(Billions of yen)			
	FY2017*2	FY2018	FY2019	Comparison
Real estate for sale	473.7	568.0	658.0	90.0
Property and equipment, intangible assets	1,165.6	1,142.4	1,192.7	50.4
Goodwill	82.6	77.1	71.7	(5.4)
Other investment	258.1	294.4	312.2	17.8
Other	193.2	323.3	252.7	(70.6)
<b>Total assets</b>	<b>2,173.2</b>	<b>2,405.2</b>	<b>2,487.4</b>	<b>82.1</b>
Interest-bearing debt	1,210.4	1,289.8	1,361.0	71.2
Other	487.5	546.7	532.0	(14.7)
<b>Total liabilities</b>	<b>1,697.9</b>	<b>1,836.6</b>	<b>1,893.1</b>	<b>56.6</b>
<b>Total net assets</b>	<b>475.3</b>	<b>568.7</b>	<b>594.2</b>	<b>25.5</b>



## Market Value Appraisal for Leased Properties

- The carrying value at the end of fiscal 2019 for leased properties, including office buildings and commercial facilities, was ¥834.5 billion, with a market value of 1 trillion ¥91.5 billion – a difference of ¥257.1 billion. Properties that are planned but not yet opened (¥74.7 billion at the end of fiscal 2019) are not included in year-end market value or carrying value, as it is difficult to determine their value.\*3

	(Billions of yen)			
	FY2017	FY2018	FY2019	Comparison
Carring value	791.4	816.1	834.5	18.3
Market value	937.1	1,061.5	1,091.5	30.0
<b>Difference</b>	<b>145.7</b>	<b>245.3</b>	<b>257.1</b>	<b>11.7</b>

## Cash Flows

- Cash flows from operating activities in fiscal 2019 decreased by ¥6.7 billion, partly due to an increase in inventory assets, while cash flows from investing activities decreased by ¥147.2 billion, due in part to fixed asset investments in office buildings, commercial buildings and other fixed assets. In order to compensate for this decrease in investment funds, cash flows from financing activities increased by ¥65.1 billion due to the procurement of interest-bearing debts and other sources of funding.

	(Billions of yen)			
	FY2017	FY2018	FY2019	Comparison
Cash flows from operating activities	12.3	44.5	(6.7)	(51.2)
Cash flows from investing activities	(96.4)	(60.4)	(147.2)	(86.8)
Cash flows from financing activities	82.4	139.1	65.1	(74.0)

## 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 2019, we've achieved an increase in dividends over 7 consecutive terms through a steady increase in profit attributable to owners of parent.

	(yen)			
	FY2017	FY2018	FY2019	Comparison
Dividends per share	14.50	15.50	16.00	0.50
EPS (earnings per share)	57.80	56.84	53.70	(3.14)
Dividend payout ratio	25.1%	27.3%	29.8%	-

\*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 Residence Tower of TOKYO PORTCITY TAKESHIBA, which will open in fiscal 2020, is included because its market value can now be determined. The Office Tower has been included since fiscal 2018