

Letter to our stakeholders

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Taking the
transformation of the
Group to the next stage
for a future where
everyone can be
themselves, and shine
vigorously

A handwritten signature in black ink, reading "Hiwari Tsuchikawa".

President & CEO, Tokyu Fudosan Holdings Corporation

Our performance in fiscal 2022 and future outlook

In fiscal 2022, the first year of our current medium-term management plan, for the first time ever we achieved operating revenue of over ¥1 trillion yen as well as record-high operating profit in excess of ¥100 billion. These are gratifying results for a milestone year marking the 10th anniversary of our establishment, but to be honest, for the past three years we have been working frantically to bring about a recovery in business results depressed by the COVID-19 pandemic. It is also true that the business environment provided a favorable tailwind in the previous fiscal year and that the rest of the industry also did well during this time frame. We are not allowing ourselves to rest on the laurels of the words "record high," a phrase that makes a comparison only with one's own past results, and have strengthened our resolve to achieve further advances.

Since I became president in 2020, the Group has been united in pushing forward with its transformation. I believe that in management it is important to have a broad perspective as well as courage, and during the pandemic, the Group took the situation as an opportunity to come together as one, continuing to promote our transformation without pause. As a result, the Group's restructuring to build a solid and distinctive business portfolio is set to be completed a year earlier than anticipated.

The purpose of this transformation is the maximization of the Group's comprehensive strength, and from the current fiscal year we have been working on reforming our value chain, the veritable core of our transformation efforts.

What we are aiming for is "a future where everyone can be themselves and shine vigorously through the creation of a variety of appealing lifestyles." In order to make the ideals we have touted under our WE ARE GREEN slogan a reality, we will need to be a corporate group which continues to create value. So, how can we realize a sustainable society and Group growth? I will answer that question by providing specific growth scenarios that will actualize our ideal vision depicted in the Group's long-term vision.

Operating profit

(Billions of yen)



Transitioning from centrifugal management to loose centripetal management

Tokyu Fudosan Holdings was established as a pure holding company in 2013 to maximize the Group's comprehensive strength and promote the further growth of its individual companies. Our reasons for this decision at the time were as follows.

Purposes for the establishment of Tokyu Fudosan Holdings

- Improve management agility and efficiency through reformation of the Group's management foundation
- Expand inter-business synergies through Group collaboration
- Accelerate growth of the Group's businesses through a strengthened financial foundation

Tokyu Land Corporation, the core company of the Group, was born 70 years ago after the real estate division of Tokyu Corporation was spun off into an independent entity. Thereafter, in responding to the needs of society, property management company Tokyu Community, brokerage firm Tokyu Livable, and retailer Tokyu Hands were established.

By increasing their orders from outside the Group, Tokyu Community and Tokyu Livable have each grown to become one of the largest companies in their respective industries. Tokyu Hands defined a generation as a pioneer of the DIY industry and even today after its transfer outside the Group, it retains overwhelming brand strength. Our corporate group, with Tokyu Land Corporation at its core, has steadily grown through centrifugal (decentralized) management emphasizing each constituent company's independence, acquiring distinctly broad business wings.

A side effect of our centrifugal management, however, is that its focus on compartmentalized optimization lowered the sense of identification with the Group as a whole, making it difficult for us to create the kind of unique value our Group is capable of. Conversely, however, excessive centripetal force from the parent company can lead to member companies blunting the competitive edges they have cultivated in the aggressive pursuit of business outside the Group.

Accordingly, the Group has chosen a policy of "loose centripetal (centralized) management." As a pure holding company, by aiming for what is optimum for the Group as a whole over the medium- and long-term perspective and balancing centralization and decentralization, we are seeking to promote the creation of synergies leveraging the strong competitiveness of each Group company and maximize the Group's comprehensive strength.

What I've implemented in my three years as president

Since transitioning to a holding company structure, despite ups and downs in the market, our Group has continued to grow steadily. We have expanded business opportunities and consolidated redundant ventures, including establishing Tokyu Housing Lease (integrating our rental housing businesses), purchasing National Students Information Center (acquiring a new customer base), establishing Tokyu Re-design (integrating our renovation businesses), and establishing Tokyu Resorts & Stays (integrating our hotel and resort operations businesses).

Even so, when I became president in 2020, our goal of maximizing the Group's comprehensive strength had still only been achieved halfway. Further, due to the COVID-19 pandemic, the future of society as a whole became extremely uncertain. Feeling an even greater need for the entire Group to share a single direction, I commenced working on formulating our long-term vision.

Under GROUP VISION 2030, which uses a backcasting approach to envision our future, we present a 10-year plan to improve both shareholder and corporate value, positioning the first five years from fiscal 2021 as a restructuring phase and the second five years as a resilience phase. As part of this, based on the social roles and growth scenarios of each of our businesses, we reorganized our business segments into asset-utilizing and human capital-utilizing businesses.

Next, we formulated our medium-term management plan. In this plan, we established a concrete growth strategy for the restructuring phase, which aims to improve our earning power and efficiency to regenerate growth in the post-COVID-19 period. Under the clear guideline to improve return on equity and earnings per share, we have promoted drastic business restructuring over the past two years.

Main business restructurings

- Transferring shares of Tokyu Hands
- Replacing commercial facility assets (sale of Tokyu Plaza Ginza)
- Partially transferring assets of leisure business (four golf courses and one ski resort)
- Transferring shares of Tokyu Sports Oasis^{*}(fitness business)

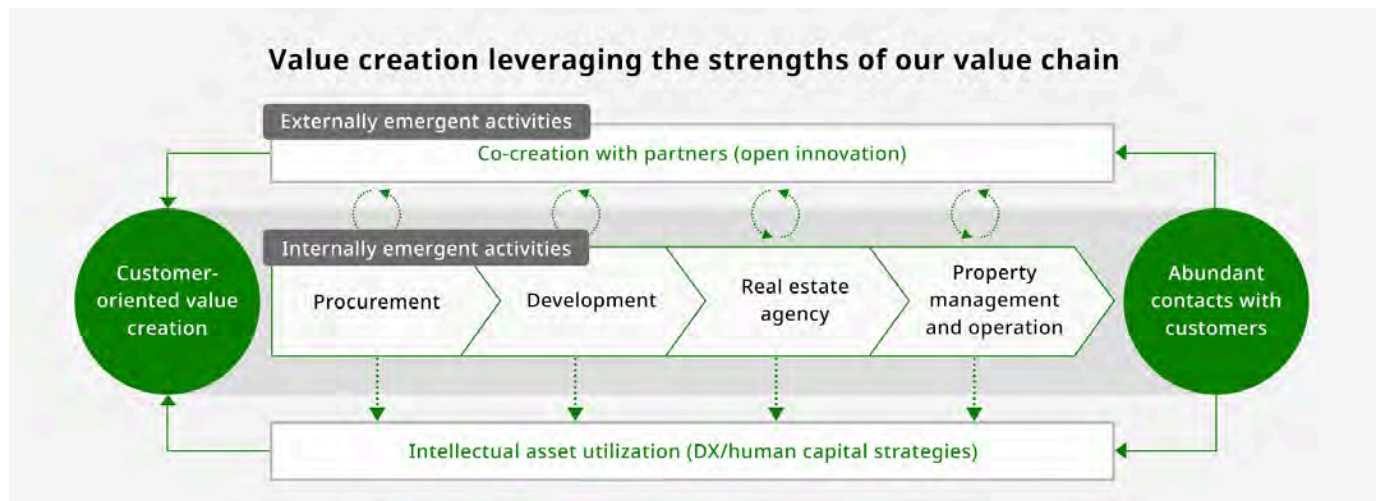
^{*} In fiscal 2022, 40% of shares were transferred to Renaissance Incorporated. The remaining 60% of shares are scheduled to be transferred on March 31, 2024.

These restructuring efforts, in which nothing has been considered off-limits, are akin to surgery on the Group, and enabled us to achieve a certain level of progress in fiscal 2022. As a result, we are expecting ROE to improve to 8.8% in fiscal 2023, from 5.7% in fiscal 2021.

Our post-restructuring portfolio is primarily comprised of industry-leading businesses, and I believe that utilizing the abundant contacts with customers they possess is the key to turning the breadth of our business wings into a true strength.

Strategy1 Aim for organizational improvement through value chain reformation

The next issue we are working on, one that is essential to realize the maximization of the Group's comprehensive strength, is reforming the Group's value chain. Adding to my previous surgery metaphor, if the Group were the body of a person, this could be compared to improving one's physical condition through healthy food and exercise habits as a foundation for creating a body that is leaner and more muscular.



Customer-oriented value creation leveraging our strengths

The Group's value chain is, in essence, a cycle. Businesses are developed from a variety of angles utilizing the tangible assets of land and buildings to provide services with added experience value for our customers, and the intellectual assets born of the knowhow and data we thus accumulate are in turn leveraged to create further new businesses. What enables us to establish this cycle for producing sustainable growth is a "body" endowed with the Group's unique strengths, the sources of our competitiveness.

Sources of the Group's competitiveness

- Diverse, quality assets centered on the Greater Shibuya area
- The diverse customers of our property management/operation and real estate agency businesses
- Knowhow and human capital with advanced expertise in a broad range of business fields
- A corporate culture which perceives social needs and produces unique businesses

In most industries, it has long been established that sales are unidirectional, flowing from the "upstream" of suppliers to the "downstream" of customers. The information for creating new businesses, as well, has largely been concentrated upstream..

Today, however, digitalization has enabled amazing advances in the ability to utilize data, and now it is the customers who have the most information and who are the starting point for services. Our Group develops a broad range of businesses in the field of real estate and it is important for us to base our thinking not on the upstream but rather to incorporate customer needs from direct points of contact with them such as real estate agents and property management and operation. Further, it is important to leverage this in our businesses, regardless of whether they are B2C or B2B.

"Dual-axis management" which promotes internally and externally emergent activities

Our value chain will function through Group-wide, customer-oriented optimizations implemented by individual employees with an awareness of the chain of value creation. Business creation within the Group (internally emergent) and business creation through collaboration with external entities (externally emergent) will mutually induce each other. At the same time we will continue to promote organic lifestyle and business creation, a system we dub "dual-axis management."

We have strengthened collaboration within the Group for internally emergent activities to promote the development of new products and services which tap into latent customer needs.

Case examples of internally emergent activities

- Coordination between manufacturing, sales, and management divisions on condominiums
- Group collaboration on redevelopment projects
- Internal Group strategy for wealthy customers

For externally emergent activities, we have already promoted initiatives such as regional and government partnerships, industry-academic collaboration, and joint venture creation. Under our business policy of co-creation with partners as established in the Group's long-term vision, we will be further increasing our efforts to promote value creation through open innovation.

Case examples of externally emergent activities

- Comprehensive business partnership with JR East
- Advance introduction of IOWN to the Greater Shibuya area through partnership with the NTT Group
- Participation in an industry-academic collaboration program with the Massachusetts Institute of Technology
- Collaboration agreements with local municipalities: Matsumae Town, Hokkaido; Fujimi Town, Nagano Prefecture; and Kawajima Town, Saitama Prefecture

In reforming our value chain, our aim is to reinforce the change in the way of our thinking from compartmentalized optimization to optimization of the Group as a whole and in turn maximize the value we provide to customers. While balancing internally and externally emergent activities and utilizing our downstream abundant contacts with customers, we will create a corporate culture and structure which enables customer-oriented value creation across our entire value chain. In our B2C businesses, we will be promoting lifestyle creation suited to each individual customers, while in our B2B businesses, we will be promoting business creation which utilizes our operational knowhow.

To realize our dual-axis management, one more business policy will be important—that of utilizing intellectual assets. Through our human capital strategies and the promotion of digital transformation (DX) utilizing our knowhow and data, we will maximize the value of our intangible assets, which in turn will lead to revenue. In order to turn our intangible assets into intellectual assets, we will be changing the way we view our non-financial assets, instead looking at them as "unfinanced capital" and promoting the perception throughout the Group of such assets as future financial capital.

Both internally and externally emergent activities share the perspective of "What should we do so that customers choose us?" In order to ensure this attitude toward customer needs takes root in our employees, we constantly ask them to look at the work that takes place behind and in front of them, to turn their gaze outward, and to take their point of view a step higher. To cultivate human capital that will engage in their work from a perspective that is thoroughly on the side of the customer, we will be linking our human capital strategies, which contributes to the maximization of the Group's value, to our management strategies.

Strategy2 Increasing inter-municipal competitiveness with our community planning knowledge

Our strengthened value chain ties into a growth scenario over the medium and long term of leveraging the achievements and knowledge acquired through community development and redevelopment projects to solve a variety of social issues.

In recent years, it has been the prevailing view that the social issues that the real estate industry should concern itself with are the development of communities that are comfortable to live in, and the promotion of people's wellbeing. Today, however, these are considerations that are a matter of course. The question now is to how competitive a community can be made in comparison with other municipalities. Increasing the international municipal competitiveness of Tokyo, in particular, is something we see as a key issue for stimulating the Japanese economy.

In response to this challenge, the Tokyu Group is focusing its efforts on its community development strategy in Shibuya. Defining the area within a 2.5 kilometer radius of Shibuya Station as "Greater Shibuya," we will be aiming for a community that leverages both physical and technological infrastructure to grow sustainably and bring together work, play, and living. By fiscal 2024, the Group will complete construction of and open four new projects, expanding its activity base across the entire area to take our community development of the Greater Shibuya area to a new stage.

New projects opening in the Greater Shibuya area

- Forestgate Daikanyama (scheduled to open in October 2023)
- Shibuya Sakura Stage (scheduled for completion in November 2023)
- Tokyu Plaza Harajuku "Harakado" (scheduled to open in Spring 2024)
- Yoyogi Park Park-PFI Project (operatorship scheduled to start in February 2025)

In this new stage, our keywords are "whole area coordination" and "people," and we will be co-creating with a diverse array of people and companies as well as establishing mechanisms to promote interaction and exchange. Through this, we will engage in community development that establishes a cycle of creation, communication, and attraction, and build partnerships and alliances based on shared ambitions and the diverse people who are the source of everything that makes Shibuya so appealing.

Shibuya is an area which possesses the divergent characteristics of being a tourism destination and of being a cultivator of industry, and I believe it exudes a unique personality that is unlike that of any other city in the world. Through our community development, we will contribute to what makes Shibuya, an entertainment district which never sleeps and which is visited by tourists from around the world, an appealing place. At the same time, through the proposal of measures to promote

entrepreneurship, we will enhance Shibuya's unique capabilities for cultivating industry and make it an area which attracts outstanding startups from across Japan and the globe.

Further, by developing specific measures for each Group company based on the growth scenario which turns this community development into business capabilities, we will expand opportunities for business from the Greater Shibuya area outward.

Community development growth scenario



Shibuya Sakura Stage



(Rendering)

Strategy3 Tackling regional revitalization through the solving of regional issues

An equally important social issue that Japan must tackle alongside strengthening of inter-municipal competitiveness is regional revitalization. In facing the challenges borne by various regional areas, we place emphasis on tourism and green transformation (GX).

To make Japan, a nation with a declining population, into a top tourism destination, it will be essential to attract people from overseas, and I believe that building resort destinations with the ability to draw visitors year-round across Japan will be one means of achieving this. Tourist cities such as Kyoto have made it clear that if a continuing flow of tourists can be established, the local economy will experience sustainable growth. As it is, however, many resort communities in Japan experience huge seasonal differences in the number of tourists they receive. Our Group will be creating a new model of regional revitalization—making Japan into a top international tourist destination through year-round resorts—in Niseko, Hokkaido, where we are coordinating with the government and private sector to create the number one international resort in Asia.

The effects of GX on regional revitalization are symbolized by the words of the mayor of Matsumae Town, Hokkaido, where the Group operates a renewable energy business: "Matsumae's local specialties are Matsumae pickles and electricity. "A renewable energy business is an asset which brings an increase in business and employment opportunities as well as increased tax revenue to a region, and there are examples from across Japan of projects which achieved both regional revitalization and environmentally oriented activities.

Against this backdrop, the Japanese government enacted the GX Promotion Act, which incorporates measures such as the transition to renewable energy as the primary source for electric power, in May of this year. Going forward, the country's energy policy will accelerate the trend toward decarbonization. Our Group led the industry in engaging in renewable energy businesses, and with our longer track record in the field of decarbonization, we will continue to contribute to Japan's energy policy while giving due consideration to the environment.

In implementing initiatives to solve regional issues, we can utilize the Group's distinctive characteristics of broad business wings together with numerous business sites. With regional community development, partnerships with local residents, the government, business partners, and a variety of other stakeholders is essential, and it also demands the development knowhow to engage in long-term projects while seeking the cooperation of landowners. New business opportunities always emerge in places that have experienced economic revitalization. The Group will expand the roots of its nationwide business sites while engaging in the kind of community development regional areas require, and through this the buds of profit generation will emerge.

Increasing our earning power through the two pillars of environmental management and DX

In tackling key issues, environmental management and DX are two concepts which have been established as Group-wide policies. We view them as essential factors for raising the Group's competitiveness and, at the same time, as concepts which both come into their own when they are turned into "earning power."

The Group was quick to develop environmentally-conscious businesses, and in turn our environmental management initiatives have preceded those focusing on DX. Particularly with regard to our renewable energy business, which we launched in 2014, we post some of the best results in Japan. In December 2022, Tokyu Land Corporation became the first Japanese company* to switch entirely to renewable energy to power its own business locations as well as all its facilities, meeting its RE100 targets. Through this and other efforts such as the decarbonization of offices, condominiums, and hotels, the entire Group is promoting its branding as an environmentally advanced organization.

Based on the power of this branding, we will aim to grow in three phases: Appealing to customers with our uniqueness, expanding business opportunities, and turning these opportunities into revenue. One point in our medium-term management plan is to increase business opportunities with the environment as a starting point. An example of an externally emergent activity in this area is our comprehensive business partnership with JR East. This partnership has been praised as the kind of initiative an environmentally advanced company engages in, and it is steadily beginning to bear fruit.

*cludes financial institutions



Turning to the promotion of DX, we have been selected for the DX Stocks 2023 list. In being selected for this list, we were praised for our improvement of customer experience (CX) through the use of a digital twin in condominium sales as an excellent example of enhancing an existing business model, and for our introduction of NFTs into the leisure business as a great example of the creation of a new business model.



However, in comparison with the DX policy presented in our long-term management policy, our efforts in this area have just begun. As I touched on when discussing reformation of our value chain, the primary function of data and digital technology is to turn intangible assets into intellectual assets. In order to realize the Group's DX vision of "digital fusion—removing all boundaries with the power of DX," we will aim to establish a new revenue model by maximizing the value of asset-utilizing and human capital-utilizing businesses.

With regard to our human capital-utilizing businesses, I believe that leveraging the Group's intangible assets in the B2B field as well and providing them externally as industry-tailored and function-tailored solutions will lead to new sources of revenue in the future.



Becoming a collection of human capital which creates an unending stream of value

I have spoken repeatedly of the importance of intangible assets, but the asset I place the greatest value on is human capital. The growth of the Group has been supported by the strength of employees endowed with our founding spirit of "challenge-oriented DNA" and a "mission to engage in society." Viewing their knowledge, skill, and ambition as our human capital, we are promoting a strategy of aggressive human investment to maximize the Group's value.

Among our various policies, we also place importance on health and productivity management. Through measures such as a good working environment, together with our stakeholders we are contributing to the promotion of the health of our employees through our business activities.

Based on years of experience being involved with personnel, I am convinced that an environment which secures psychological safety is necessary for the cultivation of highly diverse human capital. In order to instill this thinking throughout the Group, changing the awareness of the management of each Group company is particularly important. This is also an essential component for realizing sustainability as a corporate group, and going forward we will continue to promote human capital management with our strategies for human capital and management as indivisible from each other.

In order to continue to go beyond being trusted to being loved— Promoting rapid business development with enthusiasm

When the three gears of social trends, management strategy, and enthusiasm engage, businesses experience dramatic and rapid growth. This is my personal view of business in management. And of the three, only enthusiasm can be controlled by individuals. Because businesses are comprised of people, I believe that the state of mind that people go about their work in is a major component concerning business success.

The three components for rapid business development



This line of thinking was probably significantly influenced by a boss I had when I was young who constantly told me, "Do what you like." This belief that individual enthusiasm should be encouraged as long as it benefited the company and organization permeated the entire Group at that time.

That corporate culture remains unchanged today. If anything, the enthusiasm of diverse and individual employees is all the more necessary for the creation of new businesses in this age of increasingly complex social issues. I believe that my job is to keep my gaze fixed on the future one step ahead and further strengthen a corporate culture that continues to move forward and evolve. The slogan "WE ARE GREEN" in the Group's long-term vision really symbolizes the idea of all of our human capital exhibiting their diverse abilities under a sense of Group unity.

Our ideal is the realization of "a future where everyone can be themselves and shine with vigor." With enthusiasm as a starting point, we formulate management strategies that accurately grasp social issues, changing customer needs, and other social trends. By fully exhibiting this "challenge-oriented DNA" and continuing to create value that meets society's expectations, we will aim to be a corporate group which continues to go beyond being trusted to being loved.

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