

## **Principal Questions and Answers at the Briefing for Institutional Investors and Analysts for the Fiscal Year Ended March 31, 2018**

Q1: About the benefits of multiple double tracks

The company has indicated that commuter passengers will be prompted to switch to the Odakyu Line because of enhanced comfort and convenience resulting from congestion alleviation and has set a target of a revenue increase of more than approximately 5.0 billion yen in FY2020. However, currently differences in crowding density occur at times due to factors such as train type, and I feel that customers aren't sufficiently aware of comfort and convenience enhancement. What measures are you considering for reliably achieving the revenue increase target?

- The congestion rate has declined from the previous level exceeding 190% to an average level below 150% since the diagram revision of March 2018. However, since passenger traffic is concentrated on rapid express trains, we want to publicize to customers the comfort of the Odakyu Line and promote passenger switching by equalizing congestion imbalances.
- For example, at Shin-Yurigaoka Station during the morning rush hours, although the order of departure of trains bound for Shinjuku is rapid express trains followed by commuter express trains. Since the difference in time of arrival at Shinjuku Station is just a few minutes and there is a difference in congestion rate, we are attempting to disperse congestion through initiatives such as announcements to customers.
- We will observe customer trends at each station for a period of one year while continuing such initiatives and consider implementing a diagram revision if necessary.
- Although at the present time it is difficult to evaluate progress against the revenue increase target since we have data for only a few weeks since the diagram revision, we intend to concentrate efforts on various initiatives to achieve a revenue increase of approximately 3.0 billion yen, 60% of the target, in FY2018.

Q2: About business structure reforms in Merchandising

The Merchandising business operating income target for FY2020 is a modest increase of less than 0.4 billion yen from the FY2017 level. Is increasing leased floor space at the Odakyu Department Store Fujisawa Store and Machida Store and converting them to commercial facilities the right approach to store renewal?

- Although the department store business is currently benefiting from duty-free sales, it is in a continuing downtrend. We realized that a fundamental review was essential, including store format conversion to meet changing customer needs, and have considered format conversion.
- We have expertise in the operation of leased commercial facilities such as Shinjuku Mylord. We considered conversion to facilities that fuse this expertise with the strengths of Odakyu Department Store the best course of action and decided to renew the Fujisawa Store and Machida Store. There are also expense reduction benefits from conversion to leased floor space, and this will contribute to an increase in profit increase.

Q3: About the operating income target for the Real Estate business

You explained that the company wants to increase operating income from the Real Estate business to a scale comparable to income from the Transportation business over the medium and long term. Please indicate the timing and method for achieving this.

- We regard Real Estate as a business that should be managed in tandem with Transportation from the standpoint of fully demonstrating the benefits of multiple double tracks, a form of transportation infrastructure. To that end, we consider it necessary to expand the portfolio of leased assets. Since no specific real estate properties have been identified for acquisition, we have set an annual investment budget of more than 10.0 billion and incorporated it into the numerical plan. Also, although this is a project likely to extend beyond the period of the current Medium-Term Management Plan, we will make investments on the basis of consideration of progress with the Shinjuku Station West Exit area redevelopment plan.
- We consider renovation another key to expanding the scale of the Real Estate business. In efforts to promote community development in areas along the Odakyu Line, a cycle for promoting residency by families with small children and young people is being developed through enhancement of services for seniors and renovation of vacant houses.
- Furthermore, to increase the profit level, we intend to not only acquire new properties, but also vitalize existing facilities. Although we have not decided the specific timing for target achievement, we consider it a target we want to achieve without fail.

Q4: About growth investments

What is your thinking on return on investment? Also, please tell us about exit strategy development in the Real Estate business.

- Although we will also utilize growth investments for new business development, pursuit of M&As, and real estate development for the purpose of community development, the main purpose for use of investment funds will be acquisition of real estate properties.
- With regard to acquisition of real estate properties, we have established internal NOI yield criteria and intend to proceed with investment centered mainly on customer attraction stations along the Odakyu Line while paying attention to market conditions.
- Exit strategy is an area we intend to actualize going forward. We want to develop a cycle for increasing the competitiveness of the Real Estate business and business scale.

Q5: Please relate the status of discussions of the Shinjuku Station West Exit area redevelopment plan.

- Last year, the Shinjuku Site Redevelopment Steering Committee was set up by the Metropolis of Tokyo and Shinjuku Ward, and the company participates as a member of the committee. As a result of a series of discussions, the Shinjuku Site Redevelopment Policy was announced in March of this year. Now, we are at the stage where individual companies will prepare plans in light of this policy and on the basis of coordination with Tokyo and Shinjuku Ward.
- As indicated in the redevelopment policy, we think the timing for the project start will be FY2020 or after.

Q6: About the inbound tourism-related revenue target

Inbound tourism-related revenue of 20.0 billion yen has already been achieved in FY2017. In those circumstances, in view of the target number of inbound foreign tourists, isn't the target of 23.0 billion yen in FY2020 conservative?

- Although inbound tourism-related revenue was approximately 20.0 billion yen in FY2017, the majority of this revenue, 11.0 billion yen, came from duty-free sales at Odakyu Department Store.
- Duty-free sales are increasing by about 3.0 billion yen year on year through sales promotion and other measures, and we think there is room for further expansion in the future.
- The second largest source of inbound tourism-related revenue after duty-free sales is hotel lodging revenue, and the revenue contribution from Hyatt Regency Tokyo and Hotel Century Southern Tower in Shinjuku is particularly large. The proportion of foreign nationals among the lodgers at these two hotels continues to increase, reaching an exceedingly high level of about 70% in FY2017. Since these hotels are currently maintaining high guest room occupancy rates, the potential for growth in lodging revenues from foreign guests at existing

hotels seems somewhat limited. Also, since we have set a target of opening some 15 new hotels, there may be sales expansion from new hotels. However, we think the full-scale sales contribution will come in FY2021 and beyond, and new hotels are unlikely to become a driver that substantially increases tourism-related revenue up to FY2020.

- We want to reliably achieve the target of 23.0 billion yen and strive to make possible further expansion.

#### Q7: About consolidated numerical plan

What factors did you anticipate for each segment when deciding the operating income target for the period of the current Medium-Term Management Plan?

- For FY2018, in the Transportation business, we forecast a profit increase on higher revenue due to the benefits of multiple double tracks. In the Merchandising business, we forecast a profit decrease on lower revenue due to suspension of operation for renewal of the Fujisawa Store and Machida Store in the department store business as well as closing of in-station stores and convenience stores for conversion to Seven-Eleven franchise stores in connection with the alliance with Seven & i Holdings.
- For FY2019, in the Transportation business, although we forecast a revenue increase from continued benefits of multiple double tracks, we forecast a profit decrease on higher expenses, including installation of platform doors. In the Merchandising business, we forecast a profit increase in the department store business on higher revenue following a decrease in FY2018 due to suspension of operation for store renewal and, in the stores business, a profit increase on higher revenue as a result of new store openings. In the Real Estate business, we forecast a profit increase on higher revenue as a result of condominium sales in the district between stations in Ebina.
- For FY2020, in the Transportation business, we forecast a profit increase on higher revenue due to the benefits of multiple double tracks and lower expenses. In the Merchandising business, we forecast a profit increase on higher revenue as a result of new store openings in the stores business and completion of conversion of in-station stores and other stores to franchises. In the Real Estate business, although we forecast a revenue decrease reflecting the non-recurrence of condominium sales in the district between stations in Ebina, we forecast a profit increase on higher profit in the Real Estate Lease business. For Other businesses, we forecast a profit increase in the hotels business on higher revenue as a result of new hotel openings.

#### Q8: About human resources

I feel that various types of human resources, such as personnel with expertise in technology development and personnel with creativity, will be necessary for realizing the Future Fields. How will you develop and secure these human resources?

- I feel that when we recruit there is a strong tendency for applicants, especially women, to desire creative work such as community development, and we actively hire such people. Also, UDS, which recently became a Group company, has a human resource network that the Group previously lacked, and we want to effectively utilize that network.
- With regard to human resource development, I want to arrange internal forums for personnel exchange and for employees, particularly young people, to gain experience beyond the confines of the Group and to create opportunities for our employees to take on challenges.
- Furthermore, we have collaborated with external partners such as local governments, incorporated schools, and venture companies. We want to acquire expertise not found in the company through interaction with students at NODE GROWTH Shonandai, which we opened in Shonandai, and creation of contacts with creative human resources at INBOUND LEAGUE, a co-working space for venture companies in Shinjuku.
- Also, although there are comparatively conservative aspects to the company's corporate culture, we are preparing an internal environment that enables employees to demonstrate their capabilities to the fullest by means such as introducing the free-address system at offices and creating spaces where employees can freely interact with one another.

Q9: About internal systems

I think that to realize the Future Fields, changes such as reexamination of the internal evaluation system are called for, and furthermore, that it's necessary to ensure their penetration within the company. I would like to confirm the status of initiatives to achieve this. Also, is there a KPI to quantitatively measure the extent of penetration?

- In formulating the current Medium-Term Management Plan, we did not use the previous almost top-down approach. Rather, we formulated it after a series of discussions among the persons in charge about the future vision for the company and what should be done to realize that vision.
- Of course, the departmental policies formulated at each department based on the Medium-Term Management Plan have been formulated through discussions among the persons in charge, and we have also newly implemented an initiative to provide a forum for a statement of commitment from the manager of each department to all employees.
- We recognize the need for a human resource system that supports challenges undertaken by employees and will construct a system to enable employees to actively take on challenges, including a review of the current evaluation system.

Note: This document is not a word-for-word transcription of questions and answers at the result briefing, but a summary prepared by the Company that contains additions and revisions.