May., 2023
Hankyu Hanshin Holdings, Inc.

Main Questions and Answers during the Briefing on Earning Results for the Year Ended March 2023

* Please be aware that this document is not a verbatim account of everything that was said during at the question and answer session held during the briefing. The Company has made additions and modifications, and summarized the content as it judged appropriate.
* Please also note that the information presented here is based on the briefing held on May 23.

[Questions about the Company in general]

<<Long-Term Vision>>

Q. As I understand it, you were following a strategy of building up a stock of real estate in the Greater Tokyo Area. Now it seems you're expanding real estate overseas instead. Have you changed direction?

A. By no means have we abandoned efforts to expand our real estate portfolio in the Greater Tokyo Area. We remain committed to our ongoing development projects there, and we'll keep looking out for other promising real estate opportunities (most of these will be short-term returns projects because land prices are high at the moment).

That said, the real estate market in ASEAN and other overseas territories with bright growth prospects is very attractive to us, if only because rental incomes are set to rise in tandem with economic growth. We've been conducting business in these markets for several years now, and we've seen positive results: We've gained a body of know-how, amassed plenty of real estate intelligence, and acquired some excellent properties.

This success has encouraged us to allocate more resources to purchasing overseas real estate, on condition that each potential acquisition is carefully vetted using criteria such as purpose of acquisition, business viability, and risks.

Q. Of all overseas real estate, what is the relative importance of rental properties?

A. We've built a decent portfolio of rental properties. The overseas condominium projects in which we own or partly own encompass a total of 50 thousand units, and we've also acquired several rental properties. In the course of building this portfolio, we also built an extensive real estate information network. With this information network, we'll channel into this business our expertise in community development, which is a legacy of over a century of supporting the development of communities along our railway lines.

Q. During your briefing, you suggested it may be necessary to raise your ROE benchmark to 8% or more. What would you need to do in order to achieve the higher benchmark? Would you need to shake up your business portfolio?

A. Let me clarify what I said at the start of the briefing. My point was this: We've committed to an ROE in the range of 7% over the medium and long term in line with our long-term vision, Toward 2040, which we unveiled in May 2022. But this benchmark isn't an end goal, and I believe that in the long run we should be an organization that sets its sights on an ROE of 8%.

We've invested heavily in large-scale projects like the Shibata 1 Project and the Shin-Osaka Connection Line / Naniwasuji Connection Line Project, and with the population shrinking and aging we're unlikely to see any huge growth in profit if all we do is just a continuation of our existing businesses.

An ROE of 8% is a very high bar indeed, and we'd need to change internally before committing to such a benchmark. We're exploring various potential strategies to that end, but it's still too early to give you any specifics. For now, you should understand that we're taking the matter seriously.

As for our business portfolio, yes, I'm sure that we'll also look into how we can adapt this to the changing external environment.

Q. How exactly do you use ROIC as an indicator?

A. We've set an organization-wide ROIC range that's aligned with the ROE target in our long-term vision. Our corporate group includes many different businesses, so some businesses have a rather low ROIC. With that in mind, we defined an ROIC benchmark for each business, and we use the benchmarks as an internal KPI. We'll keep exploring ideas for using ROIC more effectively.

[Business-specific questions]

<<Urban Transportation>>

Q. What's your stance on fare revisions?

A. Our railways have a highly profitable business structure, such that their break-even point is lower than that of other railway companies. We therefore believe it would be unfeasible to change rail fares under Japan's present fare system and have no plans to do so. That said, I am aware that the present fare system is under review, with a number of ideas being discussed within the Ministry of Land, Infrastructure, Transport and Tourism. Bearing in mind that the population is rapidly shrinking and aging, we'll keep up our information gathering and research to make sure that our fares are appropriate.

<< Real Estate>>

Q. How is your office real estate in Osaka Umeda performing?

A. Overall, performance remains largely stable, although vacancy rates are high in some properties. For these properties, we held back on aggressive leasing as we were mulling the possibility of rebuilding the property. Mind you, another corporate group plans to build its own office tower blocks in the area, so that's something to keep an eye on. At any rate, Osaka Umeda Twin Towers South is performing well, with a tenant lined up for over 80% of the units.

<< International Transportation >>

Q. What is the FY2024 outlook for your International Transportation segment?

A. In both air and ocean transportation, the supply crunch that persisted in FY2023 will ease, leading to a return to the normal level of competition.

<<Others>>

Q. What is the state of recovery in inbound tourism?

A. Of all our businesses, the hotel business is the one most dependent upon inbound tourism. In the Greater Tokyo Area, the number of inbound guests is now over 60% of the pre-pandemic level. In Kinki, it's between 30 to 40%. Chinese visitors made up the lion's share of inbound tourists in Kinki during pre-pandemic times, which explains why the recovery is comparatively slow in that region. We'll keep an eye on developments.

In railways business too, we're seeing a steady recovery in inbound demand, although I can't give you exact figures.

Q. Do you have any plans to use anime or game content?

A. While it's not anime as such, as part of our digitalization project we've run some metaverse VTubing events, and we're thinking of using such events to invite people overseas to our line-side areas. We're also using influential YouTubers to promote our line-side areas to an international audience. We'll keep developing more measures like this.

[Other questions]

Q. Tell us about your partnerships with equity-method affiliates.

A. With H2O Retailing, we've already been working together on a card business and other projects, and we plan to ramp these up in the future. We also have plans to collaborate with H2O Retailing in analytics as part of our digitalization project.

With Toho, we'd like to collaborate in a project that uses anime content to reach an overseas audience, anime being popular overseas and something that Toho is keen to focus on. However, there are no concrete plans as yet. Digitalization is another potential area for collaboration. We regularly communicate with Toho to see whether there are any digitalization initiatives we could collaborate in. I'd like to see these discussions developing.