May, 2022

Hankyu Hanshin Holdings, Inc.

Main Questions and Answers during the Briefing on Financial Results for Fiscal 2022 (Ended March 2022) and the Long-Term Vision

*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 summarised the content as it judged appropriate.

*Please also note that the information presented here is based on the briefing held on May 20.

[Questions about the Company in general]

<< Long-Term Vision >>

Q. For your previous long-term vision (Long-Term Vision for 2025), you followed a policy of increasing real-estate stock in Tokyo metropolitan area. However, for your new long-term vision (Long-Term Vision: *Toward 2040*), you seem to have shifted to a growth policy based on "flow businesses" (businesses based on a one-off revenue model) such as short-term returns (fix-and-flip) real estate development. Is that an accurate assessment?

A. One of our growth strategies for the Long-Term Vision for 2025 was to extend our real-estate portfolio from our home ground of Kansai to Tokyo metropolitan area and to overseas locations in order to build a stable source of earnings in these areas.

However, we had to contend with soaring land prices in Tokyo. Taking the high land prices into consideration, we adopted a more cautious approach in which we vetted each potential acquisition carefully, weighing up the potential benefits and returns against the risks.

Consequently, we ended up expanding the scale of our assets to a smaller extent than initially planned. On the other hand, we did increase our presence in the sector by participating in real estate development projects such as Hankyu Hanshin Ginza Building. We are now in a position where we can access plenty of useful information for future business development. We will leverage this advantage to grow our short-term returns (fix-and-flip) real estate development business and our residential real estate sales business.

In conclusion, our four-year-long effort in Tokyo has paid dividends, and we will build on this success and explore opportunities in the real-estate market to develop the flow businesses (short-term returns [fix-and-flip] real estate development business and our residential real estate sales business) as a growth driver.

<< Medium-Term Management Plan >>

Q. You have pledged to spend a total of ¥290 billion (including net increase in for-sale property and equity) in growth investment over the duration of the medium-term management plan (FY2023–FY2026). What was the thinking behind this budget?

A. To achieve sustainable growth, our new long-term vision has defined four strategies that are necessary for adapting to changes in the business landscape, including COVID-driven changes and longer-term megatrends such as population decline.

These strategies require us to allocate plenty of funds to increase future growth prospects (while striking a balance with financial soundness). That is why we settled on the ¥290 billion figure.

Q. You are going to actively invest in your Real Estate segment. Does this mean you think the business has untapped growth potential?

A. The first of the four strategies for the long-term vision is to make our railway the absolute best among the Kansai networks. The most crucial element of this strategy is to enhance the neighborhoods in Osaka-Umeda and other areas served by our lines.

However, since these community-building investments will take a long time to deliver returns, we will rely on the other three strategies to steadily grow earnings in each segment in the meantime. Our second strategy is to make our content as compelling as possible; our third strategy is to expand the coverage of our line-side business model; our fourth strategy is to increase market share by providing high value-added services.

In this context, our Real Estate segment has cardinal role to play in the first strategy. Growing the segment is also crucial to achieving the third strategy. One way we will grow the segment is by expanding into up-and-coming ASEAN markets. First, we will gain a decent foothold in these markets by investing in residential real estate sales and short-term returns (fix-and-flip) real estate development. Once we have built an information network, we will then leverage the network to expand our real estate leasing business. In Japan, we will aim to grow earnings by focusing on flow businesses, as I said earlier.

Q. Your strategic investment framework seems, at ¥30 billion, rather inadequate for M&A spending. Can you give us a more precise idea of how the money will be spent?

A. This budgetary framework isn't set in stone. For our M&A strategy, we continue to gather and analyze information in the Information and Communication Technology segment, the International Transportation segment, and other segments. If we find a potential M&A deal that could contribute to the growth of the segment and the group as a whole, we will invest flexibly, going beyond the framework if necessary (provided, of course, that the returns are commensurate with the scale of investment).

Q. For FY2026, you aim to achieve ¥115 billion in operating income. What kind of top-line growth (in revenue from operations) would you need to achieve that?

A. I'm afraid I can't give you a precise target for revenue from operations in FY2026, but we have provided the FY2026 outlook for each segment on pages 19 to 24 of the reference data.

Let me add to that by sharing some projects. To start with the Urban Transportation segment, with the economic recovery from the COVID slump, ridership revenue should pick up in FY2026, but revenue from commuter passes is unlikely to return to pre-COVID levels. By extension, operating income is unlikely to fully recover to such levels either.

By contrast, in the Real Estate segment, we project that both revenue from operations and operating income will exceed the pre-COVID levels. In the leasing business, the growth will be driven by higher performance in Osaka Umeda Twin Towers South, the construction of which was recently completed. In the real estate sales business, the growth will be driven by expanding the portfolio overseas and by higher condominium sales in Japan. The Entertainment segment and the Information and Communication Technology segment will, likewise, exceed the pre-COVID levels for both revenue from operations and operating income. This growth will be driven by stronger content and by business growth. Similarly, in the International Transportation segment, we expect revenue and income to exceed the level they were at before the U.S.-China trade friction. The growth in this case will be driven by higher handling volume and by a structural reform program.

In summary, although we accept that Urban Transportation is unlikely to return to pre-COVID earnings, we will work to build revenue in our other segments so that we can hit our FY2026 operating income goal of ¥115 billion.

<< Returns to Shareholders >>

Q. Can I confirm that you remain committed to your policy of delivering steady dividends to shareholders (while retaining enough earnings to invest in projects for higher future growth)?

A. Yes, that's correct.

[Business-specific questions]

<< International Transportation >>

Q. In the International Transportation segment, what are your FY2023 forecasts, including for changes in prices?

A. In FY2023, we continue to see the impact of high prices amid the supply crunch, which is a result of fewer flights and a shortage of ocean containers. It is hard to tell whether this situation will persist beyond then.

To add to that, although we expect the supply crunch will last a little longer, we also expect that competition will increase with more air cargo space being secured through air freight chartering by competitors. Freight transport demand is currently sluggish as a result of the Shanghai lockdown, and this will have a big impact on results. We took these factors into account when setting the performance forecasts for FY2023.