May 23, 2018

Hankyu Hanshin Holdings, Inc.

The Main Questions and Answers during the Briefing on Earning Results for Fiscal 2018 (year ended 31st March 2018)

*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.

[Questions about the Company in general]

<Forecast for fiscal 2019>

Q: You have projected an operating income of ¥110 billion for fiscal 2019. How much of this income will be from transitory factors?

A: As we stated in the briefing materials, over the period from fiscal 2016 through to fiscal 2018, operating income trended at the ¥100 billion mark in real terms—that is, after discounting transitory factors. We expect a similar level for fiscal 2019.

<Medium-Term Management Plan>

Q: You said that you will raise operating income by ¥10 billion in the flow businesses over the period of the current Medium-Term Management Plan (from fiscal 2019 to fiscal 2022). How do you intend to achieve this goal?

A: We will pursue four strategies in the flow businesses: first, we will expand the condominium business in Japan and overseas; second, we will develop the information services business; third, we will raise the profitability of the Travel Business segment; fourth, we will increase handling volume in the International Transportation Business segment. We intend to grow all these businesses, but we expect to see significant growth in the condominium business in particular. Much of this growth will be in the domestic real estate sales business, which is based in the Kansai and Tokyo metropolitan areas. However, we also want to see commensurate profits in the overseas real estate sales business, and so we will accelerate development in the ASEAN region and elsewhere overseas.

As I mentioned in the previous briefing, we are structurally reforming the Travel Business segment. This segment performed reasonably well in fiscal 2018 thanks in large part to strong visitor numbers to European destinations. However, rather than contenting ourselves with present performance, we want the segment to perform even better. Accordingly, we will waste no time in devoting resources to restructuring the segment. By doing so, we hope that the segment will gain enough revenue from non-European destinations, or enough alternative business options, to remain profitable if European destinations experience a slump in visitor numbers due to factors beyond our control. This programme of reform will take some time, but it will strengthen the segment’s operating base, leading ultimately to higher income levels.

As for the International Transportation Business segment, we need to drive forward efforts to restructure the segment so that it has a more balanced business portfolio. We are currently working on plans to ensure that our joint venture with Seino Holdings produces synergistic effects. Specifically, we will use an aggressive marketing strategy to forge new business opportunities among Seino Holdings’ domestic corporate clients while shoring up the existing operations—air and ocean transport and logistics. In this way, we will steadily expand business, creating a well-balanced business portfolio.

Q: It seems that the stock businesses' contributions to operating income will flat-line in the current Medium-Term Management Plan. Is this a fair assessment? To what extent have you accounted for start-up costs and other transitory expenses related to investments in the stock businesses?

A: Over the four years of the current Medium-Term Management Plan (fiscal 2019 to fiscal 2022), we will aim to raise operating income primarily in the flow businesses. However, we will also invest in the stock businesses during this period, and these investments should yield commensurate returns. In our profit plan, we have tried as much as possible to take into account start-up costs, depreciation, and other such expenses.

Q: The current Medium-Term Management Plan mentions ¥270 billion in growth investments. How many specific growth investment projects have you mapped out so far? Please give us an idea of when each investment will start yielding returns and how much they will contribute. Also, the plan provides a strategic investment framework to the tune of ¥100 billion; if you are unable to invest the entire amount, what do you intend to do with the remainder?

A: We have already mapped out the majority of our growth investment projects, but I will refrain from giving the details here because the timeframe and granularity vary.

As for ¥100 billion for the strategic investment framework, we envisage large-scale projects and M&A activities. We set up this framework on the belief that we can only achieve sustained growth for the group if we start strategically sowing the seeds of growth (i.e., investing in large-scale projects and M&A activities) with an eye towards the second half of the Long-Term Vision (fiscal 2023–2026) and beyond. Accordingly, we do not have any plans for the case in which we do not use up the entire ¥100 billion.

Q: The current Medium-Term Management Plan includes a goal to raise operating income to ¥110 billion by fiscal 2022. Given the current favourable business climate, this target seems a little unambitious. Don't you think you are setting the bar a little low?

A: On the contrary, this is far from an easy task. After all, to achieve the target of ¥110 billion in operating income by fiscal 2022, we will need to raise the profit level primarily in the flow businesses by ¥10 billion over the next four years.

The group has until now focused its efforts on stock businesses in Umeda and line-side areas, and we will continue to exert full efforts here. However, the current Medium-Term Management Plan commits us to raising flow business operating income to the ¥10 billion level. To this end, we must focus on those flow businesses that are not growing satisfactorily or that could be growing even more.

Q: You have set a target of 7% ROE by fiscal 2022. What level of ROE do you expect to achieve or maintain in the future?

A: If there's one thing that characterises of our group's business operations, it's our long investment timescales. In other words, many of our investments take a very long time to bear fruit. The Umeda 1-1 Project, which I described earlier, is a case in point; the work to demolish the old Dai Hanshin Building and Shin Hankyu Building started in fiscal 2015, and the new building will not be completed until spring 2022. After demolition, there is the construction period to consider. Oftentimes, sales revenue dips and costs rise during rebuilding, resulting in a lower than normal income level. Even after the construction is completed, it takes some time before the facility starts operating stably. With such long investment timescales, it is difficult for the group as a whole to maintain ROE at a constant level.

That said, we will continue to think about the ROE level we should aim for, taking into account this timescale factor. Meanwhile, we will work to convey the message that one should be looking at whether the ROE maintains a reasonable level across a broad span of time rather than whether it is high or low at any given point.

[Questions about individual business segments]

<Real Estate Business>

Q: It looks like you have committed yourself to raising the profit level of the condominium business. Don't you think it is a little risky to rely the condominium business to achieve stable cash flows given the precarious outlook of the business environment? If the domestic condominium business suffers a medium-to-long-term slump in profit level or demand, will the overseas condominium business cushion the blow?

A: We still look to the leasing business as the main driver of growth in the segment, so you can rest assured that we are not going to become overly dependent on the condominium business. That said, investments in the segment (other than those for acquiring functioning property) will take some time to yield returns, and our desire to plug this gap is part of the reason why we want to secure a certain level of profitability in the condominium business, the demand for which looks strong for the time being.

We do understand, however, that the condominium business will be in a more precarious position over the medium-to-long term. Of particular concern is the Kansai area, which is set to experience a rapid decline in population. We are currently thinking about how much this development would negatively impact condominium income in the years ahead, and how much our properties in Tokyo metropolitan area and overseas will help cushion the blow.

<Travel Business, International Transportation Business>

Q: Regarding the current Medium-Term Management Plan's target of raising operating income by ¥10 billion, how much of this increase will be attributable to higher profit in the Travel Business and International Transportation Business?

A: According to the plan, the Travel Business and International Transportation Business will both see growth. Accordingly, we assume that both segments will contribute a reasonable portion of the ¥10 billion increase.