

Initiatives for Corporate Value Enhancement

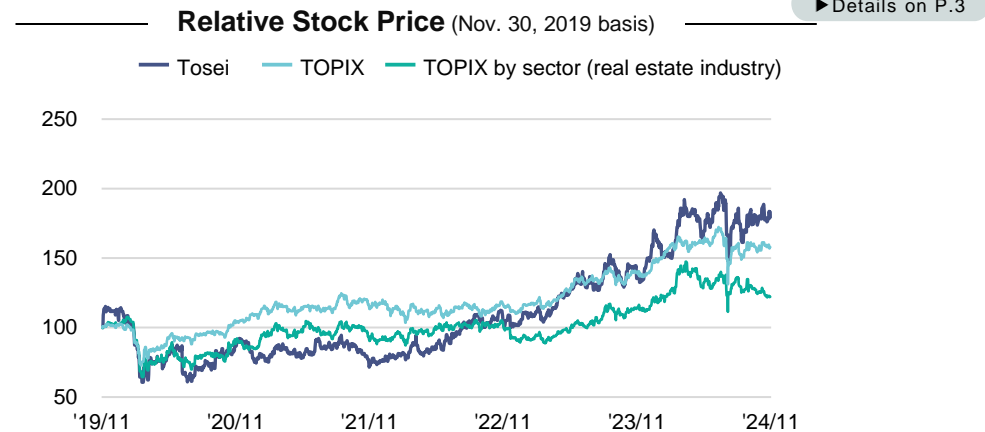
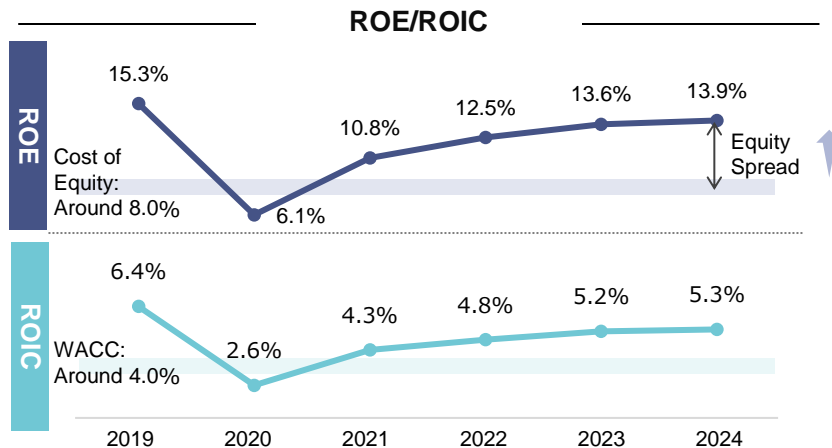
-Management Conscious of Cost of Capital and Stock Price-

(Update on January 10, 2025)

* This document is an excerpt and partial compilation of the “Financial Results for the Fiscal Year 2024” announced on January 10, 2025.

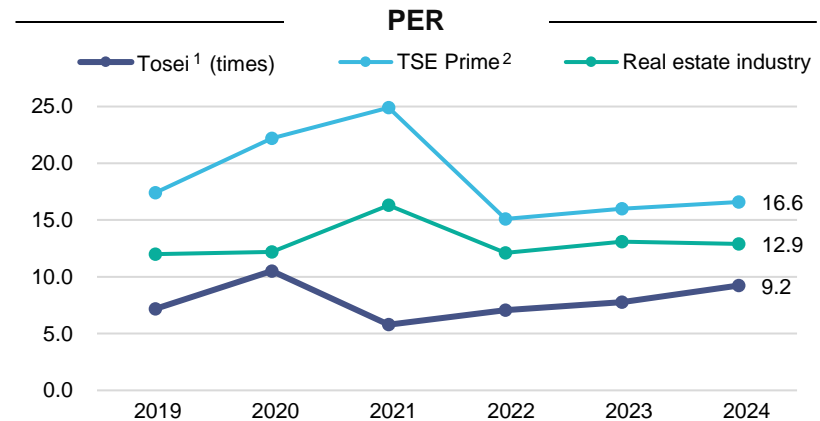
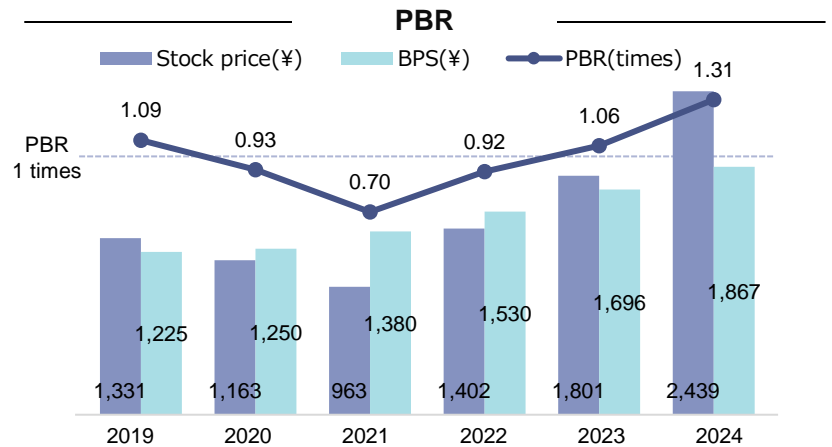
Recognition of the components of corporate value

- ▶ ROE reached 13.9%, exceeded our estimated cost of capital based on CAPM (around 8%) and also the initial forecast
- ▶ The current PBR has risen to around 1.3 times. Aim to further improve the stock price valuation through raising our growth potential and management conscious of cost of capital and stock price
- ▶ The PER is 9.2 times, which is low compared to PERs of TSE Prime and the real estate industry. Aim to further improve by promoting understanding of portfolio management



* Our recognition of the cost of shareholders' equity and WACC are calculated in-house based on the CAPM.

* Figures used for above calculations are as follows: Risk-free rate; 10-year Japanese government bond yield as of the end of each fiscal year, β ; TOPIX 5-year weekly including dividends, market risk premium; 6.0%, cost of interest-bearing debt; interest expense/average of total interest-bearing debt at the beginning and end of each period.



1 The PER is calculated using the stock price at the end of each fiscal year and the EPS forecast announced at the beginning of the following fiscal year.

2 PERs for the First Section of the Tokyo Stock Exchange are listed for 2021 and earlier.

Source: Japan Exchange Group, Inc., PER and PBR (consolidated and non-consolidated) by Size and Industry

Recognition of the PER

- ▶ Our PER is 9.2 times, which is lower than the TSE Prime; 16.6 times, the real estate industry; 12.9 times (as of the end of November 2024)
- ▶ In the macro environment of low birthrates and an aging population, as well as low GDP growth, there may be the recognition of low expected growth in the real estate industry, and some concerns that the Trading Business has high earnings volatility

Aim to improve the PER to around 13 times, which is considered appropriate given the level of the real estate industry and our stable business ratio

Stable and high growth in the Trading Business

- ▶ Although temporarily affected by the recording of valuation losses on hotel assets, etc. due to the COVID-19, recovered in a relatively short period of time
- ▶ Even in the face of rising construction costs, the Trading Business continues growing by maintaining a balance between revitalization and development projects.

Our response

Leverage our strengths to achieve **stable, high profit growth in our Trading Business**



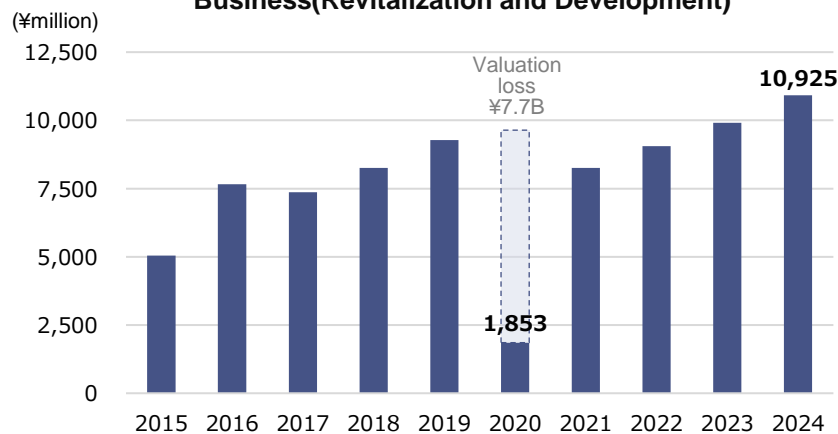
Correlation between PER and stable business ratio

- ▶ In the real estate industry, companies with a high ratio of stable businesses such as leasing and management have a high PER valuation
- ▶ Our stable business ratio is 50.5% (FY2024), and we think that there is a low awareness of the high ratio of the Stable Business

Our response

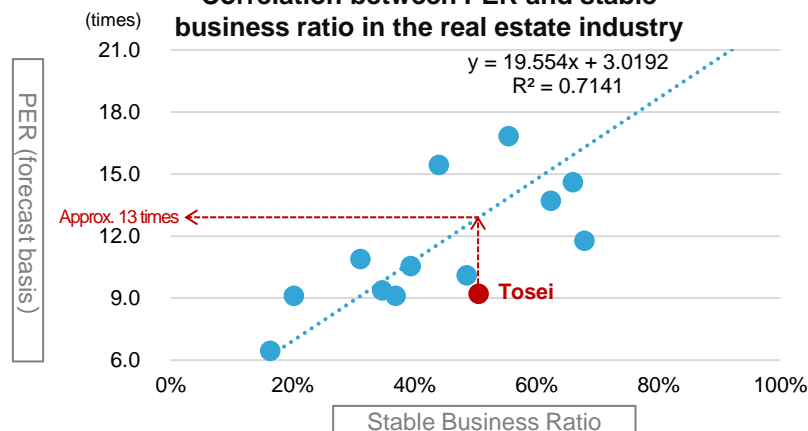
We aim to **promote understanding and penetration of our portfolio management**, which consists of Trading and Stable Businesses

Operating profit of Trading Business (Revitalization and Development)



COVID-19 Shock

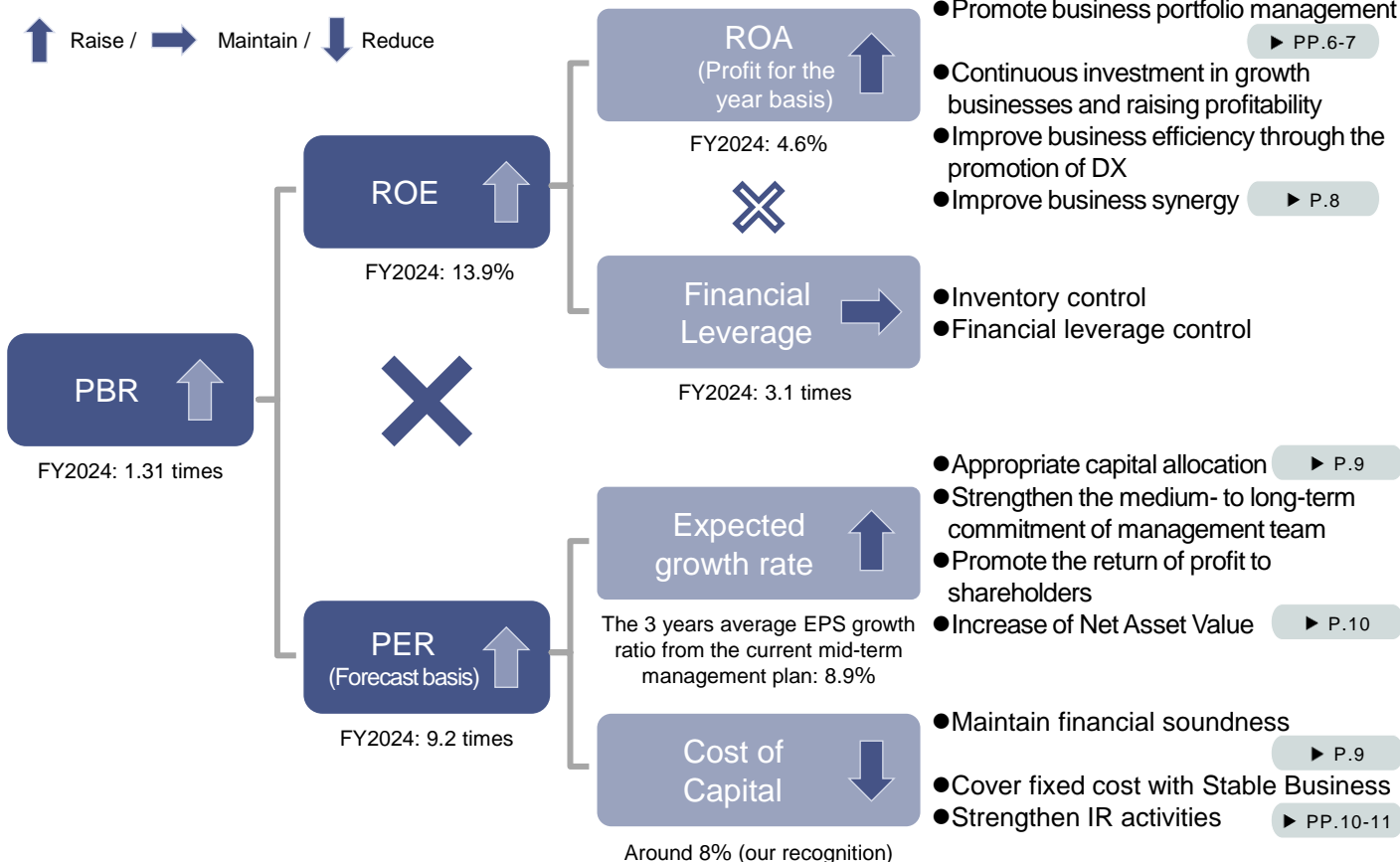
Correlation between PER and stable business ratio in the real estate industry



* The data is our estimate based on Refinitiv data (as of Dec. 25, 2024) and the securities report of each company.
 * Calculated profits of leasing and management business, etc., excluding trading business, of the similar companies in the real estate industry.
 * There is no guarantee that the PER multiple calculated by Tosei is correct, as sufficient information on the financial results of similar companies is not always available. In addition, the calculation is for reference only, and there is no guarantee that the stock price will be evaluated as calculated.

Initiatives for corporate value enhancement

↑ Raise / → Maintain / ↓ Reduce



Initiatives

- Promote business portfolio management ▶ PP.6-7
- Continuous investment in growth businesses and raising profitability
- Improve business efficiency through the promotion of DX
- Improve business synergy ▶ P.8
- Inventory control
- Financial leverage control
- Appropriate capital allocation ▶ P.9
- Strengthen the medium- to long-term commitment of management team
- Promote the return of profit to shareholders
- Increase of Net Asset Value ▶ P.10
- Maintain financial soundness ▶ P.9
- Cover fixed cost with Stable Business
- Strengthen IR activities ▶ PP.10-11

Change in indicator

- ▶ Rise in operating profit margin (FY2023) 20.5% → (FY2024) 22.5%
- ▶ Raising the payout ratio (FY2023) 30.0% → (FY2024) 31.9%
- ▶ Increase of NAV (FY2023) ¥122.1B → (FY2024) ¥145.8B
- ▶ Maintaining financial soundness
Equity Ratio 32.7% (maintain around 35%)
Net D/E Ratio 1.45times (maintain around 1.4times)
- ▶ Rise in stable business ratio (FY2023) 49.2% → (FY2024) 50.5%

Main results

- ▶ Achieved cooperation between Fund Business and Revitalization Business (Realized supply of real estate to fund investors)
- ▶ Realized both growth investments and strengthening shareholder returns
- ▶ Introduced a share-based remuneration plan for directors
- ▶ Published “Integrated Report 2024,” increased IR meetings

Target Level/Policy

Maintain capital profitability that exceeds the cost of capital
ROE 13.0% or more ▶ P5

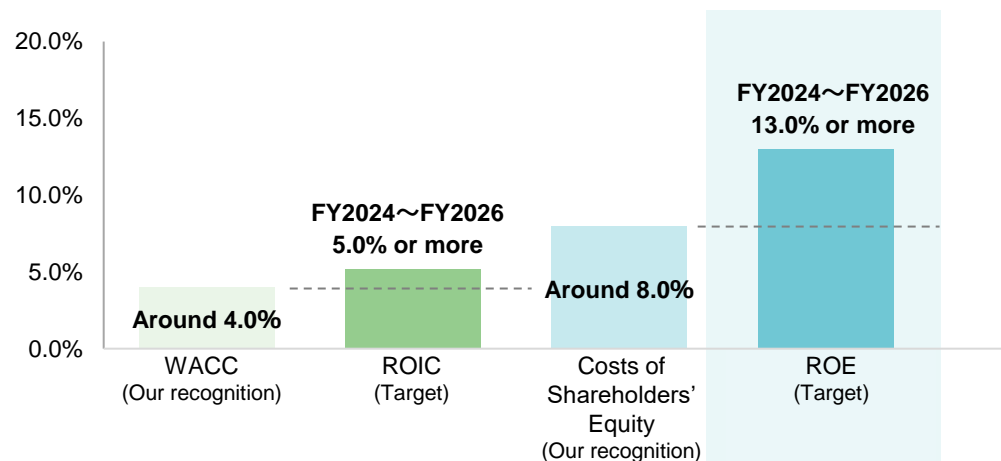
Maintaining a capital efficiency that exceeds WACC
ROIC 5.0% or more

Maintaining financial soundness
Equity Ratio around 35%
Net D/E Ratio around 1.4 times

Initiatives for Corporate Value Enhancement – Raise of ROE Target –

ROE Maintain and improve return on capital

- ▶ Maintain return on capital that exceeds the cost of capital, which is the market's expected return
- ▶ Aim to achieve growth while maintaining a portfolio balance between Trading and Stable Businesses, pursuing financial soundness and capital efficiency



TOPICS Raise of ROE target

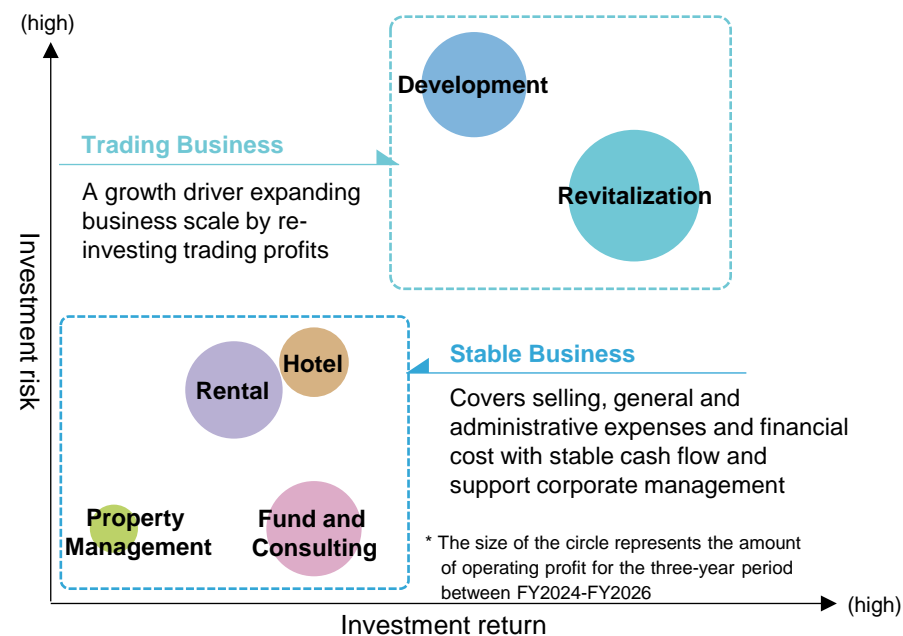
- ▶ Revised the ROE target in the current medium-term plan upward mainly due to the improvement of profitability in the Trading Business and the Hotel Business

	ROE target	FY2024	FY2025 plan	FY2026 plan
Initial target (announced with mid-term plan)	12.0% or more	13.0%	12.7%	12.5%
Revised target	13.0% or more	13.9% (result)	13.5%	13.2%

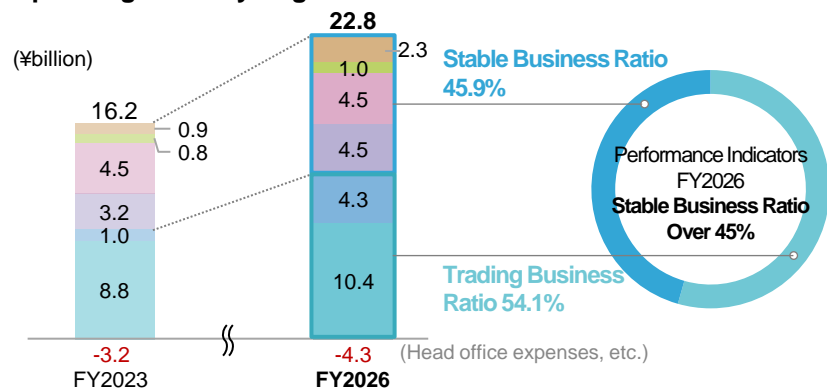
Initiatives for Corporate Value Enhancement – Promote Business Portfolio Management –

- Disperse risks with a portfolio consisting of multiple businesses with different characteristics and grow each of them
- Change the real estate portfolio responding to the real estate market flexibly and speedily

ROE Business Portfolio Management



▶ Operating Profit by Segment



ROICs and Strategies by Segment

▶ ROICs and strategies of on-balance-sheet businesses

	Trading Business		Stable Business	
	Revitalization	Development	Rental	Hotel
ROIC* (our recognition)	Around 10%	Around 5%	Around 2.5%	Around 5%
Project Period	0.5-1.5 years	1-4 years	Long-term	

* Calculated as follows: Trading Business (Revitalization and Development) includes rental income during the holding period; Rental Business includes fixed assets only

Trading Business

Revitalization Development

- Combine "Revitalization Business" and "Development Business" and sell with a plan considering market conditions and stock status
- Reduce risks by dispersing asset types and locations
- Maintain and improve profit margins through the use of various acquisition methods, including M&A, and real estate solutions that match demand trends.

Stable Business

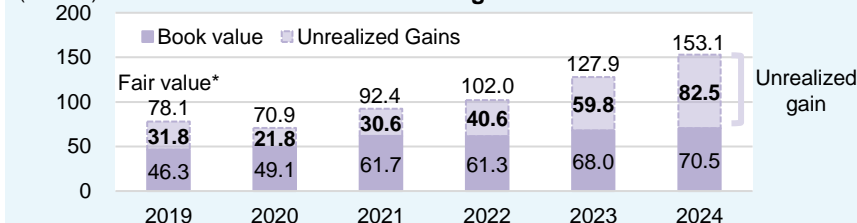
Rental

- Although the ROIC of the Rental Business (fixed assets) is lower than the Trading Business, enhance the value of assets through long-term holding and in-house renovation and leasing, and generate unrealized gains
- Realize unrealized gains by strategically selling fixed assets

Hotel

- Expand the scale of the business while maintaining the capital efficiency, with consideration of partial off-balancing and taking on the management of other companies' hotels

Book value and unrealized gains of fixed assets



Initiatives for Corporate Value Enhancement – Promote Business Portfolio Management –

Pursue high profitability through Revitalization and Development Businesses, while securing stable profit through Rental, Fund and Consulting, Property Management and Hotel Businesses. **Stable Business gross profit covers the fixed cost.**

ROE PER Realizing both growth and stability

Trading Business

Revitalization Development

In the Trading Business, we acquire existing real estate and land, and sell value-added/revitalized real estate and newly developed real estate.

This business is our growth driver which generates high profitability but is easily affected by the property's characteristics and the state of the real estate market.

Trading Business

Growth

One-time fee business



Stable Business

Stability

Stock-based business

Stable Business

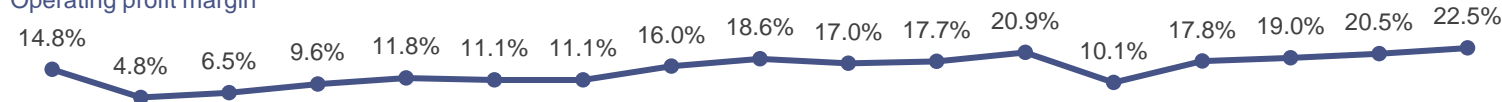
Rental Fund
Management Hotel

In the Stable Business, we gain stable income such as rent, asset management fee, PM/BM fee, etc. by providing real estate related services.

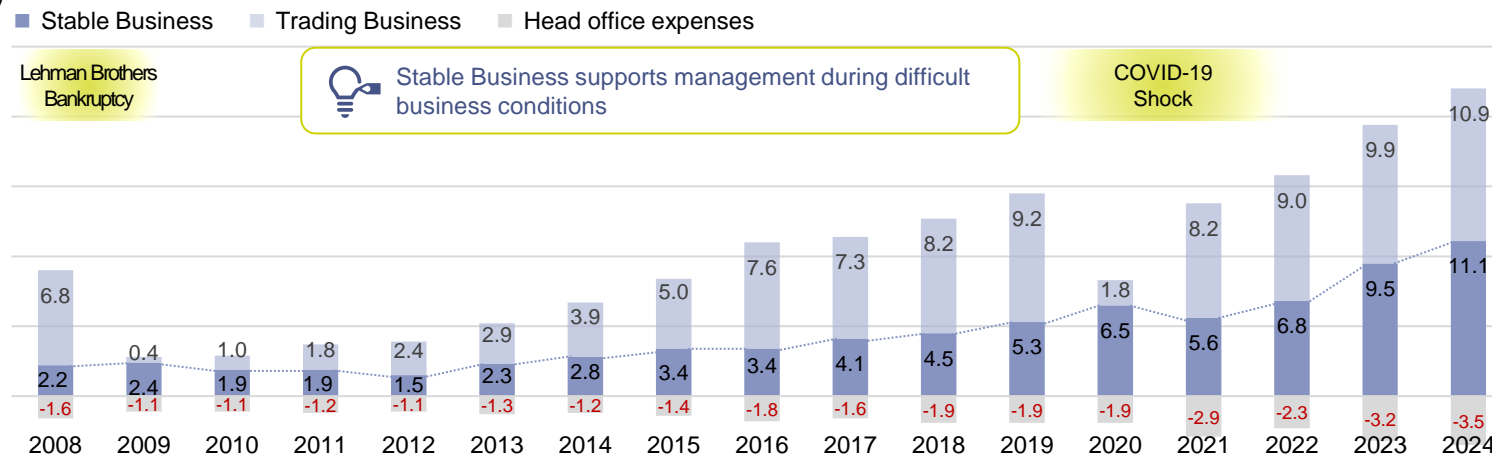
This business is relatively unaffected by the real estate market and continuous profit can be expected.

Trend in the Operating Profit Composition

Operating profit margin



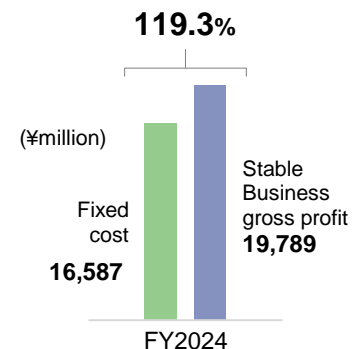
(¥billion)



Stable Business supports management during difficult business conditions

COVID-19 Shock

Stable Business Gross Profit and Fixed Cost Coverage Ratio



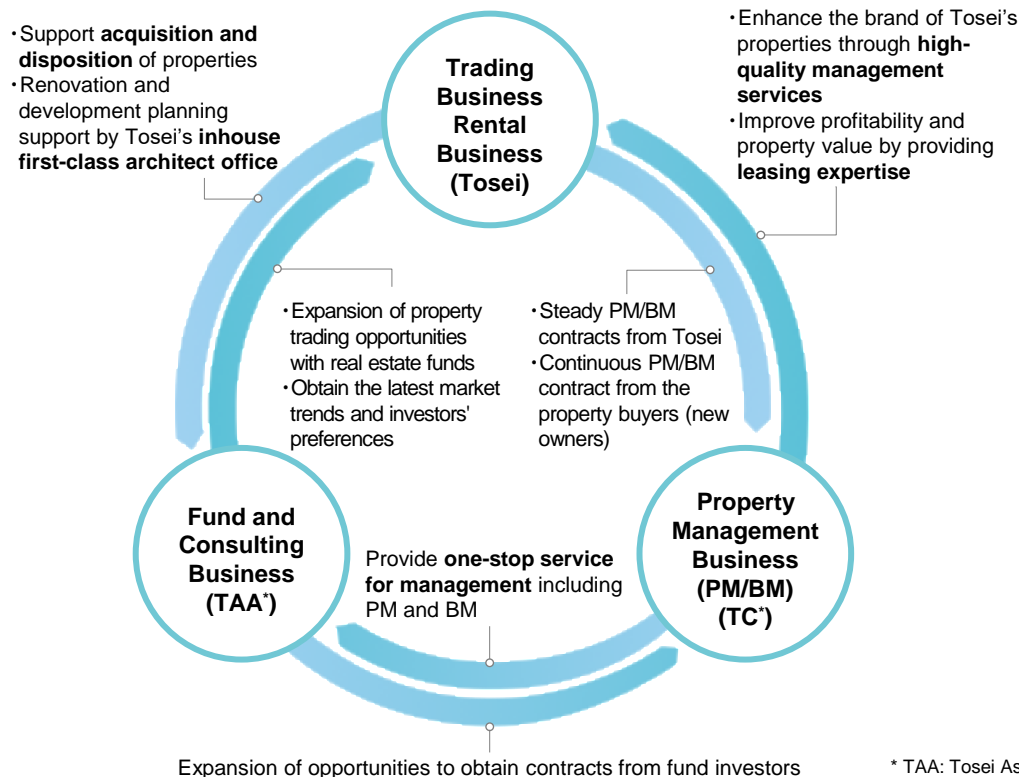
* Stable Business Gross Profit: The sum of gross profit (net of effects of internal transactions) of the 4 Stable Businesses (Rental, Fund & Consulting, Property Management, and Hotel).

Initiatives for Corporate Value Enhancement

– Improve Business Synergy –

- Fund and Consulting Business and Property Management Business are the core businesses that will support the Tosei Group's sustainable growth through synergies with the Trading Business
- Tosei functions as the best owner and enhances the cash flow of each business through group synergies

ROE Tosei Group's Synergies



Point One-stop Solution for Investors from Acquisition to Disposition of Real Estate



Initiatives for Corporate Value Enhancement

– Appropriate Capital Allocation & Maintain Financial Soundness –

- Strengthen both growth investment and shareholder returns using cash generated from business operations
- Enhance funding capabilities for growth while maintaining financial soundness (target equity ratio of 35% and net D/E ratio of around 1.4 times)
- Expand BS through accumulation of fixed assets and inventories that generate stable income, etc.

ROE PER Capital Allocation Update

Free Cash Flow¹ (FCF)

(Amount for the three-year mid-term management plan)

Cash generated from business
¥255.8B

Cash flow from
operating activities ¥ 43.5B
Sales of properties ¥162.1B
Fund procurement ¥ 50.1B



Allocation

Growth Investment
¥244.4B

· Invest in prime assets

Shareholder returns²
¥11.3B

¹ Calculated in-house as follows:

Free cash flow for the three-year period = Cash flow financed by borrowing and other sources + cash flow recovered through the sales of properties + operating cash flow without changes in inventories.

² Although acquisition of treasury stock will be considered flexibly, it is not included in the above.

(¥billion)	New Mid-Term Plan	Previous Mid-Term Plan
Growth Investment (book value basis)	244.4	190.3
Inventories	222.9	172.2
Revitalization	171.8	120.0
Development	51.0	52.2
Fixed Assets	21.5	18.1
Shareholder Returns	11.3	6.6
Total	255.8	196.9

Focus Asset Type: Residential > Office > Hotel > Logistics
Focus Area: Assets in 10 central wards of Tokyo and assets located near train stations in suburban areas in the Greater Tokyo

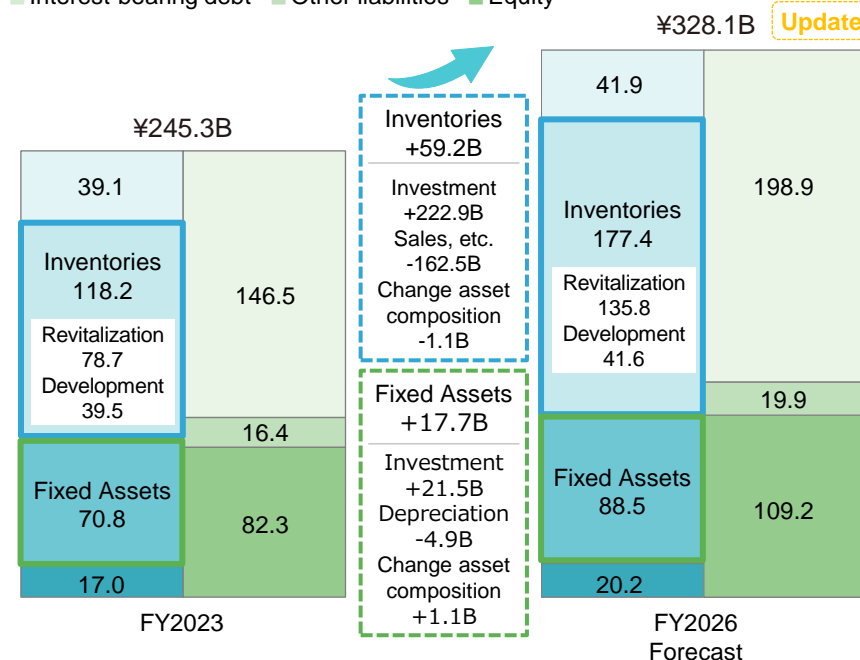
- The shift from Development Business to Revitalization Business due to the soaring construction costs
- Focus on wood-frame apartments and high-priced assets with relatively low construction costs in Development Business

Raising the dividend payout ratio to 35% to strengthen shareholder returns

ROE PER Balance Sheet Simulation

BS Expansion through Growth Investment

- Cash and cash equivalents
- Inventory
- Fixed Asset
- Other assets
- Interest-bearing debt
- Other liabilities
- Equity



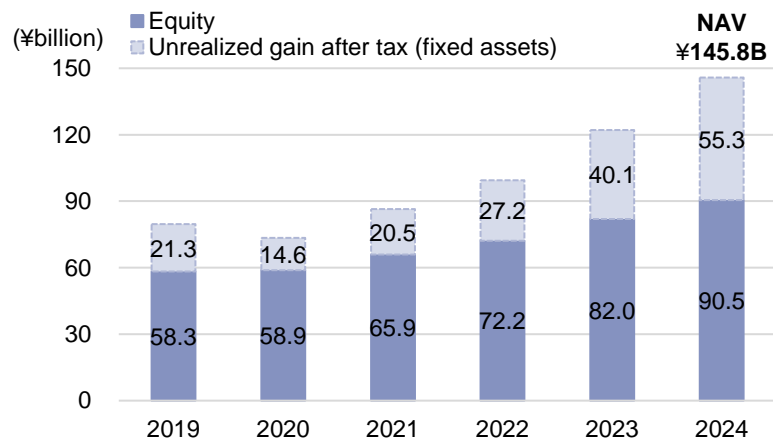
▶ Equity Ratio	33.4%
▶ Net D/E Ratio	1.31 times

▶ Equity Ratio	33.2%
▶ Net D/E Ratio	1.44 times

Initiatives for Corporate Value Enhancement – Increase of Net Asset Value & Strengthen IR Activities –

PER Increase of Net Asset Value

- ▶ Increase NAV by capital accumulation due to profit growth, acquisition of high-quality fixed assets and raising asset value



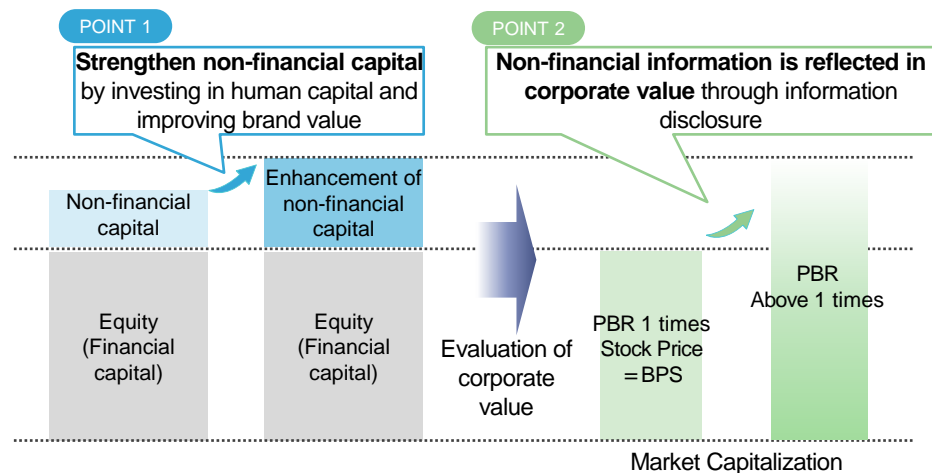
(as of the end of Nov. 2024)

Total Equity*	Unrealized Gains After Tax	Net Asset Value
¥90.5 billion	¥55.3 billion	¥145.8 billion
Book Value per Share	Unrealized Gains After Tax per Share	Net Asset Value per Share
¥1,867.49	¥1,141.94	¥3,009.42

* Equity: total equity attributable to owners of the parent company

PER Enhancement of non-financial capital and proactive information disclosure

- ▶ Strengthen non-financial capital by investing in human capital and improving brand value
- ▶ Improve the corporate value by proactive information disclosure



- ▶ [Integrated Report 2024](#)
(First publication)



- ▶ [ESG REPORT FY2023](#)



Initiatives for Corporate Value Enhancement – Strengthen IR Activities –

- Actively engage in dialogue with shareholders with the aim of corporate growth and enhancing corporate value
- Opinions and requests, etc. of shareholders ascertained in the dialogue are reported to the Board of Directors

PER Dialogue with Shareholders and Investors

– Dialogues conducted in the most recent fiscal year

	FY 2024	
Financial Results Meeting	2	
Small Meetings	4	
1 on 1 meetings with Domestic Investors	52	116
1 on 1 meetings with Overseas Investors	37	
1 on 1 meetings with Analysts	27	

– Main Themes and Concerns discussed in the Dialogue

	Main themes discussed in the dialogues
Medium-Term Management Plan	<ul style="list-style-type: none"> Business model and growth strategy Cost of capital management Capital policy, shareholder return policy ESG initiatives
Internal and external environment / Business performance trend	<ul style="list-style-type: none"> Real estate market conditions (interest rate, construction cost, acquisition), real estate financial market trends Fund market, trends of fund investors Progress and growth strategy of each business segment
Other	<ul style="list-style-type: none"> Progress of the capital and business alliance with Nagoya Railroad Governance system (diversity of the Board of Directors, directors' remuneration, etc.)

Details of our policy on dialogue with shareholders and investors and our dialogue results are disclosed on [our website](#).



– For Contact –

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