# 3479 TKP

## <Implementing a decisive business model for the space-sharing economy>

May 9, 2018

TSE Mothers

Points

- TKP is expanding the sharing economy, working for effective utilization of commercial facilities, and has produced extremely good business results. Based on its original business model, the Company is continuing to launch new projects one after another, and at this time one year after it was listed, it is in the process of implementing its next Medium Term Business Plan. While the Company is aiming for sales of 45.8 billion yen and operating income of 6.7 billion yen in the fiscal year ending February 28, 2021, the results for the current fiscal year in fact are forecasted to substantially exceed those in the plan.

- President Kawano has positioned the TKP growth stages as follows. Phase 1 involves independent growth with the rental conference room business at the core. After launching the rental conference room business, the Company has raised its grades and is now operating hotel banquets, as well as the Garden City and Garden City PREMIUM grades using newly constructed and relatively new office buildings. The Company will continue on this path as its high value-add strategy in the future.

- Phase 2 involves forming business alliances, acquisitions, and increasing added value in order to operate the core rental conference room business while also expanding into peripheral business areas and bringing in-house some services which the company previously relied on outside suppliers for. With the acquisition of the box lunch company Tokiwaken, as well as renovation of leisure facilities, lodges, and hotels, the Company aims to produce the synergy of regeneration in all areas of its business. The APA Hotel FC is part of this business area.

- The theme for the next Phase 3 is “From Space Regeneration to Business Regeneration”. Based on synergy with its core business, it will contribute to regeneration of partner companies through M&As and business alliances. At the same time, although business to this point has been based on B to B, the Company will strengthen its B to C operations as it sets its sights on regeneration of retail business as defined in an increasingly broad way.

- Space sharing with the retail industry has already been started. The capital and business alliance with Otsuka Kagu involves a 1.05 billion yen allocation of shares to a third party, and the TKP holding ratio is now 6.65%. A new initiative using Otsuka Kagu's retail space for event venues and conference rooms has started since March. The Company is expected to continue using the space for more varied purposes in cooperation with other partners.

- Based on its space business, TKP is executing a sharing economy that transits from the value of ownership to the value of use. Through space regeneration that other companies cannot imitate, it will develop a business model in which higher occupancy rates generate high revenues. This process of creating added value is expected to help deliver record profits continuously. The Company is currently in an early growth phase and evaluations by the market will continue to improve together with rising profits in the future.

Contents

Corporate rating: A

Share price (May 8, 2018): 4,890 yen

Market capitalization: 161.9 billion yen (33.11 million shares)

PBR: 18.5× ROE: 28.9% PER: 63.8× Dividend yield: 0.0%

(Million yen, yen)

| Fiscal year | Sales | Operating income | Ordinary income | Net income | EPS | Dividend |
|---|---|---|---|---|---|---|
| 2013.2 | 8102 | 1129 | 1222 | 615 | 20.6 | 0 |
| 2014.2 | 10877 | 1060 | 1241 | 198 | 6.6 | 0 |
| 2015.2 | 14162 | 878 | 701 | 339 | 11.3 | 0 |
| 2016.2 | 17941 | 2004 | 1848 | 935 | 31.3 | 0 |
| 2017.2 | 21978 | 2694 | 2552 | 1352 | 45.2 | 0 |
| 2018.2 | 28689 | 3449 | 3200 | 2071 | 64.0 | 0 |
| 2019.2 (forecast) | 38000 | 4700 | 4400 | 2500 | 76.7 | 0 |
| 2020.2 (forecast) | 45000 | 6500 | 6200 | 3500 | 107.3 | 0 |

(as of Feb. 2018 base)

Total assets: 34,530 million yen Net assets: 8,655 million yen Capital adequacy ratio: 24.9%

BPS: 264.0 yen

Notes: ROE, PER, and dividend yield are based on forecasts for the current fiscal year. Beginning from the 2015.2 fiscal year, the figures are consolidated statements. Prior to that year, they are unconsolidated.

A 1:100 stock split was conducted in January 2017, and a 1:7 stock split was conducted in September 2017. The EPS in prior years uses a corrected base.

Responsible analyst: Yukio Suzuki

(Chief Analyst, Belle Investment Research of Japan Inc.)

Definitions of corporate ratings: Qualitative analysis is performed from the following perspectives: (1) Strength of management, (2) Growth and sustainability of business, (3) Potential for downward earning revisions. The rating utilizes the following 4 grades. A: Favorable, B: Some improvement needed, C: Significant improvement needed, D: Extremely difficult conditions.

## 1. Characteristics: Operating a sharing economy that is shifting from the value of ownership to the value of use.

**Full-scale approach to a sharing economy**

The economic mechanisms of the internet society are undergoing large changes. Corporate business models are in the process of shifting from products to services, from flow to stock, and from ownership to use, and the approaches to them are also changing. It is no longer the case that competitors consist only other companies in the same industry, and the barriers between sectors are continuing to crumble.

**Total Kukan Produce**

The Company (TKP) is engaged in what it calls "Total Kukan Produce", and has in fact created a business model for a space sharing economy. It operates a network-type business utilizing real estate and making full use of IT. Although it is based in the real estate sector, it is expanding its operations beyond the borders of Real Estate Tech.

**What is "space regeneration & distribution" ?**

"Space regeneration & distribution" refers to a retail distribution business which acquires unused space, regenerates it to create conference rooms, and retails it for use as temporary office space. Alternatively, it involves acquiring hotel banquet halls with low operating rates and utilizing the TKP network to regenerate them as spaces for meetings, banquets, and events, and also distributing them to other TKP facilities as catering centers.

TKP's business model (BM) is to acquire idle assets from the property owners, and operating them as a sharing business of sub-divided services predominantly for businesses. Together with this vertical axis, the Company is also moving laterally to meet other user needs. It has expanded its business into optional services including food and beverage services such as catering and lunch boxes, and simultaneous translation, as well as arrangements for accommodations and transportation.

**President Kawano and history of the Company founding**

President and CEO Takateru Kawano (age 45) previously worked in the foreign exchange and securities trading division of Itochu Corporation and participated in the founding of Japan Online Securities Co., Ltd. (now Kabu.com Securities Co., Ltd.). He later served as executive director and general manager of the Sales Division of E-bank Corporation (now Rakuten Bank Ltd.) before founding the Company. TKP was listed on the Tokyo Stock Exchange Mothers market in March 2017.

He launched the rental conference room business independently at the age of 32. Although TKP was initially named for the initials of the president's name, based on the nature of the actual business the name has taken on the additional meaning of "Total Kukan Produce".

Because President Kawano previously took part in the launch of an Internet securities company and Internet bank, he is very well acquainted with Yahoo! Searches, portal strength, and the Internet use of individual users. Although Internet B to C had grown, B to B had not.

President Kawano then came upon the idea of rental offices and rental conference rooms. He immediately created a system for hourly rentals and on his own placed ads on the Internet. At that time, nobody else was doing this.

He established a monopoly position on using the Internet for rental conference rooms, and the idea quickly spread. Users began posting links for map access, and TKP became the top search result for rental conference rooms. Although he started the business by himself, the phones were ringing off the hook.

Following the first facility where he leased conference rooms, he began leasing conference rooms on weekends and created second facility. He then leased a building as a third facility. The company turned a profit beginning from Year 1, and the number of employees at the end of the first fiscal year on May 30, 2006 was 12.

TKP Objective and Action Agenda

| | |
|---|---|
| Objective | Be a revolutionary company using IT and financial tools to create value for society!<br>(IT + Real) × Finance = Revolution!! |
| 3 Action Agenda | 1. Speed (Grasp opportunities! Be decisive about when to challenge and when to withdraw.)<br>Grasp opportunities the instant they occur.<br>Be decisive both about when to challenge and when to withdraw.<br>Embrace trial & error. (Produce results in 3 months.)<br>2. Yes We Can! (Maximize customer satisfaction. Strive to offer memorable experiences.)<br>Social value (value of our company) is not possible without satisfying the customers.<br>Always work from the perspective of the customer and strive to provide memorable experiences.<br>3. Always be creative! Make improvements! Cause a revolution!<br>There is nothing in the world that is perfect.<br>Aim higher and never stop creating and improving value to produce a real revolution. |

**Overcoming difficulties**

The Company faced two difficult challenges on the path of growth to the present.

The first was in 2008, when the collapse of the Lehman Brothers triggered a global economic shock. The business by that time had grown. Because the business was rental conference rooms, the Company did not own assets. Although no large effect was expected from the economic crisis, sales were affected by 500 million yen in cancellations, and the Company began running a monthly loss of 100 million yen. This triggered the restrictive financial covenant on loans and it became necessary to repay the borrowed money.

Although the Company had been preparing to be listed in 2009, the situation suddenly changed. The properties had been leased long-term, and the rent for them was high. Somehow the Company managed to lower the rent by half and reduced conference room prices by around 30%. This allowed the Company to break even and survive the crisis. Even at this time, there were no layoffs of personnel, and even in this difficult year the Company secured a profit.

The second challenge was at the time of the Great East Japan Earthquake in 2011. All events were canceled and the rental conference rooms were deserted. By various means, the Company managed to get through this period as well without running a loss.

**Operating rental conference rooms across Japan**

The Company was founded in August 2005, and began operating the portal site “TKP Rental Conference Room Net”. Although rental conference rooms already existed at that time, there was no business which utilized the Internet to make effective use of underutilized real estate space as conference rooms. The Company began operating exclusively in this area.

It began with rental conference rooms in the Tokyo Metropolitan Area, and it expanded to Hokkaido, Kansai, and Kyushu in 2006, to Tohoku and Tokai in 2007, and to the Chugoku Region in 2010. After just a short time, it was operating across Japan.

The number of rental conference rooms grew rapidly, exceeding 200 in 2007, 500 in 2009, and 1,000 in 2012. At present the Company operates more than 1,800 rental conference rooms including those overseas, and is expecting to reach 2,000 in 2018.

Numbers of rental conference rooms by region

(No. of rooms, %)

| | 2017.2 | | 2018.2 | |
|---|---|---|---|---|
| Hokkaido | 85 | 5.0 | 93 | 5.1 |
| Tohoku | 105 | 6.1 | 126 | 6.3 |
| Kanto | 851 | 49.8 | 844 | 48.2 |
| Hokuriku | 45 | 2.6 | 38 | 2.1 |
| Tokai | 137 | 8.0 | 131 | 7.0 |
| Kansai | 298 | 17.4 | 375 | 19.7 |
| Chugoku/Shikoku | 50 | 2.9 | 66 | 3.8 |
| Kyushu | 139 | 8.1 | 139 | 7.7 |
| Japan total | 1710 | 100.0 | 1812 | 100.0 |
| Overseas | 42 | 2.4 | 46 | 2.5 |

Note: Figure at right is percentage of Japan total, or percentage relative to Japan total for "Overseas".

**Leasing hotel banquet facilities**

As the business grew, in 2011 the Company entered the hotel banquet business. The basic concept was that it was possible to take spaces and resources that were not being effectively utilized, and apply ideas and innovations to increase the operating rates and convert them to high-profit businesses.

Hotel banquet facilities are constructed as essential hotel facilities; however they are generally not used as much as initially expected. Even if they are used for various ceremonies, parties, meetings, and other events, the operating rate remains low. However it is still necessary to keep the cooks, service staff, kitchen equipment, and other elements ready to operate at any time. If they are not operating, these expenses are wasted, and the effect is demoralizing to the staff.

The Company decided to lease these facilities – leasing only the banquet facilities. The staff (full-time and part-time employees) was also accepted without restructuring. Because the users of rental conference rooms are corporations, the Company had already captured a wide range of rental conference room demand in that region. As a result, there was extensive need by these corporations for meetings, banquets, and parties. There was also demand for catering and boxed lunches, as well as directing clients to the hotel banquet facilities. Once it was known that this business connected well with the rental conference room business, it grew quickly.

**Expanding overseas**

The Company also expanded overseas. It launched business in Shanghai in 2011, Hong Kong in 2012, and New York and Singapore in 2013. It focused on buildings in major overseas cities, however this business has not grown the way the domestic business has. The reported reasons are (1) High rents, (2) Insufficient knowledge of how to attract customers, including by means of the Internet, (3) Limited advantages of having conference rooms located in a single facility, and (4) Lack of sufficient growth in the food and beverage business. The Company is continuing on a trial and error basis at the present time.

**Five business areas**

The Company is at present operating in five business areas. These are (1) Business operating hotel banquet facilities and rental conference rooms, (2) Hotels & resorts business, (3) Food/beverage and catering business, (4) Event space production business, and (5) Call center and BPO (Business Process Outsourcing) business.

TKP defines itself as a space regeneration & distribution company. Although it does make use of underutilized real estate and properties, it is not limited to regeneration of real estate. One of the unique characteristics of the Company is its broader business in regenerating spaces. Through this business, it adds new value to create comfortable places, spaces, and times.

Rental conference rooms constitute the core business. The Company makes effective use of underutilized corporate-owned real estate as rental conference rooms. It uses the Internet to attract customers, improving convenience. In addition to rental conference rooms, it has expanded into banquets after meetings, hosting meetings at resorts, boxed lunches before and after meetings, and food/beverage and other catering.

If you look at sales by service, conference room rentals declined to 51.8% of overall sales (57.6% for the previous fiscal year), but food and beverage, accommodation, and other services are growing. While occupancy rates of conference rooms and profitability are increasing, the sales ratio of the conference rooms are falling, leading to diversified revenue sources.

Breakdown of sales by service

(Millions yen, %)

| | 2016.2 | | 2017.2 | | 2018.2 | |
|---|---|---|---|---|---|---|
| Rental conference room services | 10304 | 57.4 | 12659 | 57.6 | 14865 | 51.8 |
| Optional services | 1682 | 9.4 | 2135 | 9.7 | 2672 | 9.3 |
| Food & beverage services | 4004 | 22.3 | 4657 | 21.2 | 6294 | 21.9 |
| Accommodation services | 594 | 3.3 | 1093 | 5.0 | 2632 | 9.2 |
| Other services | 1356 | 7.6 | 1433 | 6.5 | 2224 | 7.8 |
| Total | 17941 | 100.0 | 21978 | 100.0 | 28689 | 100.0 |

Notes: Figure at right is percentage of total. Options include rental of meeting-related equipment, devices, and supplies.
"Other services" include building management, call centers, consulting, and management services.

### Corporate governance

Corporate governance is solid. 3 of the 5 directors are outside directors, and all 3 auditors are from outside the company. Haruo Tsuji, former president of Sharp, serves as an outside director. He is an opinionated outside director with knowledge and judgment that helped him to lead Sharp during its growth period. The outside directors are an important presence for an owner-manager and president Kawano is fully aware of this

## 2. Strengths: Increases in operating rates generate high profits with a regeneration business that others cannot imitate.

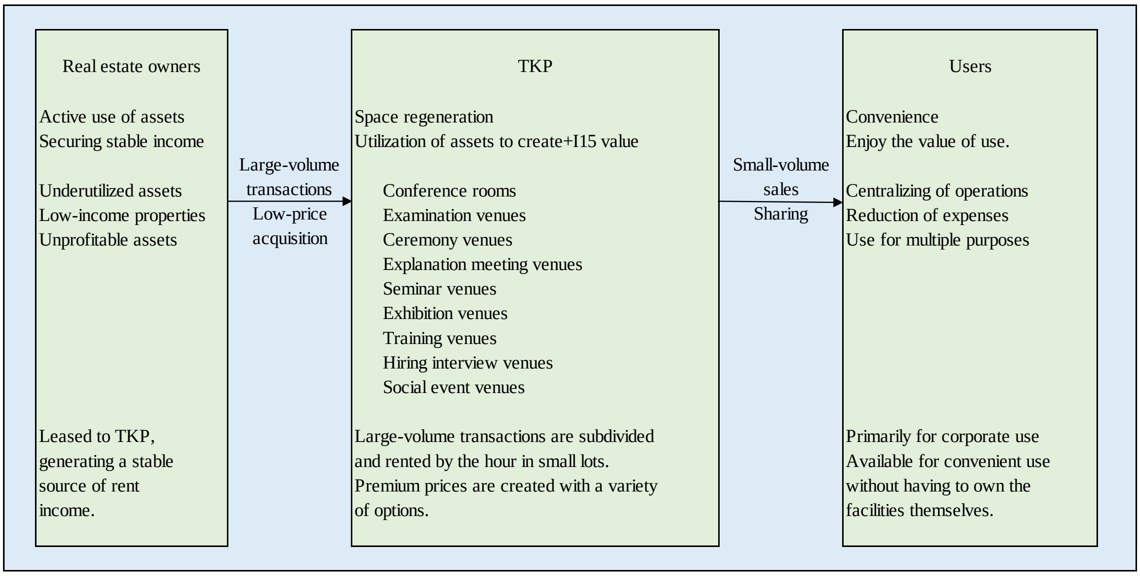
### No. 1 in the rental conference room industry

The Company controls approximately 60% of the market for rental conference rooms. There is no other company in the industry which provides the same services as TKP does based on rental conference rooms. When it comes to management of hotel banquet facilities, other companies do not have sufficient hotel management strength and do not have a network of conference rooms.

### Original business model: Founded by an innovator

The current TKP model is a completely new blue ocean business model. Because President Kawano is an innovator, although due consideration is always given, speed of action in giving something a try is important.

TKP Business Model
<Sharing economy for space regeneration>




### Strength of asset light management

The TKP strength is its operations that do not involve ownership. It abandons the rights of ownership and competes with the rights of use. This is the concept behind growing the business with limited funds.

If the first rental conference room Internet business in Japan was the first step, then the second step after rental conference rooms was creating rental conference rooms at hotel banquet facilities. The third step was then to combine meetings and training with accommodation and begin operating hybrid-type hotels.

Will this model work globally? Overseas, few middle-class hotels have banquet facilities. Even if the need exists, having a banquet facility would not be feasible in terms of efficiency. The same as in Japan, there is room here to make use of TKP innovation.

One theme is creating middle-class hotels that include conference rooms and/or banquet facilities. The Company is operating a business model for successful implementation of this theme in Japan.

**5 grades**

TKP conference rooms are currently composed of 5 grades: (1) STAR rental conference rooms (local community-based), (2) Business Centers (network primarily of conference rooms), (3) Conference Centers (banquet facilities optimal for conferences and training), (4) Garden City (hotel banquet class), and (5) Garden City PREMIUM (top class office banquet facilities).

The Company started with STAR rental conference rooms. The Company then expanded to the Business Center and Conference Center classes. At present, the Company is not actively opening the bottom 2 classes. They can be imitated and competition would intensify, resulting in a price competition. The Company does not engage in this kind of competition. These two classes generally do not generate lots of demand for food & beverage, added value is not high.

The number of conference rooms was 1,858 as of February 28, 2018 (+6% from the end of the previous fiscal year). Out of them there are 1,435 rooms (+12%) of the high added-value grades (Garden City PREMIUM, Garden City, Conference Center) that generate food and beverage sales, and these grades account for 77% of the total (up from 73% in the previous fiscal year). Reasonable grade (Business Center and STAR rental conference rooms) numbered 401 (down by 9% from the last fiscal year), accounting for 22% (down from 25% in the previous fiscal year).

5 rental conference room grades

| Name | Format | Facilities | Rooms | Business objective |
|---|---|---|---|---|
| Garden City PREMIUM | High-grade office banquets<br>Creative spaces | 11<br>13 | 113<br>137 | Main target<br>High added value |
| Garden City | Hotel banquets<br>Large-size multipurpose office banquets | 32<br>39 | 372<br>417 | ↑ |
| Conference Center | Office banquets for meetings<br>Centered on meeting seminars | 67<br>79 | 796<br>881 | ↕ |
| Business Center | Collection of conference rooms<br>Centered on company internal meetings | 53<br>49 | 351<br>313 | ↓<br>Expansion of base |
| STAR rental conference rooms | Local community-based conference rooms<br>For small-scale and individual use | 41<br>38 | 91<br>88 | Focus on efficiency |

Notes: Upper figures are for the end of February 2017. Lower figures are for the end of February 2018.

**Attacking with Garden City and Garden City PREMIUM**

At present, the Company is focusing its efforts on Garden City and Garden City PREMIUM. Although these are not exact figures, the hourly per-person rental rate is generally 100 yen for STAR rental conference rooms, 150 yen for Business Center class, 200 – 250 yen for Conference Center class, and 400 yen or more for Garden City and Garden City PREMIUM.

Garden City provides the same services as does the hotel banquet facility, while Garden City PREMIUM rival a high-grade office complete with full-service banquet functions.

### More reasonable than top grade hotels

How do the prices compare with top grade Tokyo hotels? As one example, when a top class hotel is used for a social gathering with 3 hours of service, the per-person price is 12,000 – 15,000 yen. The same can be obtained from the Company's premium class for 6,000 – 7,000 yen. In other words, the prices are 50 – 60% of the hotel level, and venues can be created to suit customer purposes.

Breakdown of sales by grade

(Millions yen, %)

| | 2016.2 | | 2017.2 | | 2018.2 | |
|---|---|---|---|---|---|---|
| Garden City PREMIUM | 317 | 1.8 | 1355 | 6.2 | 2407 | 8.4 |
| Garden City | 6341 | 35.3 | 7523 | 34.2 | 8559 | 29.8 |
| Conference Center | 6846 | 38.2 | 8023 | 36.6 | 9566 | 33.3 |
| Business Center | 1657 | 9.2 | 1782 | 8.1 | 1898 | 6.6 |
| STAR rental conference rooms | 250 | 1.4 | 179 | 0.8 | 189 | 0.7 |
| Accommodations, training | 711 | 4.0 | 1284 | 5.8 | 2355 | 8.2 |
| Other services | 1816 | 10.1 | 1819 | 8.3 | 3712 | 12.9 |
| Total | 17941 | 100.0 | 21978 | 100.0 | 28689 | 100.0 |

Note: Figure at right is percentage of total.

### Entering the full-scale hotel banquet facility business

The Company entered the hotel banquet facility business in 2011. Prior to that time, it had conducted small-scale trials as it searched for possibilities. The prospects appeared promising and the Company decided to begin full-scale business.

The first facility was TKP Garden Hills Shinagawa. There, it began shifting the food & beverage business to an internal operation. Originally, the facility was operated by Tokyu as the Hotel Pacific Tokyo, however the banquet facility division was a heavy burden on the hotel. As part of the redevelopment of that area, the Company took over the rental conference room and food & beverage services. Shinagawa Goos – a multi-purpose commercial complex centered on a large-size business hotel (Tokyu EX Inn) – opened in 2011.

### Why is the company profitable ?

TKP Garden Hills Shinagawa became a major earner, overturning the conventional wisdom of the time that hotel banquet facilities were not profitable.

The reasons why this business is profitable include the following. (1) When banquets are not scheduled, the facility is used as ordinary conference rooms, increasing the operating rate. (2) The Company has a base of 20,000 corporate clients, and among them are companies with needs for conferences at hotels. (3) The company hired sales staff and conducted strong sales operations. (4) There are multiple TKP conference rooms around Shinagawa, making it possible to capture the demand for catering and food & beverages at these facilities. This increased the operating rate and increased the value-add.

**Purchasing meals from the Company: Acquisition of the boxed lunch company Tokiwaken**

With a plant producing boxed lunches under its umbrella, the Company began producing its own boxed lunches for use in meetings. Because the company has a customer base, it is working to internally produce added value by successfully connecting its value chain here.

In order to shift to internal food & beverage production, the Company acquired Tokiwaken in 2013 and launched a full-scale food & beverage business. The Tokiwaken boxed lunches previously centered on lunches sold at railway stations, however business was difficult. With the rental conference rooms of the Company, the demand for boxed lunches is high. This is because in many cases, meetings follow a pattern of taking a break to eat a boxed lunch before continuing with the rest of the meeting.

Tokiwaken also received contracts for in-flight boxed lunches from a major airline, and for boxed lunches at meetings in high-grade hotels. It became the subsidiary Tokiwaken Foods and the Company became able to purchase boxed lunches from within its own group. At present, although Tokiwaken Foods also sells outside the company, 60% of its lunches are for use within the Company.

**Regenerating leisure facilities to create facilities that operate as training centers and resort hotels**

LecTore utilizes corporate leisure facilities as training centers and hotels. It regenerates underutilized leisure facilities, not only making use of unoccupied rooms (spaces), but also regenerating the business itself. It converts underutilized real estate to other uses in order to regenerate it.

The Company entered the hotel & resort business in 2013 with the opening of the first LecTore resort seminar hotel. This business makes use of leisure facilities that are owned by large corporations. These corporate leisure facilities are a poor fit for modern needs, and in many cases the operating rates are low. Another owner buys the leisure facility from the corporation and the Company then leases the facility.

This business has expanded steadily to Atami, Hakone, Karuizawa, and Yugawara. TKP continues to use the facilities as training centers that include accommodation. There is a range of needs for training that includes accommodation, and that additionally is located only a short distance from Tokyo. Because these facilities are recycled, they can be provided at low prices, increasing their popularity.

In addition, on weekends the facilities are used for private tourism instead of training. The Company worked for a large increase in the operating rate through combined use for training and tourism.

**Renovations for large improvements in profitability**

Initially the facilities were used as they were, however when renovations are carried out to improve the facilities, a large increase in prices are possible. As a result, this further improves profitability. For example, when the Company invests 100 million yen in renovating a facility, it produces a large increase in monthly sales of 10 million yen.

Accommodation facilities for rental conference room users

| Facility name | | Characteristics | No. of facilities | | | |
|---|---|---|---|---|---|---|
| | | | 2017.2 | 2018.2 | 2019.2(planned) | 2020.2 (planned) |
| LecTore | Suburbs | Resort-type seminar hotels within 1 hour of CBD<br>Inexpensive to acquire and regenerate | 4 | 5 | 6 | 6 |
| Ishinoya | Suburbs | High-grade resort-type seminar ryokan (traditional inn)<br>Inexpensive to acquire and regenerate | 1 | 1 | 1 | 1 |
| Azur Takeshiba | City | Resort-style training city hotel in central Tokyo<br>Accommodation needs for rental conference rooms, means of customer referral | 0 | 1 | 1 | 1 |
| APA Hotel | City | Business hotels with conference rooms<br>Carefully selected investment within FC range | 3 | 4 | 6 | 10 |
| First Cabin | City | Compact hotels with conference room<br>Carefully selected investment within FC range | 0 | 1 | 2 | 2 |

**A talent for renovation: Renovation of Ishinoya**

Ishinoya was purchased by a different owner of Sekitei after performance at that company slumped. The Company then leased and began managing the facility. It is essentially a higher grade version of LecTore. Each room is large, at 35 – 105 m$^2$ in size, and there are rooms that include private outdoor baths. The facility is used for training (15,000 yen per person) on weekdays, and is used as a resort for travelers on weekends. On weekends, the rate is 30,000 – 50,000 yen per night.

The facility was opened in 2015 as the hot spring lodge Ishinoya. The business model for the high-grade lodge Ishinoya (formerly Sekitei) was changed so that the facility is rented for corporate training on weekdays, and is rented as accommodation for private travelers on weekends.

Ordinary hotels and lodges primarily attract guests on weekends, with few guests on weekdays. The average weekday operating rate is in the 30 – 40% range. This is not a sustainable business model.

The Company proposed the idea of conducting 1 out of every 10 corporate training sessions at a remote location – an idea that was readily acceptable to corporations. A rate of 15,000 yen per night for off-site training is not so expensive. Ordinarily a stay at a hotel or lodge of this class including meals would run 30,000 – 50,000 yen per night. This model raises the operating rate to 80%, allowing prices to be lowered.

The Company is promoting weekday training instead of weekend training for reasons that include improvements in employee working styles. It is a two birds, one stone approach.

**APA Hotel FC (franchisee)**

The Company has also begun constructing its own hotels. In December 2016, it opened the APA Hotel TKP Nippori Ekimae in Nippori, Tokyo.

For this project, the Company purchased land and invested 3.0 billion yen to create a facility with 278 rooms. The average room price is 9,000 yen and the operating rate is nearly 100%. Japanese guests account for 80% and overseas guests for 20%, and guests stay on weekends as well. The operation is efficiently run, and operating profit on sales of close to 40% can be expected.

The Company operates the hotel as an APA Hotel franchisee, and this has produced effective synergy for both parties. The APA Hotel side is not interested in banquet facilities, and in cases when it buys a hotel that includes such a space, it gains large benefits from collaboration with TKP. APA Hotel is interested in the TKP management methods.

The Company is focused on the APA Hotel construction techniques, which utilize small spaces of 9 $m^2$ per room to construct high-efficiency hotels, while the Company is using its own network to attract guests and achieve a high operating rate.

TKP is currently operating 4 APA Hotels including two locations in Sapporo. These are hybrid hotels that run conference room facilities. TKP is expected to run about 10 hotels with new hotels due to open in Kawasaki (Spring in 2018), Sendai (Autumn in 2018), Osaka (Summer in 2019) as well as two hotels in Fukuoka, followed by the one in Nishikasai, Tokyo that opened in December.

**Management of a city center hotel: Azur Takeshiba**

Azur Takeshiba (122 rooms) is owned by the Tokyo Metropolitan Government, and was operated for many years by Fujita Kanko. TKP won a competitive bid for management of this facility, and took over operations in April 2017.

This facility is a general health services facility for members of the Mutual Benefit Association for Tokyo Metropolitan Government Employees, and therefore consideration must be given to the member services. The rent for lease of the facility by the Company was also increased, and the challenge is finding a way to make the facility profitable. TKP Garden City Hamamatsucho will be constructed within this facility as a banquet facility for improved efficiency.

The next step is renovations. Because this will require time, it is expected that full effects will be produced in or around the fiscal year ending February 29, 2020.

**Future expansion of overseas business**

The Company expanded into New York in 2013, converting a building warehouse into rental conference rooms. In 2016, it leased the banquet facility of the Crowne Plaza Hotel near Newark Airport in New Jersey. The owner is of Taiwanese heritage, and we worked together with him. This project is proceeding well.

The Company also expanded into Singapore in 2013, leasing floors of office buildings and operating rental conference rooms in 2 locations. In the same way as in Hong Kong, at present no growth has been seen.

## 3. Medium Term Business Plan: The 3-year plan aims easily achieve targets for creation of high added value.

### The rental conference room market

The rental conference room business is proceeding strongly. The overall stock (number of rooms) is growing steadily, and improvements in operating rates have resulted in double-digit sales growth. Because the marginal profit ratio is high, this division's contribution to income is extremely large.

How much demand is there for rental conference rooms? It is necessary to closely examine the demand matching in each area, however in Tokyo there is still ample demand. There is large room for growth in major cities across Japan.

Size of related markets

| | |
|---|---|
| Training services for corporations | 500 billion yen annually |
| Hotels | 1.9 trillion yen annually |
| MICE, customer attraction events (meetings, exhibitions, expenses paid travel, etc.) | Related events: 2,600 days annually<br>Participants: 2 million annually |
| Event planning and operation | 830 billion yen annually |
| Food & beverage, restaurants | 33 trillion yen<br>(Restaurants: 76%, home replacement meals: 21%, delivery and catering: 3%) |

### Future growth: Further expansion of the sharing economy

The TKP business is a typical example of a sharing economy. A conference room that is only used occasionally is not something which a company needs. There is strong demand for comfortable spaces at reasonable prices that combine conference rooms and banquet facilities. Even at prices that are reasonable to the customer, the profitability of the Company increases significantly as a result of the higher operating rate.

At present, the Company operates 1,800 rooms with 140,000 seats, and has a customer base of 1.4 million users every 10 days. It is expanding in the direction of a shift from [B to B] to [B to B to C].

This business model involves a multilateral approach to the utilization and regeneration of idle spaces, idle time, and idle materials. Recently, the business has expanded from its core conference room rental into the regeneration of commercial facilities.

**Rolling Medium Term Business Plan**

The 3-year Medium Term Business Plan was rolled into a new plan in January. Because the previous Medium Term Business Plan was created at the time when the Company became listed, it was considerably on the cautious side. With existing business as the base, the Company has launched the hotel business as an addition to the rental conference room and banquet facility businesses. As a result, the business currently being planned was added to the plan.

Although the lead time for hotels is long, the ones currently in progress will be making a full contribution to results in the fiscal year ending February 28, 2021. Because the profit margin on these hotels is high, their expected impact on business results is growing.

This Medium Term Business Plan includes the projects that are now underway, and the results forecast has been revised upwards by a large margin.

New mid-term 3 year plan

Theme

Create quality “places”, “spaces” and “time”, by making use of and adding value to underutilized properties and land and by regenerating spaces, and aim for growth as a space regeneration and distribution company.

6 basic policies

1. Asset light management
2. High value-add, high efficiency
3. Further utilization of existing space
4. Continue active opening of facilities.
5. Expand into ancillary businesses (accommodation etc.) and bring these businesses in-house.
6. Enter new business areas (including through M&A).

Results targets

Sales of 45.8 billion yen and operating income of 6.7 billion yen in the year ending Feb. 2021
Contribution from planned hotels (Kawasaki, Nishi Kasai, Sendai, Osaka, Sotokanda)

(Millions yen)

| | 2015.2 | 2016.2 | 2017.2 | 2018.2 | 2019.2 (planned) | 2020.2 (planned) | 2021.2 (planned) |
|---|---|---|---|---|---|---|---|
| Sales | 14162 | 17941 | 21978 | 28689 | 34500 | 42209 | 45858 |
| Operating income | 878 | 2004 | 2684 | 3449 | 4004 | 6002 | 6702 |
| Ordinary income | 701 | 1848 | 2552 | 3200 | 3729 | 5727 | 6414 |
| Net income | 339 | 935 | 1352 | 2071 | 2120 | 3275 | 3672 |

**6 basic policies**

The mid-term plan is based on 6 basic policies that are aimed at creating a foundation which will lead to future growth.

**1) Asset light management**

This means avoiding the ownership of fixed assets and real estate whenever possible, and utilizing rights of use instead of ownership. The Company has a history of 12 years, and its track record is visible. Top management says that he understands the resalable risk and safe line.

There is efficient management for rollover of the assets used. At the same time, stability is also required, and full attention is given to asset allocation.

The Company carefully studies whether it will lease a space or buy it. Based on the yield and number of years required to recover the investment, the Company also considers the debt-to-equity (D/E) ratio in the balance sheet.

Although the Company focuses on using rather than owning, large investments are still possible. The Company in general does not own properties, but leases and utilizes them. The facilities and equipment on the properties are provided and owned by the Company. This approach does not require huge investment.

In some cases, it may be clearly less expensive to buy a property or company. In such cases, the Company tries to own these assets on its own. In addition, if the Company concludes that owning accommodation facilities in Tokyo is strategically important, then large-scale investment may be made. The Company currently has 26.0 billion yen in cash, and borrowings, and is considering how best to utilize it.

**2) Creation of high added value and achievement of higher efficiency**

The rental conference rooms are divided into 5 grades. The management methods are different for each class, and the STAR rental conference rooms operate using only the Web. Garden City and Garden City Premium aim for services on the hotel level or higher. However careful attention is given to cost, and facilities equal to or better than hotels are provided at costs and prices that are lower than hotels.

Garden City started with the leasing of hotel banquet facilities, and there are plans to use them as central kitchens. Garden City PREMIUM is the type that provides office building conference rooms with catering services. The Company is putting efforts into determining how to maximize the utilization efficiency of conference rooms and how to increase kitchen operation, including food & beverages for nearby TKP offices.

**3) More effective utilization of existing spaces**

So how are the rental conference rooms used? They are rented by the hour, rental for the morning, afternoon, and evening are one typical pattern. Using a room for 5 hours a day is considered to be in full operation. Although the room can be used for 8 hours or 10 hours, President Kawano considers 5 hours a suitable target for high occupancy rate.

Connecting the conference rooms with accommodation facilities adds value for the users. Meetings and training involving overnight stays matter a lot to businesses. From TKP's standpoint, this leads to increased occupancy rates and unit prices, and to higher added values.

The operating rate of the rental conference rooms is not 100%. On average it is 30%, with 70% remaining. Because the break-even point is on the 10% level, it is extremely rare for income to fall below costs, however the rooms are ordinarily empty on weekends and at nights. The wintertime in January is a slow season and there is almost no demand. To remedy this, a variety of improvements will be applied to operations, such as use of the facilities for English conversation classes and tutoring schools, and their use as examination venues for university entrance exams.

**4) Continued active opening of new facilities**

Because the market is available, the Company operates across Japan; however business is centered on the Tokyo Metropolitan Area and major cities. When new buildings are created and tenants enter, the operating rate of shared spaces declines and there is also an effect on rent. Therefore, consideration is given to efficiency by both tenants and owners. This expands the available area for the Company to lease and manage facilities, and management of the shared spaces in offices is a potential business area. When new buildings are completed, the operating rate of older building also drops. The use of these buildings is where TKP comes in.

The TKP Tokyo Station Central Conference Center will be opening in May. The Company will lease floor 10 – 12 of a building connected directly to the Tokyo Station Yaesu Underground Shopping Mall, and will prepare 16 conference rooms of varying sizes.

**5) Starting and internalizing peripheral businesses including accommodation**

Where conferences or training are held, demand for accommodations naturally occurs. Groups staying at nearby accommodation facilities are considered as a "travel" to users and also generate travel business. The sizes are highly varied, ranging from a handful of individuals to large groups.

A closer look at sales shows that the weight of the conference room rental sales is declining, and the weight of accommodations and food & beverage sales is rising. At present, conference room sales account for somewhat more than 50%, however they are expected to eventually drop below 50%. Because the Company strives to avoid owning facilities whenever possible, the gross margin ratio is high. Both the food & beverage and accommodations businesses have achieved gross margin ratios that are on par with those in the rental conference room business.

**6) Development of new business areas (including M&As)**

Regarding new business, the Company is not limiting itself to areas peripheral to its main business. The customer base of the Company consists of corporate general affairs divisions and personnel divisions. The business area of office space use is very broad. The Company has adopted an approach of considering all kinds of new business.

**Strengthening sales power**

The Company is strengthening its sales power, increasing the number of sales divisions from 2 to 6 in April. For strengthening sales, training of newly hired recent graduates was conducted directly by the president at the Kawano School. Those personnel who had been posted to different regions across Japan were brought back to Tokyo and in order to fill 6 senior manager posts. Utilizing a sales force of 100 people organized into divisions of around 15 persons each, the Company will market its services to its top 500 corporate customers.

The Company has 24,000 corporate customers. In the fiscal year ended February 28, 2018, the amount of use by each of the top 500 customers increased by 13% from the previous fiscal year. Total sales to these 500 companies dropped from 50% of all sales to 38%, and sales to the top 2,500 companies dropped from 80% to 61%. This is due to its broadening customer base.

With its strengthened sales power, the Company will encourage its top customers to use a wider variety of its facilities and devise new services, leading to increased add value. Meanwhile, it is streamlining and systemizing its sales efforts to middle and bottom customers while also increasing sales by these users.

**Expansion of Garden City**

TKP Garden City Sakae Ekimae in Nagoya opened on January 15, 2018. The Company has leased the entire 6th floor of Nagoya Hirokoji Place, creating 8 rooms (for 18 to 318 persons) with a total capacity of 1,020. 4 rooms are banquet halls, and the largest can accommodate 318 persons. Because the building is not new, it is different from Garden City PREMIUM.

TKP Garden City Yodoyabashi opened in March, and is equipped with the first high-ceiling (6 meter) banquet facility in the Kansai Area. It uses 2 floors (10F and 19F) of Tradepia Yodoyabashi to provide 11 rooms with 615 seats. The 19F is also equipped with a high-ceiling banquet room, and can also be used at reasonable prices for large-size seminars and events.

**Attacking with Garden City PREMIUM**

TKP Garden City PREMIUM Nagoya Lucent Tower is an office banquet facility that connects directly to the Nagoya subway and opened on January 9, 2018. The facility consists of 15 rooms (for 12 to 204 persons) on the 16th floor of Lucent Tower, with a total capacity of 864. This is a new building 1 year after completion, however because the banquet facility was inadequately managed, the decision was made to lease it to TKP.

"Office banquet facility" refers to offices that include specifications that are similar to hotel banquet halls.

TKP Garden City PREMIUM Kyobashi opened last year in September. This facility leases the 22nd floor of Kyobashi Edogrand and provides 6 rooms (for 36 to 252 persons), with a total capacity of 840. This building is linked directly to Kyobashi Station on the Ginza Line. These are office building conference rooms that incorporate banquet functions through catering.

This is the 4th Garden City PREMIUM facility in the Tokyo Metropolitan Area, after those in Jimbocho, Akihabara, and the Yokohama Landmark Tower. Due to its good location, the rent at Kyobashi is high, however the rents of the offices are also high. The operating rate is expected to rise, thereby further increasing profitability. The Company is approaching its existing corporate customers to promote use of this facility.

TKP Garden City PREMIUM Minato Mirai opened in April. 11 conference rooms with 1,632 seats have been prepared on 5F of the MM Park Building, which is connected directly to Minato Mirai Station. The large hall has a capacity of 273 persons, and can also be used as a banquet hall.

TKP Garden City PREMIUM Yokohama Nishiguchi will open in May using 1 building in the Yokoyama MK Building complex. It is located 6 minutes on foot from Yokohama Station, and is equipped with 22 conference rooms that seat 1,755 persons. The Company will be operating the entire building.

In Autumn 2018, the Company will be opening a facility at the "msb Tamachi Station Tower S" complex located at the East Exit of JR Tamachi Station. TKP Garden City PREMIUM Tamachi will offer 7 conference rooms with 690 seats on the fourth floor. With 3 meter high ceilings, it can also be used for office banquets.

**Utilization of spaces at preparatory schools**

The TKP Akihabara Conference Center opened in December 2017. It is located on 3 floors (6th – 8th) of a former preparatory school building (Round-Cross Akihabara Building). It contains a total of 6 rooms (for 18 to 165 persons), with a total capacity of 417. It serves demand for meetings, training, seminars, and social events.

**Direct management of restaurants**

The directly managed restaurant Kizuna opened in Sapporo's Susukino district in August. Kizuna SusukinoS4 is a restaurant with 72 seats that prepares foods using local Hokkaido ingredients. It is linked with the 7 TKP conference room and accommodations facilities in the Sapporo area, and can be used as a venue for social events. Because customers are numerous, efficiency is high.

At present, the Company has 5 restaurants throughout Japan, and the branch managers, head cooks, and other core personnel who manage overall operations in the food and beverages department are all employees of the Company. The food & beverage business will continue to grow in the future.

**Collaboration with Hanabatake Ranch**

The Company launched collaboration with Hanabatake Ranch in December of last year. It involves the use in the TKP Group food & beverage business of cheese, whey pork, desserts, and other items created from choice Tokachi ingredients. The Company learned of Hanabatake Ranch (president: Yoshitake Tanaka) through its hotel and other business, and the two organizations agreed that there was the potential for collaboration.

**Collaboration with Ippudo**

As a result of TKP'S collaboration with the ramen restaurant Ippudo, this popular ramen is available at TKP conference rooms beginning from February. Ippudo is a renowned ramen shop owned by Chikaranomoto Holdings (code 3561). It has supervised the production of a Hakata tonkotsu (pork bone soup) ramen that is available with an advance group reservation of 30 or more, and is available for social events, catering, and lunch boxes. This is a unique and highly interesting project.

**Entry into the co-working space business: Joint operation with fabbit**

After the apparel department store (Rapport) in the Asty Hiroshima Kyobashi Building closed in February, the Company in October signed a long-term lease and opened floors 3 – 6 as TKP Garden City Hiroshima Ekimae Ohashi. It contains 16 rooms (for 18 to 276 persons), with a total capacity of 1,608, and can be used as conference rooms and for banquets.

In cooperation with APAman Shop Holdings, the co-working space "fabbit Hiroshima Ekimae" is operating as a joint venture with fabbit (a wholly-owned subsidiary of APAman Shop Holdings) on floors 1 and 2.

Co-working is an area that the Company wants to expand into, and it decided to team with fabbit, which has been operating in this field for some time. This space can be used to meet demand for a broad range of events, seminars, and consultation meetings held by start-up companies and individual proprietors.

Fabbit operates co-working spaces in Tokyo, Osaka, and Fukuoka, and already has 2,000 corporation members. As centers for open innovation, the Company is interested in these facilities not just rental offices, but also in the roles of collaborations and facilitators. The Company intends to engage in a wide range of collaboration with fabbit and others in the future.

In fact, the company “3L entrance” that was recently acquired by TKP operates a co-working space and rental office business. The brand name is TRIEL, and the business operates in Nihonbashi.

**Expanding the APA Hotel business: Turning medical facilities into hotels**

The APA Hotel TKP Sapporo Eki-kitaguchi EXCELLENT was remodeled in September 2017, expanding it from 96 rooms to 105. This facility was an old hotel that was rebranded and reopened by APA. The 1st floor back yard was also renovated to increase the number of rooms. There was a large increase in the profitability of this hotel after it was rebranded by APA and the number of rooms was increased. The hotel operating rate is now nearly 100%.

The APA Hotel TKP Tokyo Nishi Kasai opened in December 2017. Located in front of Nishi Kasai Station, it is the Company’s third hotel in the Tokyo Metropolitan Area. It includes 6 floors above ground, with 124 guest rooms and a banquet facility that can be used for conferences, social events, and as the breakfast dining area. This facility was converted to a hotel from a previous medical facility. The Company expects annual sales of 300 million yen, ordinary income of 50 million yen, and a profit margin of 17%. The cost of the renovations was approximately 600 million yen. Results have been strong, and even though it is located just 15 minutes by car from Tokyo Disneyland, at present business travelers account for the majority of guests.

**TKP APA Hotels in conjunction with conference rooms**

The TKP Sendai Minamimachi Dori Conference center (7 rooms, 519 seats) opened in March as part of a newly constructed multi-purpose commercial building that opened in January. With this opening, TKP now has 8 facilities in Sendai with a total of 62 rooms and 4,908 seats in Sendai. The facility will operate in conjunction with the APA Hotel <TKP Sendai Ekikita> due to open in October 2018.

In April, construction began on TKP Garden City Sendai Station Annex (provisional name). A separate 7-story annex will be constructed using land adjacent to the APA Hotel <TKP Sendai Ekikita>. 1F will contain tenants, while 2F – 7F will be the conference room floors. There will be 6 rooms with 600 seats, forming a hybrid facility linking with the APA Hotel.

**Continuing to open APA Hotel TKP facilities**

The next APA Hotels will be opened in front of Sendai Station and Kawasaki Station. APA Hotel

TKP Kawasaki (provisional name) is scheduled to open close to Keikyu Kawasaki Station in April 2018. It will operate based on a FC (franchise) contract with APA Hotels. It contains 143 guest rooms, and the 1st floor includes a hybrid banquet facility that can be used as a conference room or as a venue for social events, and as the breakfast dining area. In Kawasaki, the Company leased the land and constructed the building on it. Catering will also be linked with Tokiwaken.

APA Hotel TKP Sendai Ekikita is scheduled to open in October 2018 close to Sendai Station. It has 13 floors and 305 rooms. Floors 3 – 13 will operate as the hotel. The 1st floor contains a restaurant and kitchen that also serve as the breakfast dining area, and the 2nd floor contains a large banquet facility with a capacity of 300 persons and a medium banquet facility for up to 50 persons. These will operate as TKP Garden City Sendai, and will be used for banquets in the Sendai area. It is planned that this kitchen will function as a central kitchen to meet food & beverage needs linked with the 7 conference room facilities and 54 conference rooms in Sendai City.

Construction on APA Hotel Osaka Umeda began in December 2017, with the opening planned for May 2019. This hotel will have 14 floors above ground, with 161 guest rooms and a restaurant that serves as the breakfast dining area. It is being constructed next to TKP Garden City Osaka Umeda. It will be a hybrid-type hotel, as productive links between the two facilities can be expected. It is also located close to Universal Studios Japan.

2 hotels are being constructed in Kyushu, in Hakata and Tenjin. They are scheduled to open in November 2019, and will offer excellent access from Fukuoka Airport and Hakata Station. The Hakata hotel will be connected directly to the Higahihie Station on the Subway Airport Line, and will have 160 guest rooms. The Tenjin hotel will be located 5 minutes on foot from Akasaka Station on the Subway Airport Line and 10 minutes on foot from Tenjin station, and will have 200 guest rooms. Both are planned to be APA Hotel types.

One strength of APA Hotels is its extremely efficient use of space. In extreme terms, they are able to create large numbers of rooms in a small space, and the level of user satisfaction is high. One objective of the Company is to operate around 10 APA Hotel FC.

A hotel with 200 rooms will be constructed in Sotokanda, Tokyo. The Company has already owned the land for the hotel, and was also able to acquire the adjacent land, allowing integrated development of both properties and expanding the hotel size from 87 rooms to 200 rooms. It will be opening as an APA Hotel in December 2019. As a 200-room hotel, it aims to produce annual sales of 600 million yen and recurring income of 250 million yen (profit margin 42.7%).

**Relationship between rental conference rooms and hotels: Profitability and investment profitability**

The hotel operating profit margin is expected to be 30 – 35%. This is the same level as Garden City

PREMIUM. A full study of investment profitability is conducted for all business, and the Company operates with a venture spirit that encourages giving new business a try when the probability of success reaches around 50%.

President Kawano thinks that if rental conference rooms are considered to be temporary offices, then accommodation facilities can be considered to be temporary hotels, and he sees that there is large demand for this infrastructure. Moreover, because the TKP style of operations can be expected to achieve high profits, the outlook is extremely promising.

**Capsule hotels: First Cabin FC**

The Ichigaya Building which contains the head office also contains the TKP Ichigaya Conference Center. The Company has decided to convert a portion of this building and an annex to create a First Cabin compact hotel. Opening is scheduled for April 2018, following investment of 600 million yen to create 165 rooms.

First Cabin in Nagoya has been operating for 6 months, and delivers over 80% in operating rate. It aims to capture demand both for accommodation as an extension of training and for individual accommodation. As a capsule hotel offering rooms that look like first class airline seats, high operating rates can be expected.

**Continuing LecTore renovations**

LecTore Yugawara opened in May. It is a training center for a major corporation that has been converted to a hotel. It is a suburban type seminar hotel that contains 108 guest rooms and 10 conference rooms (the largest with a capacity of 165).

This makes for a total of 6 regenerated health care facilities and lodges (5 LecTore facilities and Ishinoya). Annual sales of 1.0 billion yen are expected. LecTore Atami Momoyama and LecTore Hakone Gora reopened after renovations in August, and LecTore Atami Korashi reopened in November. These serve as suburban type training centers located within 90 minutes from central Tokyo and Osaka, and further renovations to improve the utilization of such facilities will likely continue in the future.

**Start on the next LecTore: LecTore Hayama Shonan Village**

As the sixth facility in the LecTore Series, the LecTore Hayama Shonan Village project will be launched in April. Constructed by the Japan Productivity Center, operation of this facility had been contracted to Imperial Hotel. TKP acquired the facility together with the land.

On 39,600 $m^2$ of land, it contains a training building (22 training rooms) and guest room building (160 guest rooms), and was designed so it could also be used for international forums. However it was never fully utilized and remained completely unprofitable. TKP acquired this facility for an extremely low price, and is planning to regenerate it into a business producing 500 million yen in sales and 100 million yen in operating income after 2 years.

Companies are not yet making full use of corporate training centers, and there are many cases of companies facing difficulties for this reason. There are large expectations for future growth in this direction.

**Launch of “Cloud Space”**

In order to promote the effectively utilization of underutilized small and individually-owned spaces, the Company has launched a space matching service. “Cloud Space” launched in April and uses a smartphone app to connect persons who want to use underutilized spaces with those who want to rent them out. The platform for this service is “Cloud Space”.

At present, more than 2,000 spaces have been registered, including conference rooms, karaoke boxes, private rooms at restaurants, and studios. This service is provided as a function, and although it does not add significant value, it aims to promote efficiency and expand the business.

**Acquisition of subsidiary Majors: Strengthening of event productions**

In September, the Company acquired the event production company Majors as a subsidiary. This company was established in 2007 and conducts marketing (strategy formulation, activities, contracted operations) for exhibitions and other events.

It has 40 employees, and its president Hiroyuki Yamamoto is responsible for management. It has produced events for major foreign IT companies, and its business area is one where TKP was not directly involved before. At the same time, it has been a customer of the Company through its use of TKP spaces.

For Majors, securing spaces for events has always been a struggle. In addition, the corporate customers of TKP can be a powerful market. By entering into the TKP umbrella, it aims to expand its business.

For TKP, the acquisition of Majors opens up the new business area of event production, and will allow the market to be expanded. President Kawano expects this acquisition to add 1.0 billion yen to operating income after 3 years.

Becoming a subsidiary of TKP has several large advantages for Majors. (1) Use of the Company’s customer base will be a large boost to the creation of high added value. (2) It can secure a stable supply of event spaces. (3) It can rapidly expand in scale.

**Personnel exchanges aimed at achieving a higher rank**

Majors (total marketing production) is particularly skilled at large-scale events. The venues are separate from TKP spaces and in many cases are in a class that is one rank higher. After joining the TKP Group, Majors can utilize TKP facilities, and TKP can begin operating one rank higher facilities. Through exchanges of the companies' personnel, TKP is working to develop personnel who are suitable for large-scale events.

President Kawano had been considering a number of ideas concerning banquets that are on a higher level than the TKP volume zone. It was at this time that the Majors possibility emerged, and the two companies launched a business model that can produce win-win conditions for both of them.

Majors has been immediately successful in acquiring orders for large-scale events. It produced an event for 2,000 persons using a large hotel in Tokyo for a company that had previously done 20 million yen in business for conference room use with TKP. The price for producing the event was 35 million yen.

In this way, it is expected that the Company will be able to expand a space sharing business that is a rank higher than its previous business. The non-consolidated medium term plan for Majors calls for sales of 2.2 billion yen and ordinary income of 70 million yen in the fiscal year ending February 28, 2019. These figures are 3.4 billion yen and 270 million yen for the fiscal year ending February 29, 2020, and 4.4 billion yen and 660 million yen for the fiscal year ending February 28, 2021.

Full-scale exchanges of personnel with Majors will begin from April, with the goal of learning from each other about marketing to high-grade customers and general production. Future developments in this area are expected to attract attention.

**TKP growth stages**

President Kawano positions the TKP growth stages as follows. Phase 1 involves independent growth with the rental conference room business at the core. After launching the rental conference room business, the Company has raised its grades and is now operating hotel banquet facilities, as well as the Garden City and Garden City PREMIUM grades using newly constructed and relatively new office buildings. The Company will continue on this path as its high value-add strategy in the future.

Phase 2 involves increasing added value through business collaborations and acquisitions in order to bring in-house areas of peripheral businesses that previously relied on outside providers, while still operating rental conference rooms at the core of the business. With the acquisition of the boxed lunch Company Tokiwaken, as well as renovation of leisure facilities, lodges, and hotels, the Company aims to produce the synergy of regeneration in all areas of its business. The APA Hotel FC is part of this business area. The current 3-year business plan includes this phase, and its achievement is nearly certain.

Phase 3 is still in the future, however it is composed of 2 sides. The first is working from a base of synergy with the primary core business and using M&A and business collaborations to increase the regeneration weight among the businesses which TKP acquires. While increasing added value in the main business, this regeneration is will be applied to increase the corporate value of the group. In the second side of Phase 3, although business to this point has been based on B to B, the Company will increase its B to C operations as it sets its sights on regeneration of retail business as defined in an increasingly broad way.

**Space sharing with Otsuka Kagu**

TKP has concluded a capital and business alliance with Otsuka Kagu (code 8186). It involves a 1.05 billion yen allocation of shares to a third party, and the TKP holding ratio is now 6.65%. The intended business areas include (1) Sales of Otsuka Kagu products to TKP facilities, (2) Use of Otsuka Kagu shop spaces by TKP, (3) Bilateral referrals of customers, and (4) Creation of new shops by joint investment from both parties.

New initiatives have already started. The eighth floor of the Otsuka Kagu Shinjuku showroom was not being used. This space with 5.2-meter ceilings will be operated jointly as an event hall. 8F of this Shinjuku showroom opened as CIRQ Shinjuku on March 14.

Space at the Sendai Otsuka Kagu showroom is also being used as rental conference rooms. 7F – 8F of the Sendai Showroom opened as TKP Garden City PREMIUM Sendai Nishiguchi (23 rooms, 1,643 seats) on April 2.

As Otsuka Kagu shops are located in commercial districts in front of the stations, the shower effect is expected to also draw customers to the shops located in the same building. This is the start. In order to fully regenerate Otsuka Kagu, additional measures will be necessary, and TKP is prepared to commit further to this regeneration. The key is thought to be a relationship of trust between the top management of the 2 companies.

**Operation of the Takashimaya Rose Hall event hall**

TKP concluded a consignment contract and started operation of the event halls at Yokohama Nishiguchi Takashimaya Rose Hall, which opened in February. This facility is equipped with halls for 615 people on 1F and 699 people on 2F. Both have 3.5 meter high ceilings and can be used for a wide range of events. TKP is aiming to expand into commercial facilities and department stores located close to railway stations, and this facility deserves attention as one example.

**Expansion into commercial facilities**

Due to the effects of EC (E-commerce), there is a large possibility that spaces will become vacant at home electronics stores and large-size bookstores. The Company intends to use these spaces as rental conference rooms, event halls, and co-working spaces.

Commercial shops are turning into showrooms, and the importance of inventories is declining. It may no longer be necessary to define the character of a shop by always maintaining the same atmosphere and a similar lineup at every branch. President Kawano believes that there is potential for shops in the nature of pop-up stores and pop-up shops.

Although office business districts are highly populated from Monday through Friday, visitors are relatively few on the weekends. President Kawano believes that by having shops on 1F and offices on 2F and above, it will be possible to create a midtown similar to the 5th Avenue in New York to replace the current Otemachi, the major business district in Tokyo.

The owners of commercial facilities are likely to encounter considerable difficulties in making effective use of them in the future. TKP will be thinking about solutions to these problems.

**Focusing on underutilized space in the retail industry**

The expansion of underutilized space in office buildings is on track, and the business involving the acquisition of large excess space at a preparatory school is also proceeding well.

Next the Company will focus on making use of underutilized space in the retail industry. The building where the Otsuka Kagu Shinjuku showroom is located was originally home to the Mitsukoshi Department Store, and the Company plans to operate the 8th floor of that building as an event hall.

Floors not fully used by Otsuka Kagu will be used for events, rental conference rooms, and other purposes to increase the operating rate. This is the main business of TKP. For Otsuka Kagu as well, use of the space will bring people and is expected to have an impact on customer attraction.

It is expected that a variety of cases will emerge in the future for effective space sharing in the retail industry where large-size shops operate. Based on space sharing, the Company will continue to expand its business in a spiderweb pattern into peripheral business areas, and expand its business areas from space regeneration to business regeneration.

**How TKP differs from WeWork**

The key to space utility is achieving a balance between volume and price. TKP is currently leasing 330,000 $m^2$ of space. This is more than the 221,000 $m^2$ of WeWork in New York. Regarding the question of whether to expand this 330,000 $m^2$ to 363,000 $m^2$ and seek to increase revenue, or whether to increase the value of the current 330,000 $m^2$, the Company will carry out a twofold strategy while focusing primarily on increasing added value. It is ensuring flexible leasing terms so that properties leased for a fixed term do not become idle in the event of an economic downturn.

The US company WeWork began operating in 2008. In July 2017 it established WeWork Japan as a joint venture with the Softbank Group. WeWork operates co-working spaces in 66 cities in 22 countries around the world, and provides a system of shared offices and working spaces.

It is the policy of TKP to avoid active involvement in the rental office business. Because it is not operating in the real estate business where it would be in competition with its own customers, it is not focused on rental offices as a business area. It is not competing with WeWork and in fact collaborations may be possible.

**Potential for pop-up stores**

Pop-up stores are something like a modern version of special-event showroom sales where short-term shops are set up to provide a changing lineup of rare and high-quality products. Customers are drawn by the opportunity to buy something which is not available anywhere else, which also brings attention to the event.

These events travel around the country. By preparing several events and pop-up contents, they can move around while spending a fixed period in each place. This results in a completely new type of commercial business, and makes it possible to share commercial spaces.

How will pop-up businesses fare in the future? Can Japan’s space sharing business be used successfully overseas? To answer these questions, President Kawano intends to spend much time overseas during the coming year.

**Capital and business alliances with Nokisaki**

TKP has entered into a business alliance with Nokisaki Inc. Together with an Apaman Group subsidiary that was an existing shareholder, TKP also received a part of the capital increase by third-party allocation of stock which was conducted by Nokisaki in March.

Nokisaki operates Nokisaki Parking in more than 100 locations across Japan, and has more than 6,000 registered vehicles. In the future, empty parking spaces at TKP rental conference rooms and accommodation facilities will be utilized for Nokisaki Parking, and services will be provided to TKP users.

In addition, TKP will utilize the “Nokisaki Business” pop-up shop matching service so that idle spaces in shop sales floors and buildings can find new uses as spaces for short-term events or promotions.

**From space regeneration to business regeneration**

Phase 3 projects are expected to increase in the future. At this time, it will be necessary for the Company as an investor to continually examine the business conditions from 3 perspectives. (1) Consider the synergy with the core business. (2) However because the fundamental objective is business regeneration, identify the management and financial strengths which are necessary in order to rebuild the business. (3) Because there is continually a gap between the risks identified by management and the risks perceived by investors, sufficient engagement to fill that gap in recognition is necessary.

The Company is working to expand the space regeneration conceived by President Kawano to include business regeneration. The president's business ambition is indeed a driver of innovation, and he enthusiastically described his dream of becoming a 1 trillion yen company in the future.

**Eventual full entry into overseas business**

Business overseas cannot operate in the same way as in Japan. Resources are insufficient, and studies are necessary to determine how to team with local corporations. There are questions of how to link meetings, banquets, and accommodations in order to generate new added value. Further refinements to the Japan business model will be necessary.

How to approach major cities in the United States and other overseas markets? Rather than conference rooms, a chain operation that includes banquet facilities is necessary. The combination of conference rooms + banquet facility + accommodation is the business area of the existing hotel business. The Company's strategy is to create a TKP model based on the banquet facilities at hotels, without being constrained by the existing hotel business.

In Japan, it has created the TKP model by connecting office buildings. Overseas, it will likely aim to create a value chain by connecting together hotel banquet facilities.

**New York business soon to achieve profitability**

The loss in overseas business is shrinking, and the New York business has broken even. Although overseas business is still running a loss at present, this does not concern the president at all. The Company is currently at the stage of searching for business possibilities in leading city areas, and because the current stage is for R&D and testing, the Company considers that it has not yet reached the level for advance investment. It is examining the local conditions related to rental conference rooms on an individual market basis. The stage which launches full-scale investment has not yet been reached in any market. Studies at the current stage will continue in the future. The sizes of Asia cities are small, and are similar to Japan.

In New York, the budget in this fiscal year will break even, and the business is expected to turn profitable next year. New York and London are under consideration as locations for engaging in full-scale business. One idea is to aim for conference room plus banquet services that are on the same level as middle-class U.S. hotels, and a future issue will be deciding how to construct a network.

## 4. Near Term Earnings: Remain strong, and are continuing to set new records for peak income.

### Group companies and seasonality of results

Financial statements were prepared on a non-consolidated basis up through the fiscal year ended February 28, 2014, and have been prepared on a consolidated basis starting from the fiscal year ended February 28, 2015. The number of employees at the end of the fiscal year ended February 28, 2018 was 1,104 (764 at the end of the previous fiscal year), and the main force of the Company is its permanent operations staff stationed at 200 locations across Japan. With the acquisition of Majors and 3L entrance, the number of subsidiary companies at the end of the fiscal year was 19. To increase liquidity, the Company conducted a 1:100 stock split in January 2017 and a 1:7 stock split in September 2017.

Seasonality of quarterly business results

(Millions yen)

| | | 1Q (Mar. - May) | 2Q (June - Aug.) | 3Q (Sept. - Nov.) | 4Q (Dec. - Feb.) |
|---|---|---|---|---|---|
| 2016.12 | Sales | 4447 | 4669 | 4511 | 4314 |
| | Operating income | 804 | 739 | 520 | -60 |
| 2017.2 | Sales | 5756 | 5414 | 5339 | 5468 |
| | Operating income | 1226 | 915 | 458 | 94 |
| 2018.2 | Sales | 7253 | 6731 | 7317 | 7200 |
| | Operating income | 1415 | 884 | 743 | 560 |

Note:4Q of 2018 is the analyst's forecast

There is seasonality to the quarterly results. The 1Q (March – May) results are best. This is due to the boost in demand for rental conference rooms for purposes such as new employee training and hiring of recent graduates. 2Q and 3Q are generally on the same level, while 4Q (December – February) results tend to be lower. The Company is now taking steps to smooth out this unevenness in results. In past years, this was due in part to (1) concentrated buying of equipment and supplies, and (2) allocating provisions for year-end bonuses. To improve this, the Company is working to standardize expenses on a budget basis and is taking steps to increase the 4Q conference room operating rates. The use of conference rooms as examination venues during the university entrance examination season should also be effective.

As a result, 4Q results will improve over previous years and the results for the year ending February 28, 2018 are expected to exceed the initial Company plan. This should also give a further boost to the results for next year. As a result, 4Q results have improved compared with previous years.

**Comparison of unconsolidated and consolidated results**

In the unconsolidated results, the profit and loss statements show that land rent is large among the main cost items. This is because the Company leases land long-term in order to operate its facilities. Among SG&A (Sales, General & Administrative expenses), the weight of personnel expenses is high. Employees of the Company are involved in managing the operations of a wide range of facilities, and those expenses are at the core.

A comparison of consolidated and unconsolidated results shows that nearly all domestic subsidiaries are around the break-even point, while overseas subsidiaries are in the red. In the United states, the total accumulated loss was around 1.0 billion yen. It is difficult to conduct business overseas centered just on conference rooms. When combined with food & beverages, this becomes the business area of hotels. Determining how to differentiate itself is an issue for the future, and at present the Company is experimenting.

Comparison of consolidated and nonconsolidated profit and loss statements

(Millions yen, %)

| | 2016.2 | | | | 2017.2 | | | | 2018.2 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Consolidated | | Unconsolidated | | Consolidated | | Unconsolidated | | Consolidated | | Unconsolidated | |
| Sales | 17941 | | 16761 | | 21978 | | 20806 | | 28689 | | 26804 | |
| Cost of sales | 11376 | 63.4 | 10519 | 62.8 | 13707 | 62.4 | 12845 | 61.7 | 17738 | 61.8 | 16434 | 61.3 |
| Materials | | | 1704 | | | | 2059 | | | | 2771 | |
| Personnel | | | 576 | | | | 653 | | | | 955 | |
| Operation related fee | | | 904 | | | | 1117 | | | | 1361 | |
| Land rent | | | 4487 | | | | 5537 | | | | 6551 | |
| Lease fees | | | 649 | | | | 806 | | | | 998 | |
| Gross profit | 6565 | 36.6 | 6242 | 37.2 | 8271 | 37.6 | 7960 | 38.3 | 10950 | 38.2 | 10370 | 38.7 |
| SG&A | 4561 | 25.4 | 4188 | 25.0 | 5576 | 25.4 | 5128 | 24.6 | 7501 | 26.1 | 6802 | 25.4 |
| Personnel | | | 2567 | | | | 2834 | | | | 3782 | |
| Operating income | 2004 | 11.1 | 2053 | 12.2 | 2694 | 12.3 | 2833 | 13.6 | 3449 | 12.0 | 3567 | 13.3 |

Note: Figures at right are percentages of sales.

**Results for the year ended February 28, 2017 were extremely good.**

Results for the year ended February 28, 2017 were extremely good. Sales were 21,978 million yen (+22.5% from the previous fiscal year), operating income was 2,694 million yen (+34.4%), ordinary income was 2,552 million yen (+38.1%), and net income was 1,352 million yen (+44.5%).

Reasons for the strong performance included the following: (1) An increase in the number of directly operated conference rooms as a result of opening new facilities, (2) Expansion of the Garden City PREMIUM high added-value class, (3) Development of new applications such as demand for examination venues as measures to offset the slow season, and (4) Contribution from good operating rates at recently opened hotels.

The number of rental conference room facilities in Japan increased by +14.4% to reach 215, and the number of rooms increased by +14.1% to 1,752. The Garden City PREMIUM facilities Osaka Ekimae, Nagoya Ekimae, and Nagoyaeki Nishiguchi were opened. Garden City facilities were opened in Obihiro and Kagoshima Chuo. The Sapporoeki Kitaguchi and Nippori Ekimae APA Hotels were opened as business hotels with attached conference rooms.

Changes in conference rooms included the addition of 150 new leased rooms and withdrawal from 50 rooms on a base of around 1,800 rooms. Although facilities are leased for a fixed period, there have been cases when facilities are returned due to reasons originating from the owner. At present a net annual increase of 100 rooms is the current trend.

Results forecast

(Millions yen, %)

| | 2016.2 | | 2017.2 | | 2018.2 | | 2019.2 (forecast) | | 2020.2 (forecast) | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales | 17941 | | 21978 | | 28689 | | 38000 | | 45000 | |
| Garden City PREMIUM | 317 | | 1355 | | 2407 | | 4500 | | 5500 | |
| Garden City | 6341 | | 7523 | | 8559 | | 11500 | | 12500 | |
| Conference Center | 6846 | | 8034 | | 9566 | | 11300 | | 11800 | |
| Business Center | 1657 | | 1782 | | 1898 | | 2000 | | 2000 | |
| STAR conference rooms | 250 | | 179 | | 190 | | 200 | | 200 | |
| Accommodation facilities | 711 | | 1284 | | 2355 | | 4500 | | 8000 | |
| Others | 1816 | | 1819 | | 3712 | | 4000 | | 5000 | |
| Gross profit | 6565 | 36.6 | 8271 | 37.6 | 10950 | 38.2 | 14600 | 38.4 | 18000 | 40.0 |
| SG&A | 4561 | 25.4 | 5576 | 25.4 | 7501 | 26.1 | 9900 | 26.1 | 11500 | 25.6 |
| Operating income | 2004 | 11.1 | 2694 | 12.3 | 3449 | 12.4 | 4700 | 12.4 | 6500 | 14.4 |
| Ordinary income | 1848 | | 2552 | | 3200 | | 4400 | | 6200 | |
| Net income | 935 | | 1352 | | 2071 | | 2500 | | 3500 | |

Note: (forecast) indicates the analyst's forecast. Figures at right are percentages relative to sales.

**Large increase in profits again in the fiscal year ended February 28, 2018**

Results for the fiscal year ended February 28, 2018 were extremely strong. Sales were 28,689 million yen (+30.5% from the previous fiscal year), operating income was 3,449 million yen (+28.0%), recurring income was 3,200 million yen (+25.4%), and net income was 2,071 million yen (+53.2%).

During this fiscal year, the Company (1) actively opened Garden City PREMIUM, Garden City, and other high-grade facilities, (2) expanded its directly-operated accommodation–cum-training facilities, and (3) worked to develop new synergy while capturing peripheral businesses through means such as the acquisition of subsidiary Majors and conclusion of an alliance with Otsuka Kagu.

In its primary business area of rental conference rooms, the number of rooms increased by 6% from the previous fiscal year and the number of seats increased by 9%. Rental income increased by even more: an increase of 17%. As the room sizes get larger and the number of seats grows, and as the number of high-grade rooms increases, the unit price and the occupancy rate also go up, increasing the overall rate of income growth.

The improvement of sales personnel in terms of both quality and quality, and steps towards system construction, also contributed to this higher growth in sales. Because the Company is investing in these areas, SG&A also increased.

While sales increased by 30.5%, gross income by 32.4%, and SG&A by 34.5%, growth in operating income was lower than those of sales at 28.0%. This was the result of advance investment in strengthening sales power and technologies. Operating income dipped to 12.0%, from 12.3% for the previous fiscal year.

On the other hand, 4Q (December – February) results show that there was an improvement in off-season revenue, and that cost equalization is improving. As a result, while 4Q sales shot up by35.2% year-on-year, operating income improved significantly 329.5%.

Factors which contributed to this increase in income included use of facilities as venues for university entrance examinations, and improved occupancy rates for social events. In order to improve occupancy rates in winter, the Company is working to diversify the purposes of facility use and strengthen marketing for them.

**Aiming to exceed the Company plan again in the fiscal year ending February 28, 2019**

The Company plan for the fiscal year ending February 28, 2019 calls for sales of 34,550 million yen (+20.4%), operating income of 4,004 million yen (+16.1%), recurring income of 3,729 million yen (+16.5%), and net income of 2,120 million yen (+2.4%).

This Company plan is based on a conservative perspective. The reason for the small increase in net income is that there was extraordinary income of 487 million yen as a result of land sales in the previous fiscal year, and the plan was created assuming an ordinary base for the year.

Looking at the results from openings of new facilities, there was an increase in the number of new large-scale facilities in the high added-value grades towards the end of the fiscal year in January and February. This will produce effects beginning from the following fiscal year, and this past year was the year for initial investment.

The number of conference rooms increased from 1,858 at the end of February to 1,965 at the end of April, and the Company expects the number to be 2,124 at the end of February 2019 (+266 rooms, +14% from the previous fiscal year). Information on real estate up for sale is coming to the Company, and is working toward further expanding these spaces.

The Company is working to provide its sharing business with the (1) scale, (2) peripheral services, (3) accommodations, (4) events, and other details tailored to match the annual corporate activities and life stage of each company.

The forecast for this year are the Year 1 figures for the new Medium Term Business Plan that was modified in January. The forecast can already be described as quite solid. As business projects are being launched and carried out one after another, the Company is proceeding at a pace that appears likely to significantly exceed the plan.

The current sales plan for accommodation facilities (LecTore, Ishinoya, Azur Takeshiba, APA Hotels, First Cabin) expects sales to be 5.2 billion yen (yielding a profit) in the fiscal year ending February 28, 2019, compared to 3.4 billion yen (yielding a loss) in the previous fiscal year. Large growth is expected, with sales forecast to reach 8.0 billion yen in the fiscal year ending February 28, 2020 (with a large contribution to profits). In fact, it is highly likely that the actual results will exceed this level. FY 2020 sales of 9.0 billion yen and operating income of 2.0 billion yen are entirely possible.

In general operations in the cities consist of conference rooms and APA Hotels, while in the suburbs they consist of conference rooms and LecTore. However in the future, conference rooms can be combined with Azur Takeshiba, allowing for city-type LecTore, and the Company is expected to pursue a variety of growth types.

Balance sheet trends

(Millions yen, %)

| | 2016.2 | 2017.2 | 2018.2 |
|---|---|---|---|
| Current assets | 8048 | 8489 | 9715 |
| Cash and savings | 5749 | 5494 | 5706 |
| Fixed assets | 8563 | 15650 | 24815 |
| Tangible fixed assets | 4689 | 10822 | 17021 |
| Buildings and structures | 1743 | 4035 | 5551 |
| Land | 2577 | 6507 | 8356 |
| Investments and others | 3819 | 4763 | 7521 |
| Lease and guarantee deposits | 3518 | 4021 | 4983 |
| Total assets | 16612 | 24140 | 34530 |
| Current liabilities | 4919 | 5284 | 7971 |
| Current portion of long-term loans | 1326 | 1903 | 3154 |
| Fixed liabilities | 8592 | 14385 | 17904 |
| Bonds | 2492 | 3571 | 3696 |
| Long-term loans payable | 5693 | 10363 | 13668 |
| Net assets | 3100 | 4470 | 8655 |
| Interest-bearing liabilities | 10253 | 16607 | 21358 |
| Ratio of interest-bearing liabilities to total assets | 61.7 | 68.8 | 61.9 |
| Capital adequacy ratio | 18.6 | 18.3 | 24.9 |

**Efficient utilization of balance sheets and cash flows**

As a result of hotel construction, the balance sheet for the fiscal year ended February 28, 2018 shows an increase in fixed asset construction in progress. Income from sales of fixed assets (land) was in accordance with the plan and was the result of the sale of land in Osaka and the purchase of different land in order to expand a hotel at that location.

The Company became listed on March 27, 2017, and its net assets increased to 8,655 million yen at the end of February 2018 (compared to 4,470 million yen at the end of the previous fiscal year). Despite this, ROE remained high at 31.8% (36.0% in the previous fiscal year).

In terms of cash flows, operating cash flow climbed by 1,995 million yen due to increased net income, investment cash flow fell 8,515 million yen owing to acquisition of tangible fixed assets, and financial cash flow went up by 6,735 million yen due to long-term borrowings and treasury stock. The balance of cash and cash equivalents at the end of the fiscal year was 5,706 million yen, approximately the same as at the end of the previous fiscal year (5,494 million yen).

Although the Company generally favors asset-light management, it is better to utilize cash rather than sit on it. The Company will continue to purchase its own properties rather than leasing them when doing so is advantageous in the future. Funds will be used not only for real estate but also for business investment.

On the balance sheet, because accounts receivable can be collected within 1 to 2 months, there is almost zero problem with increasing working capital. Food, beverages, and other accounts payable are also paid within 1 to 2 months.

Fixed assets depend on the amount of land and buildings that the Company owns. In general, it uses asset-light management and will continue to operate via leases. Deposits are paid when facilities are leased. Ordinarily the deposit is worth 6 – 12 months of rent. Capital investment is on the level of 3.0 billion yen, and the level has remained constant during this year and the previous fiscal year.

The Company has contracts for approximately 7.0 billion in syndicated loans. This amount has been secured for 2 years of capital investment. The Company intends to obtain credit ratings at some point.

Trends in cash flows

(Millions yen, %)

| | 2016.2 | | 2017.2 | | 2018.2 | |
|---|---|---|---|---|---|---|
| Cash flows from operating activities | 2618 | | 1096 | | 1995 | |
| Net income before income taxes | | 1993 | | 1058 | | 2231 |
| Depreciation | | 407 | | 440 | | 635 |
| Sale of fixed assets | | 0 | | 0 | | -487 |
| Impairment loss | | 98 | | 191 | | 91 |
| Sales credits and trade payables | | -154 | | -615 | | -567 |
| Cash flows from investing activities | -2729 | | -7705 | | -8515 | |
| Tangible fixed assets | | -1943 | | -6769 | | -6368 |
| Lease and guarantee deposits | | -894 | | -776 | | -983 |
| Free cash flow | -111 | | -6609 | | -6520 | |
| Cash flows from financing activities | 2886 | | 6310 | | 6735 | |
| Long-term loans payable | | 1320 | | 5237 | | 4434 |
| Bonds | | 1597 | | 1073 | | 178 |
| Sale of treasury stock | | 0 | | 0 | | 2153 |
| Cash and cash equivalents | 5799 | | 5494 | | 5706 | |

## 5. Company Reputation: Currently still in the early growth stage as the Company works towards Phase 3.

**Utilizing both Internet and real-world means**

President Kawano has established the following priority policies for the future: (1) Space sharing resulting from business regeneration in the retail industry, (2) Entry into high value-add business that is 1 rank above the previous business areas, and (3) Utilizing systems for large strengthening of the TKP Group sales force.

The Company continually utilizes both Internet and real-world means of business. Because in high added-value fields, a face to face relationships of trust are important, solid relationships have been constructed within the group.

Organization operations are based on a dual strategy concept. Creative personnel are essential when engaging in new business, and new business is launched directly onto track by teams which include members of top management. Subsequent organization operations shift to a pyramid style, and are entrusted to autonomous management.

**Always flexible**

One of the distinctive characteristics of TKP is its aim to “help people who are in distress” through space regeneration. There are a variety of types of regeneration ranging from top to bottom. These include (1) Trading, (2) Also pursuing stock business, (3) Also putting efforts into flow business, and (4) Capturing a wide range of customer groups from upper class to Internet class. In this way, the Company does not identify fixed target segments. Because President Kawano spent his younger years in stock, bond, and currency trading at a trading company, he is flexible towards his own position.

TKP fundamentally operates in the space sharing business and utilizes asset light management. However President Kawano believes that balance is essential in all things. Owning assets was not practical when the Company lacked funds and strength, however he thinks that as the Company grows stronger there will be any number of opportunities for it to acquire a certain level of assets when it is concluded that doing so is effective for business.

**Making use of acquisition strength and customer attraction strength**

So what are the TKP strengths? In response to this, President Kawano names two. One is its acquisition strength. It has acquired both properties and people from the perspective of utilizing real estate and other space.

The other strength is its customer attraction. It has both strong abilities to attract customers using the internet and to attract customers through face to face marketing. Through IT, the Company does business with 90,000 companies annually, and sales to 500 of the most powerful companies account for 50% of all sales. We handle large institutional customers with a certain number of sales force to cover general affairs divisions and personnel divisions just like special sales force that department stores organize.

In terms of business areas, the Company is expanding into retail services as broadly defined. For the finance business, while it may consider non-banking business, the Company does not intend to enter the strictly regulated traditional banking and securities sectors. Because President Kawano previously was involved with Internet securities and internet banking, he understands how strict the rules are. From the perspective of management freedom, these sectors are not very appealing.

**Service industry on a global standard**

Unlike the manufacturing industry, the service industry does not maintain an inventory and cannot sell it all at once. The value of services change over time, and service prices also fluctuate with demand. President Kawano is running the Company based on the assumption that the rules which apply to global markets are also basic preconditions in Japan. For example, it is natural that hotel reservations fluctuate over time with changes in demand, and whether the final prices is 10 times the starting price or one-tenth the starting price, the company must start by accepting such changes as the rules of business.

**Opportunities following the Olympics**

With the 2020 Tokyo Olympics, demand at hotels and other accommodation facilities will be tight. This is an opportunity for profits. Does that mean there will be a recession following the games? President Kawano does not think so. The Olympic boom will result in a limited period of excess profits; however it will also be an opportunity to further increase the numbers of visiting tourists. Therefore the Company is not concerned about a backlash to the boom, and is instead aiming to continue expanding its business after the boom ends.

**Future image**

TKP is more a member of the space services industry than the real estate industry. It aims to create new value through regeneration, and to create value through spaces based on the sharing economy.

The future image of the Company aims for innovation, and is based on a fusion of new retail business by First Retailing and business investment by Softbank. This is the image created by the founder, and determining how to work this image into specific concepts will be an issue for the future.

In consideration for the management abilities of top management, the growth strength utilizing an original business model, and profit-earning capability based on a stable customer base, TKP receives a corporate rating of A. (For the definitions of corporate ratings, refer to page 2.)

**Still in the early growth stage: Future growth can be expected**

In utilizing the balance sheet, the Company always approaches finance with resistance operations. Although in principle the Company manages facilities without owning them, it has gained physical strength and should own a certain level of assets. The use of syndicated loans for long-term borrowing also indicates that the Company considers that situations may arise in which it uses the money to acquire a certain level of assets all at once.

Because the business is in a high growth phase, the Company policy is to not pay dividends and to reinvest all profits. If the share price is judged to be relatively low, it will buy back its own shares. The basic approach is high ROE management. The Company will strengthen its system for performance-linked compensation for the management staff who bear responsibility for managing the Company.

Share ownership by the owner family is currently 72%. In order for the Company to move from the Tokyo Stock Exchange Mothers market to the First Section, it will be necessary to lower this ratio to 65% or less. The Company is expected to proceed in that direction through secondary offerings or other means.

At the current (May 8) share price, PBR is 18.5×, ROE is 28.9%, and PER is 63.8×. Although the current results are reflected in the share price, the mid-term growth strength of the company will increase in the future. As new business growth occurs, profits can be expected to increase. It is forecast that as these expectations become incorporated in the share price, the price will rise to match the growth in profits. Because PER also goes up when ROE rises, future developments deserve attention.