

3479 TKP

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

August 2, 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 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, and further growth is expected in the future. TKP has also begun collaborations between its resort-style LecTore and local hotels.

• Phase 3 aims to revitalize excess commercial facilities that have resulted from the expansion of e-commerce. The theme is “From Space Regeneration to Business Regeneration”. Based on synergy with its core business, it will contribute to regeneration of collaborating businesses through means including M&A and business alliances. 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. The company has also launched a new project for utilizing the shop space of Otsuka Kagu for events and rental conference room facilities, and achieved a good start in Sendai. It plans to collaborate with

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other retail businesses in an increasingly wide range in the future.

• 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.

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1. Characteristics: Operating a sharing economy that is shifting from the value of ownership to the value of use
2. Strengths: Increases in operating rates generate high profits with a regeneration business that other cannot imitate
3. Medium Term Business Plan: The 3-year plan aims easily achieve targets for creation of high added value
4. Near Term Earnings: Remain strong, and are continuing to set new records for peak income
5. Company Reputation: Currently still in the early growth stage as the Company works towards Phase 3

Corporate rating: A

Share price (Aug.1,2018): 4,110 yen

Market capitalization: 1360billion yen (33.11 million shares)

PBR 14.1× ROE 26.2% PER 53.6× 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 (F)	38000	4700	4400	2500	76.7	0
2020.2 (F)	45000	6500	6200	3500	107.3	0

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(as of May, 2018 base)

Total assets 38057 million yen Net assets:9508million yen

Capital adequacy ratio: 24.8%

BPS 291.6 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.

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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

TKP started its rental conference room business in 2005. It began by leasing the 2nd and 3rd floors of a building in Roppongi and renting the rooms out by the hour. With a price of 100 yen per hour per person, a 50 person conference room rented for 5,000 yen per hour. Based on this scheme, the reservations began flooding in.

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.

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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! (IT + Real) × Finance = Revolution!!
3 Action Agenda	<ol style="list-style-type: none"> 1. Speed (Grasp opportunities! Be decisive about when to challenge and when to withdraw.) Grasp opportunities the instant they occur. Be decisive both about when to challenge and when to withdraw. Embrace trial & error. (Produce results in 3 months.) 2. Yes We Can! (Maximize customer satisfaction. Strive to offer memorable experiences.) Social value (value of our company) is not possible without satisfying the customers. Always work from the perspective of the customer and strive to provide memorable experiences. 3. Always be creative! Make improvements! Cause a revolution! There is nothing in the world that is perfect. 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

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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 expanded rapidly, reaching 200 in 2007, 500 in 2009, and 1,000 in 2012. At the end of February 2018, the number of rental conference rooms was 1,858, including rooms overseas. At the end of May, it crossed the 2,000 mark with 2,004 rooms.

Numbers of rental conference rooms by region

(No. of rooms, %)

	2017.2		2018.2		2018.5	
Hokkaido	85	5.0	93	5.1	93	4.8
Tohoku	105	6.1	126	7.0	143	7.3
Kanto	851	49.8	844	46.6	913	46.6
Hokuriku	45	2.6	38	2.1	39	2.0
Tokai	137	8.0	131	7.2	142	7.3
Kansai	298	17.4	375	20.7	412	21.0
Chugoku/Shikoku	50	2.9	66	3.6	77	3.9
Kyushu	139	8.1	139	7.7	139	7.1
Japan total	1710	100.0	1812	100.0	1958	100.0
Overseas	42	2.4	46	2.5	46	2.3
Total	1752		1858		2004	

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

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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.

Breakdown of sales by service

	2016.2		2017.2		2018.2	
	(Millions yen)	(%)	(Millions yen)	(%)	(Millions yen)	(%)
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.

Five business areas

TKP operates as a space regeneration & distribution company in 5 business areas: (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%

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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.

Complete corporate governance

TKP corporate governance is solid. 3 of the 5 directors are outside directors, and all 3 auditors are from outside the Company. The outside directors consist of Haruo Tsuji – former president of Sharp, Kohei Watanabe – former vice president of Itochu Corporation, and Takayuki Hayakawa – former executive officer of Sumitomo Mitsui Banking Corporation. The board of directors actively discusses matters of governance attack and defense. Mr. Tsuji 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.

The directors in charge of operations are CEO Kawano and COO Nakamura, and there are also 5 executive officers (in charge of overseas business, sales, administration, real estate development, and business promotion). The Company intends to further expand the ranks of its executive officers in the future.

President Kawano currently owns 71% of the Company's shares. He is devoting every effort to expanding the business under his owner-directed leadership. At present, his policy is to follow a path of growth on the Mothers section of the Tokyo Stock Exchange.

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

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.

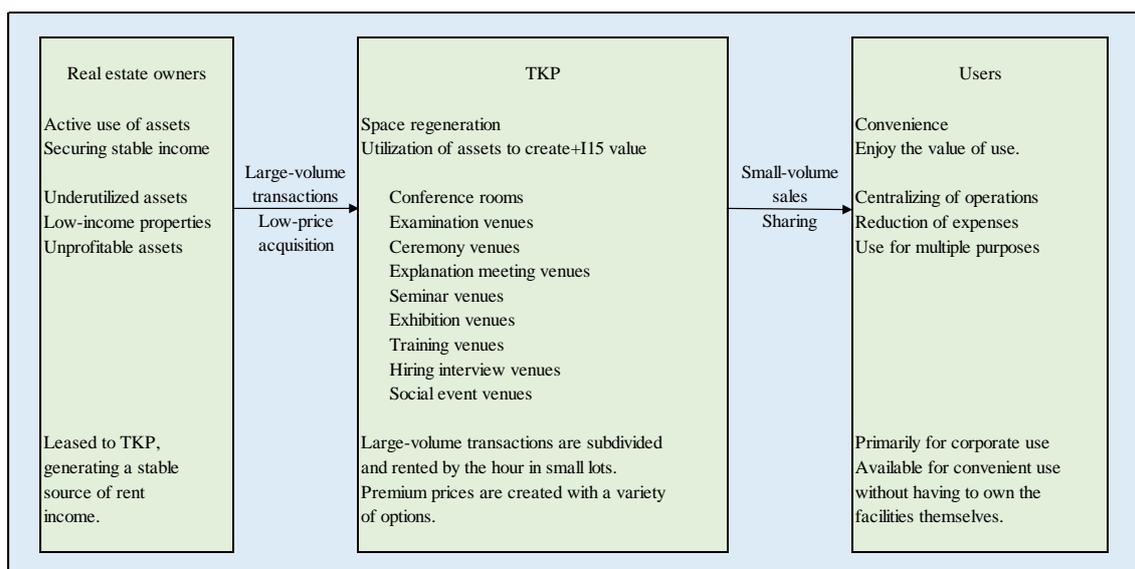
Expansion of the sharing economy

The TKP business is a typical example of a sharing economy, in which spaces are utilized in order to share places and times. A conference room that is only used occasionally is not something which a

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company needs. There is strong demand for comfortable spaces at a 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.

TKP Business Model
<Sharing economy for space regeneration>



For the purpose of conference room sharing, TKP is sometimes involved in the design of office buildings beginning from the planning phase. The office tenants do not want to prepare conference rooms that they will infrequently use. If the building owner prepares the conference room, then the owner must bear the costs. With TKP, the owner can gain rent from the conference room space, and TKP management of the conference rooms provides benefits to the owner, tenants, and TKP.

At present the Company is operating 2,000 conference rooms with 150,000 seats. It has a customer base of 1.5 million every 10 days. Based on this, is expanding in the direction of a shift from [B to B] to [B to B to C].

This business model makes use of idle spaces, idle time, and idle materials, creating a range of possibilities for their recycling and use. Recently, the Company is expanding into regeneration of commercial facilities while maintaining its primary business of rental conference rooms.

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

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have sufficient hotel management strength and do not have a network of conference rooms.

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 Participants: 2 million annually
Event planning and operation	830 billion yen annually
Food & beverage, restaurants	33 trillion yen (Restaurants: 76%, home replacement meals: 21%, delivery and catering: 3%)

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's corporate client base

Annual users	24000
Annual users of listed companies	2000
Annual average facilities usage for TOP 500 companies	100 facilities
Repeat ratio	85%
New users	15%

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.

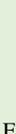
Will this model work globally? Overseas, few middle-class hotels have banquet facilities. Even if

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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 rental conference room grades

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

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

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).

Attacking with Garden City and Garden City PREMIUM

At present, the Company is focusing its efforts on Garden City and Garden City PREMIUM.

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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

	2016.2		2017.2		2018.2	
	(Millions yen)	(%)	(Millions yen)	(%)	(Millions yen)	(%)
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.

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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.

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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 Inexpensive to acquire and regenerate	4	5	6	6
Ishinoya	Suburbs High-grade resort-type seminar ryokan (traditional inn) Inexpensive to acquire and regenerate	1	1	1	1
Azur Takeshiba	City Resort-style training city hotel in central Tokyo Accommodation needs for rental conference rooms, means of customer referral	0	1	1	1
APA Hotel	City Business hotels with conference rooms Carefully selected investment within FC range	3	4	6	10
First Cabin	City Compact hotels with conference room Carefully selected investment within FC range	0	1	2	2

A talent for renovation: Renovation of Ishinoya

Ishinoya was purchased by a different owner from Sekitei after performance at that company slumped. TKP then leased and began managing the facility. It is essentially a higher grade version of LecTore. Each room is large, at 35 – 105 m² 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 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

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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. Ishinoya is positioned as a resort-type seminar lodge, while LecTore is a resort-type seminar hotel.

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 m² 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.

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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

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

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

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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.

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	<ol style="list-style-type: none"> 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

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

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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.

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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

79 new employees joined TKP in April of this year, breathing a breath of fresh air into the Company. Beginning from this fiscal year, TKP is also working to expand its business by selecting employees in their 30s who are working in local areas to become division managers in Tokyo.

The actual sales capabilities of the Company are growing stronger. From April, the system of 2 sales divisions was changed to 6 divisions. For strengthening sales, training of newly hired recent graduates was conducted directly by the president at the Kawano School. Personnel who had been assigned to different regions were brought back to Tokyo and a system of 6 division managers was created. Utilizing a sales force of 100 persons organized into divisions of around 15 persons each, the Company will engage in marketing 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 the broadening customer base.

With its strengthened sales power, the Company will work to encourage use of a variety of its facilities by its high-level customers and will also work to develop new services. The results are expected to further increase added value. At the same time, it is working to streamline and systemize its marketing to middle and lower-ranked customers as it aims to increase the amount of use.

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Expansion of Garden City

TKP Garden City Sakae Ekimae in Nagoya opened in January 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 includes 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 be used at reasonable prices for large-size seminars and events.

TKP has leased 7 floors (floors 2 – 6) of the Osaka Riverside Hotel Kaikan Building located adjacent to the Osaka Riverside Hotel. These floors contain a total of 14 rooms, with the largest hall being a theater with 5 meter high ceilings and a capacity of 400 persons. It can be used not only for meetings and training, but also for banquets and events. This facility opened at the end of June as TKP Garden City Osaka Riverside Hotel.

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 in January 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 just 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 the 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 opened in May using 1 building in the

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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 operates all parts of the building.

TKP Garden City PREMIUM Omiya will be opening in September using the core facility of the former Omiya Law school. It contains 8 rooms with 405 seats.

In November, the Company will be opening a facility at the “msb Tamachi Station Tower S” multipurpose facility 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. It includes an office banquet room with 3 meter high ceilings.

In spring 2019, the Company will open a facility in DaiyaGate Ikebukuro, a large-scale state-of-the-art office building being developed by the Seibu Group. This development is taking place on the site of the former group headquarters located next to the Seibu south exit, and will be the largest office building in the Ikebukuro area. TKP Garden City PREMIUM Ikebukuro will be opening on the 4th floor of this building.

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

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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.

APA Hotel expansion: Adding TKP strengths to a FC

TKP is an APA Hotel franchisee, and has established a plan to operate up to 10 hotels. Hotels were already planned to open in Sendai Ekikita (306 rooms) in October, and in Nishi Umeda (161 rooms) in May 2019. In addition, the Company has now concluded contracts for a hotel at Hakata Higashi Hie Station (205 rooms) opening in December 2019, a hotel in Tenjin Daimyo (267 rooms) opening in February 2020, and a hotel in Ueno Hirokoji (210 rooms) opening in March 2020.

In the APA Hotel FC, the hotels themselves are designed by APA Hotels. Because they make use of

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that company's considerable expertise in low-cost construction and advanced comfort, these facilities are extremely profitable. To these hotels, TKP adds the conference room and banquet functions that are its own unique strength.

APA Hotel TKP Keikyū Kawasaki Ekimae opened in June. Located 3 minutes on foot from Keikyū Kawasaki Station, it has 143 rooms and is equipped with a banquet facility (also available for meetings, social events, and breakfast meetings) on the 1st floor. This will be the Company's fifth APA Hotel.

APA Hotel TKP Sapporo Ekikita EXCELLENT was remodeled in September 2017, expanding from 96 rooms to 105. This facility was an old hotel that was rebranded and reopened by APA one year ago. The 1st floor back yard was renovated to increase the number of rooms. The hotel operating rate is nearly 100%, and it has demonstrated a large increase in profitability.

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 building was formerly a medical facility that has now been remodeled and converted to a hotel. The Company expects this facility to produce 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.

APA Hotel Nishi Nippori is operating at nearly full capacity, and it has become popular among overseas visitors, who now account for 80% of its 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.

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

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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.

Aiming to expand the APA Hotel business

The Company plans to operate 10 APA Hotels located in major cities in 2020. As a FC, the question

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is whether the Company will choose to hold at this level or will aim for more future expansion. Although TKP is an APA Hotel franchisee, it is exercising a high level of independence in searching for sites and operating the banquet facilities, and has earned the respect of APA Hotels.

There is still considerable room for growth in applying the space sharing expertise of TKP to the APA Hotels FC. President Kawano believes that the Company should not rest at 10 APA Hotel FC, and should continue to aim for large future growth.

As an analyst, I expect that there is potential for this business not only in Japan but also throughout Asia.

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 m² of land, it contains a training building (22 training rooms) and guest room building

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(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.

Evolving the LecTore business model

LecTore Hayama began operating in April 2018. It makes use of a leisure facility and training center that the owner company no longer required to create a large-scale accommodation-type training facility. This has allowed the Company to get a start on the road to expansion by leasing rural and suburban hotel banquet facilities without owning the hotel facilities itself.

In June, the Company began operating TKP LecTore Takamatsu Airport, consisting of the banquet facility and restaurant of APA Hotel Takamatsu Airport – a hotel that is operated by another company. The 1st floor banquet facility consists of up to 4 rooms with a capacity of 360 and high 5.5 meter ceilings. It can be used for a wide range of events and other purposes.

The hotel is located 3 minutes by car from Takamatsu Airport. It includes 124 guest rooms, a natural large public hot spring bath with a panoramic view, and 154 parking spaces. The Company concluded that it can capture business demand for a combination of conferences and training with accommodations. By contracting the operation of banquet facilities from rural and suburban hotels, the Company is making more effective use of the hotel space. This is the first trial at operating such a facility under the LecTore brand.

LecTore previously operated as suburban training facilities that include accommodations in locations such as Atami, Hakone, Karuizawa, Yugawara, and Hayama. TKP aims to collaborate with rural and suburban hotels and make use of their banquet facilities without worrying itself about owning the accommodation facilities. It is working to expand its business model, as shown by the decision to apply the LecTore name to these banquet hall-equipped facilities.

For many rural hotels, banquet facilities are often a burden due to the issue of operating rates. These will be operated under the LecTore brand instead of the Garden City brand. In the case of training or meetings that include accommodations, TKP offers large advantages to the hotel side. This has already been proven in the market, and is behind the decision to operate these facilities under the LecTore brand. LecTore is expected to grow considerably through rural and suburban hotels.

LecTore contributes to local revitalization. Even when a hotel maintains a sufficient room operating rate, the banquet space is not always fully utilized. When the entry of TKP, including its links with the

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internet, result in use by training and resort customers, this produces a large increase in the hotel operating rate, creating a win-win relationship for both companies.

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

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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

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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

TKP has moved into the South Building of the Sapporo department store Marui Imai Sapporo Honten (operated by Sapporo Marui Mitsukoshi). It has leased the 5th – 7th floors of the South Building and will be operating them as rental conference rooms and rental banquet halls. The facility is scheduled to begin operating in November 2018. Junkudo Bookstore (Maruzen Junkudo Bookstore) occupies the 2nd – 4th underground floors. The facility is a good match for business customers who come for meetings and training.

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TKP Garden City Okayama will begin operating in September 2018 at Cred Okayama, a multipurpose commercial facility in Okayama City. Cred Okayama consists of a multipurpose commercial facility (2 underground floors and 21 aboveground floors), with floors 7 – 19 used as office space. It is also available for events and other functions on holidays. TKP has created 2 banquet rooms and 8 conference rooms on the 4th floor of this facility.

This follows the opening of other branches in commercial facilities and department stores including TKP Garden City Hiroshima-ekimae Ohashi located in a former Hiroshima department store in October 2017, the event hall CIRQ Shinjuku located on the top floor (8F) of the Otsuka Kagu Shinjuku Showroom in March 2018, and TKP Garden City PREMIUM Sendai Nishiguchi located on the top floors (7F – 8F) of the Otsuka Kagu Sendai Showroom in April.

Because commercial facilities and department stores make excellent locations for TKP branches, they can be used as hybrid facilities for meetings and training during the daytime, and for events and other functions on holidays. It is expected that this expansion from offices to commercial facilities will demonstrate its effectiveness in the future.

Expanding from offices to commercial facilities also expands the business domain to include conference rooms, social events, exhibitions, event halls, and restaurants. The operating rate of the Otsuka Kagu Sendai facility is high and the business is running well. Otsuka Kagu operates furniture exhibitions on the conference room floors that have also been well received.

Making use of the effects of expanding EC

The Company is accelerating its strategy of opening branches in commercial facilities. The excess shop space that has resulted from the expansion of EC (E-commerce) can be acquired for low cost, and allows the Company to expand its business domain.

In the case of Marui Imai, the South Building was closed in November of last year, however discussions had been ongoing from a year earlier. The owner wanted to open the facility to the next tenant, and among the candidates, the TKP business concept was overwhelmingly advantageous. Because ordinarily the candidates would include major brand tenants such as Nitori and Uniqlo, this shows the competitive strength of opening TKP branches.

Due to the effects of EC (E-commerce), there is a large possibility that spaces will become available at volume 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 stock 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 of products at every branch. President Kawano believes that there is potential for dynamic shops in the nature of pop-up stores and pop-up shops.

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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 replace the current Otemachi district with a midtown similar to 5th Avenue in New York.

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.

Demonstrating competitive superiority in underutilized retail space

TKP Garden City PREMIUM Nishiguchi, which utilizes the Sendai showroom of Otsuka Kagu, has achieved an extremely strong start to its operations. Sales in April were 9 million yen, and it ran an operating loss of 3 million yen. However the results quickly went into the black in May, with sales of 21 million yen and operating income of 9 million yen.

Compared to conferences, banquets, interviews, and co-working that are hosted in office buildings, branches located in commercial buildings can be expected to expand into areas such as sales events, event venues, event functions, seminars, and pop-up stores. While TKP in office buildings rents rooms as an alternative to company conference rooms, TKP in commercial facilities can expand the business area into renting spaces for retail business operators.

When utilizing spaces in commercial buildings, the Company also sees itself managing the building as a whole. President Kawano paints a picture of pop-up shops (including restaurants) on the 1st floor, pop-up stores on the 2nd floor, shops on the 3rd floor, co-working spaces on the 4th floor, rental conference rooms on the 5th floor, and event halls on the 6th floor.

The expansion of EC such as Amazon is producing cut-backs in conventional retail shops. Large-scale shops are also turning into showrooms, and it is becoming difficult to maintain inventory at real-world shops. The land owners of commercial facilities want to use the excess spaces effectively and ensure stable long-term use. At these times, the TKP concept of commercial facility space sharing has been extremely well-received.

I expect the Company to pivot from office building sharing to multipurpose sharing of commercial facilities. Moreover, sharing in commercial buildings will involve sharing with retail spaces that sell products, services, and information. Because this sharing directly produces revenue, the added value should be higher.

Although the cost of leasing the facilities (rent) is higher, they can be used to create multipurpose packages for sharing platforms, and it should be possible to fully absorb the extra costs. The Company also intends to establish links with EC. The expansion from offices to commercial facilities represents a change from the personnel-related business of conference rooms and training. By renting to retail business operators, this new business area provides spaces for directly conducting business. As a result,

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this raises the added value per unit of space and time.

Differences from WeWork

TKP operates 330,000 m² of sharing space in Japan. On the other hand, WeWork is headquartered in New York and operates 297,000 m² of co-working space. The business of WeWork is sharing of offices, while the business of TKP is centered on sharing of office common space, through sharing conference rooms that can be used by 100 persons or more. TKP also operates hybrid businesses for sharing of banquet and commercial event spaces.

The key to space utility is achieving a balance between volume and price. Regarding the question of whether to expand this 330,000 m² to 363,000 m² and seek to increase revenue, or whether to increase the value of the current 330,000 m², 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 inoperative 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 therefore 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 – a feature which also brings attention to it as an 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 the Japan 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

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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.

Moving towards full-scale overseas operations: Soon to achieve profitability in the New York business

The loss in overseas business is shrinking, and the New York business has broken even. Although overseas business is still presently running a loss, 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 intended 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. At the current stage, the Company is still studying its options for the future.

New York, London, and major cities in Asia are under consideration as locations for engaging in full-scale business. One idea is to aim for conference rooms plus banquet services that are on the same level as mid-class U.S. hotels, and a future issue will be deciding how to construct a network.

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Aiming to expand global operations as an entrepreneur

TKP president Kawano was selected as the 2017 EY Entrepreneur of the Year in November of last year. In June of this year, he participated in the World Entrepreneur of the Year forum in Monaco. Past Japan representatives included President Hitoshi Tanaka of JIN (2010) and President Morio Sase of HotLand (2014). During discussions at the Monaco world forum, President Kawano felt strongly that there is high potential for the space regeneration sharing economy business that can be applied around the world.

Entrepreneurs create new business by continually disrupting the established order and systems. However President Kawano emphasized that space regeneration is not simply about disruption, and the reason it is gaining so much attention is because of the way it generates value by finding new uses for existing spaces.

President Kawano has observed examples of space utilization in overseas locations including New York, London, and Paris. This business takes many forms, for example establishing new business styles for the department stores that are key shopping mall tenants in the United States, and growing venture businesses by utilizing a regenerated train station in Paris.

Station F was an old station in the 13th Ward of Paris. In July of last year it was reopened as an incubation facility for growing start-up businesses. It is aiming for 3,000 business tenants. The facility is sponsored by major corporations, and provides co-working spaces and support for entrepreneurs.

The TKP business model is expanding. The business of utilizing urban spaces began with office rental conference rooms, and has expanded into the use of hotel banquet facilities, preparatory school spaces, and commercial facilities. These facilities are used both for day-use meetings and training, and also as facilities which include accommodation. In major cities, companies can make use of outside accommodation facilities, and it is now possible to hold social events and accommodation at the facilities provided by TKP. There are some cases where it may be better for the Company to own its own hotels.

Utilizing the declining operating rates at corporate-owned leisure facilities in suburban and rural areas, the Company is renovating these facilities to create accommodation-type training facilities that also provide resort rooms to regular guests on holidays. When the operating rate goes up, the entire space is immediately rejuvenated. Even rural hotels that are maintaining an adequate operating rate are frequently burdened by excess banquet space. There is an accelerating trend toward leasing these facilities and using them for accommodation-type training.

The business of the Company has so far centered on offices and training, and the large halls it operates can be used for various events. The expansion of E-commerce is also producing excess space at conventional commercial facilities. The Company will be accelerating the regeneration of these spaces to full speed in the future. It may also be possible for the Company to regenerate an entire

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commercial building. President Kawano describes a large strategic expansion involving regenerating excess retail shop and department store spaces while also providing commercial business content, and even expanding into complete business regeneration.

At this stage, the Company is working on a concept for applying this business not only in Japan but also globally. The key is providing new hybrid business spaces and entertainment spaces. The idea is to work out how to create new value through various combinations involving, for example, the internet and real world, retail shops and pop-up stores, training spaces and commercial event spaces, retail businesses and restaurants, or R&D facilities and start-up businesses. The Company is developing this as a business model and will continue constantly evolving it. The strategy of linking space regeneration to business regeneration has now entered Stage 3.

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	2Q	3Q	4Q
		(Mar. - May)	(June - Aug.)	(Sept. - Nov.)	(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	95
2018.2	Sales	7253	6731	7317	7395
	Operating income	1415	884	743	408
2019.2	Sales	9118			
	Operating income	1765			

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

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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.

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Large income growth in the fiscal year ended February 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 quantity, 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.

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.

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 by 35.2%

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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.

With 1Q results, a strong start to the fiscal year ending February 28, 2019

The results from 1Q (March – May) of the fiscal year ending February 28, 2019 were extremely strong. Sales were 9.118 billion yen (up 25.7% year on year), operating income was 1.765 billion yen (up 24.8%), ordinary income was 1.708 billion yen (up 36.9%), and net income was 992 million yen (up 32.7%).

1Q result

(rooms, million yen, %)

		2017.2 1Q	2018.2 1Q	2019.2 1Q		
Total rooms rent		1622	1839	2004		
By Grade Sales	Garden City PREMIUM (GCP)	261	557	870		
	Garden City(GC)	1987	2288	2607		
	Conference Center(CC)	2292	2552	3079		
	Business Center(BC)	503	559	616		
	STAR rental conference rooms	46	48	78		
	Accommodation, training center	184	591	979		
	Others	479	555	886		
By Service Sales	Room rent	3533	4147	4894		
	Options	550	667	840		
	F&B	1102	1444	1732		
	Accommodation	151	538	834		
	Others	419	466	815		
Result	Sales	—	7253	9118		
	Gross profit	—	3125	43.0	3964	43.4
	SG&A	—	1710	23.5	2199	24.1
	Operating income	—	1415	19.5	1765	19.3

Note: Ratio is to sales. Company did not make financial report for 1Q of 2017.

1Q saw the opening of 146 new rental conference rooms since the end of the previous fiscal year. Because 106 rooms were added during all of the previous fiscal year, this represents a significant uptick in pace. Moreover, the Company is opening growing numbers of high added-value grade rooms. This should have a positive effect on the full-year results.

The gross profit margin increased to 43.4% (from 43.0% in 1Q of last year), however SG&A also increased to 24.1% (from 23.5%). Operating profit on sales dropped slightly to 19.3% (from 19.5%).

This is due to the accelerated schedule of advance expenses resulting from the faster pace of facility

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openings, and is not at all a reason for concern. Expenses for fixtures and equipment, and personnel expenses due to hiring of new employees, are increasing. However the Company has achieved a large new income record that is able to absorb them.

A breakdown of sales shows that sales of the top 3 grades grew and accounted for 90% of the total. These grades are Garden City PREMIUM (GCP), Garden City (GC), and Conference Centers (CC).

By service, the relative percentage of rental sales dropped, while the percentages of other services (such as accommodations, food and beverages, and options) increased. The share of rental income dropped to 53.7% (from 57.1%). Hotel performance is strong, and the APA Hotels and Azure Takeshiba are operating at near full capacity.

Number of locations by grade and meeting rooms

	2017.2 1Q		2018.2 1Q		2019.2 1Q	
	locations	rooms	locations	rooms	locations	rooms
Garden City PREMIUM (GCP)	5		13		16	
		113		137		177
Garden City(GC)	32		39		40	
		372		417		427
Conference Center(CC)	67		79		84	
		796		881		932
Business Center(BC)	53		49		51	
		351		313		330
STAR rental conference rooms	41		38		39	
		91		88		94
Accommodation, training center	5		6		7	
		29		22		44
Total	209		214		237	
		1752		1858		2004

Note: Number of training center includes meeting rooms of LecTore and Ishinoya.

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

The effects from the newly-opened facilities will be seen beginning from 2Q, and new openings will continue during 2Q and 3Q. Because sales from high-grade rooms are increasing, the per-customer price is also rising. 5 new facilities opened in 1Q, with 2 planned for 2Q, 4 for 3Q, and 1 for 4Q. Next year, the openings of 1 facility in 1Q, 1 in 3Q, and 2 in 4Q have already been decided.

The Company plan for the fiscal year ending February 28, 2019 calls for sales of 34.550 billion yen (up 20.4%), operating income of 4.004 billion yen (up 16.1%), ordinary income of 3.729 billion yen (up 16.5%), and net income of 2.120 billion yen (up 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 result of land sales in the previous fiscal year, and the plan

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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 this fiscal year, and this past year was positioned as a year for advance investment.

Current expansion plan

	1Q	2Q	3Q	4Q
2019.2	TKP Sendai Minamimati dori Conference Center (March) CIRQ Shinjuku (March) TKP Garden City PREMIUM Sendai Nishiguchi (April) TKP Garden City PREMIUM Minatomirai (April) LecTore Hayama Shonan Kokusaimura (April) TKP Tokyo Station Central Conference Center (May)	APA <TKP Keikyū Kawasaki Ekimae> (June) TKP GCP Yokohama Nishiguchi (July)	TKP GC Okayama (Sep.) APA <TKP Sendai Ekikita> (Nov.) TKP GC Sendai ANNEX (Nov.) TKP GCP Tamachi (Nov.) TBA (Marui Imai Sapporo Minami) (Nov.)	FC Ichigaya (Dec.)
2020.2	APA <TKP Nishi Umeda> (May)		APA <TKP Hakatahigashi Hie Station> (Nov.)	APA <TKP Tenjin Daimyo> (Feb.)

Note: According to the company, GCP is Garden City PREMIUM, GC is Garden City, CC is conference room, APA is APA hotel, FC is first cabin

The number of conference rooms increased from 1,858 at the end of February to 2,004 at the end of May, and the Company expects the number to be 2,124 at the end of February 2019 (+266 rooms, +14% from the previous fiscal year). 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 reviewed 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) calls for sales of 5.2 billion yen (yielding a profit) in the fiscal year ending February 28, 2019, compared to sales of 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 room + APA Hotels, while in the suburbs they consist of conference rooms + LecTore. However in the future, in addition to conference rooms

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+ Azur Takeshiba, city-type LecTore are also possible, and the Company is expected to pursue a variety of growth modes.

Efficient utilization of the balance sheet 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. It was the result of the sale of land in Osaka and the purchase of different land in order to expand the hotel at that location.

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

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

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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

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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

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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 price 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.

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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 (February 2) share price, PBR is 15.8×, ROE is 24.0%, and PER is 65.5×. 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.