

3479 TKP

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

January 23, 2019

TSE Mothers

Points

- President Kawano believes that the time for acquisitions has arrived. The supply of large-size new buildings is growing. When a company moves into a new office, the previous building becomes vacant. TKP will lease and utilize these buildings on a large scale. At the same time, there is growing need for shared conference rooms even in new buildings.
- The company is expanding its business from hourly rentals (conference rooms) to monthly rentals (offices). Although ordinary offices are rented in units of years, various cases of monthly rentals have started to appear. This is something that ordinary real estate companies are unable to do. The space sharing expertise and network of TKP should be a strength in this area. The company is also planning to use the Event Planner IT system which it developed independently as a platform. This system is highly convenient for corporate customers when planning and carrying out events. For TKP, it should help to further increase the operating rate by attracting new and repeat customers.
- Phase 1 of TKP growth involves independent growth with the rental conference room business at the core. TKP is raising its conference room grades, making use of hotel banquet facilities and newly constructed and recently constructed office buildings to create Garden City and Garden City PREMIUM, and will continue its value-adding strategy.
- Phase 2 involves maintaining the core conference room business while expanding into peripheral areas, and bringing in-house business that previously depended on outside contractors. The company is producing synergy through the acquisition of the boxed lunch Company Tokiwaken, as well as through renovation of leisure facilities, lodges, and hotels. Further growth of the APA Hotel FC is expected in the future. TKP has also begun collaborations with local hotels at its resort-style LecTore facilities that are focused on corporate training.
- Phase 3 aims to revitalize excess commercial facilities that have resulted from the expansion of e-commerce, and to provide support for business regeneration through space regeneration. The project which is utilizing the shop space of 1 Kagu for events and rental conference room facilities has shifted into full gear, and CIRQ in Shinjuku has begun operating. The valuation loss on shares of Otsuka Kagu can be fully recovered in the main business and is not a problem.

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- Business results have been extremely strong. Based on its original business model, the Company is continuing to launch new projects one after another. 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 Company is operating at a pace that substantially exceeds the plan and it is expected that market evaluations will rise further as profits grow in the future.

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3. Medium Term Business Plan: The 3-year plan aims easily achieve targets for creation of high added value.
4. Business Model Innovations: Deployment of new platforms
5. Near Term Earnings: Remain strong, and are continuing to set new records for peak income.
6. Company Reputation: Currently still in the early growth stage as the Company works towards Phase 3.

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Corporate rating: A

Share price (Jan.23,2019): 3,305 yen

Market capitalization: 1095billion yen (33.11 million shares)

PBR 10.9× ROE 14.6% PER 74.3× Dividend yield 0.0%

(Million yen, yen)

Fiscal year	Sales	Operating income	Ordinary income	Net income	EPS	Dividend
2013.2	8102	1129	1222	615	20.6	0
2014.2	10877	1060	1241	198	6.6	0
2015.2	14162	878	701	339	11.3	0
2016.2	17941	2004	1848	935	31.3	0
2017.2	21978	2694	2552	1352	45.2	0
2018.2	28689	3449	3200	2071	64.0	0
2019.2 (forecast)	35000	4200	3900	1450	44.5	0
2020.2 (forecast)	43500	6300	6000	3500	107.3	0

(as of Nov. 2019 base)

Total assets 48637 million yen Net assets:9922million yen

Capital adequacy ratio: 20.3%

BPS 304.3 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.

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

Full-scale approach to a sharing economy

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

Total Kukan Produce

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

What is “space regeneration & distribution”?

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

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

President Kawano and history of the Company founding

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

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general manager of the Sales Division of E-bank Corporation (now Rakuten Bank Ltd.) before founding the Company. TKP was listed on the Tokyo Stock Exchange Mothers market in March 2017.

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

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

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

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

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

TKP Objective and Action Agenda

Objective	Be a revolutionary company using IT and financial tools to create value for society! (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

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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.

Numbers of rental conference rooms by region

(No. of rooms, %)

	2017.2		2018.2		2018.11	
Hokkaido	85	5.0	93	5.1	98	4.8
Tohoku	105	6.1	126	7.0	137	6.7
Kanto	851	49.8	844	46.6	948	46.3
Hokuriku	45	2.6	38	2.1	44	2.1
Tokai	137	8.0	131	7.2	142	6.9
Kansai	298	17.4	375	20.7	429	20.9
Chugoku/Shikoku	50	2.9	66	3.6	106	5.2
Kyushu	139	8.1	139	7.7	144	7.3
Japan total	1710	100.0	1812	100.0	2048	100.0
Overseas	42	2.4	46	2.5	46	2.2
Total	1752		1858		2094	

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

Operating rental conference rooms across Japan

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

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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 last November, it crossed the 2,000 mark with 2,094 rooms.

Leasing hotel banquet facilities

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

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

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

Expanding overseas

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

Five business areas

TKP operates as a space regeneration & distribution company in 5 business areas: (1) Business

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operating hotel banquet facilities and rental conference rooms, (2) Hotels & resorts business, (3) Food/beverage and catering business, (4) Event space production business, and (5) Call center and BPO (Business Process Outsourcing) business.

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

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

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

Breakdown of sales by service

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

Notes: Figure at right is percentage of total. Options include rental of meeting-related equipment, devices, and supplies.

"Other services" include building management, call centers, consulting, and management services.

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

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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.

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%)

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 company needs. There is strong demand for comfortable spaces at a reasonable prices that combine

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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.

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

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%

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

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is important.

Strength of asset light management

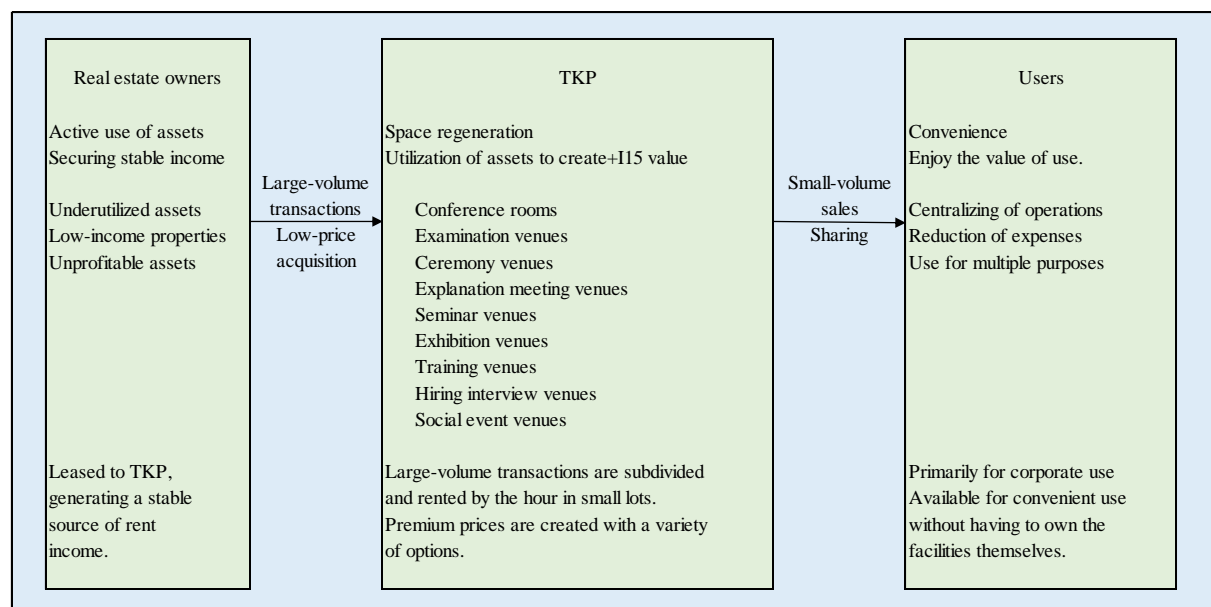
The TKP strength is its operations that do not involve ownership. It abandons the rights of ownership and competes with the rights of use. This is the concept behind growing the business with limited funds.

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

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

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

TKP Business Model
 <Sharing economy for space regeneration>



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)

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Conference Centers (banquet facilities optimal for conferences and training), (4) Garden City (hotel banquet class), and (5) Garden City PREMIUM (top class office banquet facilities).

The Company started with STAR rental conference rooms. The Company then expanded to the Business Center and Conference Center classes. At present, the Company is not actively opening the bottom 2 classes. They can be imitated and competition would intensify, resulting in a price competition. The Company does not engage in this kind of competition. These two classes generally do not generate lots of demand for food & beverage, added value is not high. The number of conference rooms was 1,858 as of February 28, 2018 (+6% from the end of the previous fiscal year). Out of them there are 1,435 rooms (+12%) of the high added-value grades (Garden City PREMIUM, Garden City, Conference Center) that generate food and beverage sales, and these grades account for 77% of the total (up from 73% in the previous fiscal year). Reasonable grade (Business Center and STAR rental conference rooms) numbered 401 (down by 9% from the last fiscal year), accounting for 22% (down from 25% in the previous fiscal year).

5 rental conference room grades

Name	Format	Facilities	Rooms	Business objective
Garden City PREMIUM	High-grade office banquets	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.

Attacking with Garden City and Garden City PREMIUM

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

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

More reasonable than top grade hotels

How do the prices compare with top grade Tokyo hotels? As one example, when a top class hotel is

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used for a social gathering with 3 hours of service, the per-person price is 12,000 – 15,000 yen. The same can be obtained from the Company’s premium class for 6,000 – 7,000 yen. In other words, the prices are 50 – 60% of the hotel level, and venues can be created to suit customer purposes.

Breakdown of sales by grade

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

Note: Figure at right is percentage of total.

Entering the full-scale hotel banquet facility business

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

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

Why is the company profitable?

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

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

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

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

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

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

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

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

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

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

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

Renovations for large improvements in profitability

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

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increase in monthly sales of 10 million yen.

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 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.

Accommodation facilities for rental conference room users

Facility name	Characteristics	No. of facilities				
		2017.2	2018.2	2019.2(planned)	2020.2 (planned)	2021.2 (planned)
LecTore	Suburbs Resort-type seminar hotels within 1 hour of CBD Inexpensive to acquire and regenerate	4	5	6	6	6
Ishinoya	Suburbs High-grade resort-type seminar ryokan (traditional inn) Inexpensive to acquire and regenerate	1	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	1
APA Hotel	City Business hotels with conference rooms Carefully selected investment within FC range	3	4	6	7	10
First Cabin	City Compact hotels with conference room Carefully selected investment within FC range	0	1	2	2	2
Accommodation Sales (billion yen)		1.3	3.4	5.2	7.9	8

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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.

Including the 2 in Sapporo, TKP is currently operating 6 APA Hotels. These are hybrid hotels that include conference room facilities. Hotels in around 10 locations are planned. These include the hotel in Nishi-Kasai that opened in December 2017, the Kawasaki hotel that opened in June 2018, and the Sendai hotel that opened in October, as well as the hotels opening in Osaka (spring 2019), the 2 hotels in Fukuoka, and the hotel in Ueno Hirokoji.

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.

Azur Takeshiba is currently undergoing renovations. When they are completed, the effects will be substantial. Because the renovations require some time, this facility will begin generating full results in the fiscal year ending February 29, 2020.

Future expansion of overseas business

TKP intends to operate in global markets. The Company expanded into New York in 2013,

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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.

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		2020.2		2021.2	
				(pre plan)	(result)	(pre plan)	(new plan)	(pre plan)	(new plan)	(new plan)	
Sales	14162	17941	21978	26839	28689	31602	34500	38543	42209	45858	
Operating income	878	2004	2684	3271	3449	3934	4004	5813	6002	6702	
Ordinary income	701	1848	2552	3021	3200	3589	3729	5459	5727	6414	
Net income	339	935	1352	1705	2071	2044	2120	3221	3275	3672	

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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 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 180 billion yen in cash, and borrowings, and is considering how best to utilize it.

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

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

Garden City started with the leasing of hotel banquet facilities, and there are plans to use them as

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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 value.s

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.

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

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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 2018, 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 last 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.

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.

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TKP Garden City Yodoyabashi opened in March 2018, 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 opened in January 2018 and connects directly to the Nagoya subway. The facility consists of 15 rooms (for 12 to 204 persons) on the 16th floor of Lucent Tower, with a total capacity of 864. This is a new building 1 year after completion, however because the banquet facility was inadequately managed, the decision was made to lease it to the Company. “Office banquet facility” refers to offices that have specifications similar to hotel banquet halls.

TKP Garden City PREMIUM Kyobashi opened in September 2017. 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 rental prices of the offices are also high. The operating rate is expected to rise, thereby further increasing profitability. The Company is approaching its existing corporate customers to promote use of this facility.

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

TKP Garden City PREMIUM Yokohama Nishiguchi opened in May using 1 building in the Yokoyama MK Building complex. It is located 6 minutes on foot from Yokohama Station, and is equipped with 22 conference rooms that seat 1,755 persons. The Company operates all parts of the building.

TKP Garden City PREMIUM Omiya opened in September in space that was formerly Omiya Law School. It is located 7 minutes on foot from Omiya Station and utilizes the 2nd floor of the OLS

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Building located along Route 17. It contains 8 rooms with a total capacity of 405.

The facility in the former Marui Imai Sapporo Honten South Building opened in December as TKP Garden City PREMIUM Sapporo Odori. Floors 2 – 4 are home to a Junkudo Bookstore, and TKP utilizes floors 5 – 7 (16 rooms, 1,074 seats). The 5th floor can be entirely rented out for use in product sales events, and the facility can also be used on holidays for events and other functions.

TKP Garden City PREMIUM Tamachi opened in December in the “msb Tamachi Station Tower S” multipurpose facility located at the East Exit of JR Tamachi Station. It contains 6 conference rooms with a capacity of 735 on the 4th floor, and also includes an office banquet facility with 3 meter ceilings. Initial results have been good.

In April 2019, TKP is planning to open Garden City Hiroshima Eki Kitaguchi in the “Hiroshima Futabanosato Project” multipurpose facility located at the Shinkansen Exit of Hiroshima Station. It will be located on the 3rd floor and will contain 7 rooms with a total capacity of 564.

In spring 2019, the Company is also planning to 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.

Wide-ranging approach to conference centers

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 – 165 persons), with a total capacity of 417. It serves demand for meetings, training, and seminars, as well as social events.

TKP Sapporo Ekimae Minamiguchi (3rd floor of the Sapporo Ekimae Godo Building, total 5 rooms, 126 seats) opened in August of last year, TKP Nishi Shinjuku (3rd and 4th floor of the Shinwa Building on the south side of the Tokyo Metropolitan Government offices, total 6 rooms, 615 seats) opened in September, and TKP Hiroshima Hondori Ekimae (floors 3 – 7 of the Shinwa Hiroshima Building, total 18 rooms, 1,164 seats) opened in November.

TKP Tsukiji Shintomi-cho Conference Center will be opening in February. TKP has leased floors 1 – 3 of the Urbannet Irifune Building for a facility that will contain 8 rooms with a total of 849 seats.

TKP Utsunomiya Conference Center will be opening in front of the West Exit of Utsunomiya Station in March. It is located on floor B1 of the KDX Utsunomiya Building and contains 4 rooms with 249 seats. TKP Garden City Utsunomiya with 6 rooms is already located at the East Exit, and the two facilities are planning to work together

Direct management of restaurants

The directly managed restaurant Kizuna opened in Sapporo's Susukino district in August 2017. 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.

Café-restaurant Forest is located on the 1st floor of APA Hotel <TKP Sendai Ekikita> which opened in October. It offers a menu for diners seeking healthy dishes made from vegetables and fruits produced in Miyagi Prefecture.

At present, the Company has 6 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 a collaboration with Hanabatake Ranch in December 2017. 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 businesses, and the two organizations agreed that there was the potential for collaboration.

Collaboration with Ippudo

As a result of a collaboration with the ramen restaurant Ippudo that was started in February 2018, this popular ramen is now available at TKP conference rooms. Ippudo is the 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.

Recently in September 2017, the Company began selling an original **Tsukada Nojo** lunch box (1,100 yen) at its facilities in the Tokyo and Yokohama area facilities, expanding its lunch box and catering services. Since September 2018, the Company is also selling menu items from **Jukei-Hanten**, a Szechuan restaurant located in Yokohama China Town in its social event plans and original lunch boxes.

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

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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.

APA Hotel expansion: Adding TKP strengths to a FC

TKP is an APA Hotel franchisee, and it has decided on plans for its first 10 hotels. Following the Sendai Ekikita hotel (306 rooms) in October, it will be opening a hotel in Nishi Umeda (161 rooms) in May 2019, a hotel in front of Hakata Higashi Hie Station (205 rooms) in February 2020, a hotel in Tenjin Daimyo (267 rooms) in April 2020, and a hotel in Ueno Hirokoji (210 rooms) in July 2020.

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.

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

The first hotel in the APA Hotel franchise was TKP Sapporo Ekimae, which opened in August 2014. APA Hotel TKP Sapporo Eki Kitaguchi EXCELLENT was renovated in September 2017, increasing the number of rooms from 96 to 105. This facility was an old hotel that was rebranded and reopened by APA one year earlier. The 1st floor back yard was also renovated to increase the number of rooms. The hotel operating rate is now nearly 100%, and profitability has been greatly improved.

APA Hotel TKP Nishi Nippori Ekimae and APA Hotel TKP Tokyo Nishi-Kasai opened in December 2017. TKP Nishi Nippori Ekimae is operating at full capacity, and has become popular with foreign guests, who now account for 80% of the total. The building of TKP Nishi-Kasai was converted to a hotel from a previous medical facility at a cost of approximately 600 million yen. Results have been

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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 TKP Keikyū Kawasaki Ekimae opened in June of last year. Located just 3 minutes on foot from Keikyū Kawasaki Station, it has 9 floors and 143 rooms, and is equipped with a banquet facility on the first floor that can be used for meetings, social events, and as the breakfast dining area.

APA Hotel TKP Sendai Ekikita (total 306 rooms) opened in October of last year as the Company's first hotel in the Tohoku region. It has a café restaurant (Forest) on the first floor and a large banquet facility (capacity 380 persons) on the second floor. It is already operating at nearly full capacity. It is also collaborating with TKP Sendai Minamimachi-dori Conference Center (7 rooms, 519 seats).

APA Hotel TKP Nishi Umeda is scheduled to open in May 2019. It has 14 floors above ground and a total of 162 rooms, with a restaurant that serves as the breakfast dining area on the first floor. It is being constructed next to TKP Garden City Osaka Umeda. It is a hybrid-type hotel and collaboration between the two facilities is expected. It is also located close to USJ (Universal Studios Japan).

2 hotels are being constructed in Hakata and Tenjin in Kyushu. The groundbreaking ceremonies for APA Hotel Hakata Higashi-Hie Ekimae and APA Hotel Fukuoka Tenjin Nishi were held in December. The Higashi Hie Ekimae hotel is scheduled to open in March 2020, and the Tenjin Nishi hotel is scheduled to open in May of the same year. The hotels offer excellent access from Fukuoka Airport and Hakata Station, The Hakata hotel is expected to have 206 rooms and is connected directly to Higashi-Hie Station on the subway Kuko (Airport) Line. The Tenjin hotel will have 268 rooms and is located 5 minutes on foot from Akasaka Station on the Kuko (Airport) Line and 10 minutes on foot from Tenjin Station.

In Tokyo, APA Hotel Ueno Hirokoji is being constructed in Sotokanda. The Company originally owned the land for the hotel and because it was able to acquire the neighboring site as well, it is developing the two sites together, increasing the number of rooms from 87 to 215. The facility is scheduled to open as an APA Hotel in the summer of 2020.

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%.

There is no problem at all with the profitability of the APA Hotels. Nearly all are operating at full capacity, and a sufficiently high operating rate is expected to continue after the Olympics as well. Increasing collaboration with TKP conference rooms will produce high customer-attracting effects.

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President Kawano believes that if rental conference rooms are temporary offices, then accommodation facilities are temporary places to stay, and there is large infrastructure demand for both. Moreover if they are operated in the TKP style, then high profits can be achieved and the outlook is extremely promising.

Azul Takeshiba has started Phase 2 of renovations that will increase the number of guest rooms. This should result in a large increase in profitability in two years. For the LecTore brand, the large-scale Hayama and Yugawara facilities are increasing their operating rates. In the market for off-site training that includes accommodations, a larger facility has a greater ability to attract customers. The Company intends to continue working to acquire large-size facilities in the future.

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

Capsule hotels: First Cabin FC

One year has passed since First Cabin opened in Nagoya, and the operating rate is higher than 80%. This hotel is targeting both accommodations as an extension of training and individual guests. It is a capsule hotel with seats modeled after first class airline seats, and a high operating rate is expected.

First Cabin TKP Ichigaya opened in last November, the result of converting part of a TKP office building to a hotel. It contains 165 cabin-style rooms modeled after first class airline seats. These are composed of 15 first class cabins, 44 business class cabins, and 106 premium economy cabins.

The TKP Ichigaya Building houses the TKP Ichigaya Conference Center, and it was decided to invest 600 million yen in converting part of that building and the annex into a First Cabin compact hotel.

It is expected to produce results as the following types of facilities: 1) An urban style accommodations and training facility, 2) Accommodations for individual guests, 3) An employee welfare facility (breakfast, lunch, use of showers and public baths).

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 of large-scale 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 (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.

Ishinoya is generating high profits with an operating rate of over 80%. LecTore Hayama is also a large-scale facility with 160 rooms, and is generating profits with a high rate of use for large training seminars. President Kawano believes there is a large opportunity for success in the area of hotels for large-size corporate training.

Evolving the LecTore business model

LecTore is able to fully expand in suburban and rural locations. This brand has so far acquired corporate leisure and training facilities which the companies no longer needed and converted them into large-scale accommodations and training facilities. 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 last June, the Company began operating TKP LecTore Takamatsu Airport, consisting of the

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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 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.

Utilization of Majors: Strengthening of event productions

In September, the Company acquired the event production company Majors as a subsidiary. This

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company was established in 2007 and conducts marketing (strategy formulation, activities, contracted operations) for exhibitions and other events.

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

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

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

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

Personnel exchanges aimed at achieving a higher rank

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

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

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

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

Full-scale exchanges of personnel with Majors will begin from April, with the goal of learning from

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each other about marketing to high-grade customers and general production. Future developments in this area are expected to attract attention

4. Business Model Innovations: Deployment of new platforms

Opportunities for acquisitions

President Kawano believes that there are now good opportunities for acquisitions. First, as large new buildings are constructed, large corporations are moving into them. President Kawano expects that opportunities for TKP will expand as owners of the previous offices seek ways to quickly fill the now-vacant buildings.

Second, there is the possibility of a correction in the real estate market occurring at some point. At present, vacancy rates are not increasing and rents remain at a high level. However the prospects for future real estate investment that can generate sufficient returns are quite difficult. If a correction phase occurs, the Company will plan its acquisition timing accordingly. The company is prepared to take the lead and contribute to improving real estate liquidity.

Aiming to expand into monthly rentals: Utilizing the strength of hourly rentals

TKP is challenging itself in a new business model. Ordinary real estate is rented in periods defined in years. When renting an office, a multi-year contract is involved. However TKP conference rooms can be rented by the hour. Ordinarily they are rented for a block of several hours on a particular date, and used to host a variety of meetings and events.

However at TKP there are increasing cases where rooms are rented not by the hour, but by the month. There is demand for rentals over several months for continuous use during a certain period. The Company is therefore extending its rental model from hours to months, and is expanding into the market of monthly office rentals.

Conference rooms can also be used as offices. Equipped with office equipment, they can be rented by the month. When the tenant leaves after several months, the rooms can be used as conference rooms until the next tenant is found. TKP has the No. 1 rental conference room business model in the industry, and it can easily extend it to start monthly office rentals.

If an ordinary office real estate company wanted to change from yearly rentals to monthly rentals, it would be unable to fully address the periods when the office was vacant. This would result in waste when rent was not being collected, and risk would be unavoidable.

This model is also different from coworking spaces that are used jointly. It is more flexible and lower-cost. Compared with renting from an ordinary real estate company, the space is more flexible,

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equipment is provided, and the office can begin operating right away. There is also no rental deposit, and the facility can also be used as a conference room. For a growing company, this helps reduce costs during the expansion phase.

Use of large-size spaces

Large-size buildings are being constructed one after another in urban centers. This presents two opportunities. The first is that as major corporations relocate to new buildings, this will produce large vacancies in the buildings they previously occupied. The owners will want to fill them right away, and TKP leases them all at once. TKP will make use of the existing model for hourly rental spaces together with the new monthly rental model. However it has no plans to operate as an ordinary real estate business renting properties by the year.

The other opportunity is that in addition not large-size spaces in existing buildings, there are also expected to be owners of large new buildings who want to lease space for conventional rental conference rooms and also somewhat larger spaces, entrusting their multipurpose use to TKP.

For example, one way is to lease 30% of a new building to TKP for management. The owner gains stable rent, and TKP provides not only conference rooms, but also office space, event space, and other multipurpose services. Trials of this type are expected to reach their full pace in the future.

A good chance for success

The prices of monthly rentals are lower than hourly rentals, however sufficient profitability can be achieved if the operating rate is high. In fact, the Company has already begun acquiring large-size spaces for this purpose.

In January of this year, it leased 7 floors (10 – 16) of the Saiwai Building facing Hibiya Street in Tokyo. This facility will open in April as TKP Shinbashi Uchisaiwai-cho Conference Center. It will have 78 rooms with 5,712 seats, making it TKP's largest conference facility.

The 7 floors of this large building had been leased by a major communications company, however the company moved to a new building. In order to fill this vacancy, it would ordinarily be necessary to attract multiple companies. However TKP leased the entire space. At present it intends to use the space as conference rooms, however it is entirely possible that it will use some of it for monthly rental offices instead of hourly rentals.

It is also possible that the Company will lease other large blocks of space in large buildings in the future. It will be able to manage these spaces by utilizing the expertise that it has developed through its business so far. Although there are other major real estate companies that operate a rental conference room business, they lack the infrastructure and network needed to manage such large spaces.

The business decisions of President Kawano are a kind of resistance trading. There will be growing

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opportunities over the next several years for utilizing newly vacant spaces.

Differences from WeWork

WeWork was founded in 2008 in the United States, In July 2017, it was acquired by the Softbank Group and WeWork Japan was established. WeWork operates coworking spaces for more than 400,000 persons at 554 facilities in 97 cities in 31 countries around the world. It provides a system for shared use of work spaces.

When we look at the category of rental offices, WeWork and Regus provide high-price coworking spaces, while TKP targets a different segment. Through sharing of rental conference rooms, TKP provides flexible spaces in mid-price ranges to growing companies. It is targeting the volume zone where demand is high.

TKP has 330,000 square meters of sharing space in Japan. In contrast, WeWork is headquartered in New York and has 270,000 square meters of coworking space. While WeWork shares office working space, TKP shares conference rooms that can be used by more than 100 persons, centering on sharing of office common space. In addition, it is also making use of hybrid space sharing for banquets and commercial events.

The key to space utility is achieving a balance of volume and price. Faced with the choice of whether to expand 330,000 square meters to 360,000 in order to expand profits or whether to increase the added value on its 330,00 square meters, the company is utilizing a dual strategy while focusing primarily on increasing added value. It will utilize flexible lease terms so that the spaces it has leased will not turn idle if the economy slows.

Rental of office spaces

In the rental conference room and banquet facility operation business, the Company is focusing on a strategy to achieve (1) Higher operating rates, (2) Higher rental prices, and (3) Utilization of a platform for this purpose.

For the first objective of higher operating rates, the Company is putting its efforts into rental of office spaces in addition to its base of rental conference rooms. Rather than high-price range rental office coworking or low-price coworking, TKP is aiming to increase the operating rate by expanding the use of its spaces both as hourly rental conference rooms and as monthly offices.

The Company already leases office space, and subdivides it for rental to customers. Ever since the time of its founding, it had planned to operate this space both as rental offices and rental conference rooms. It has achieved rapid growth so far by focusing on rental conference rooms, however it intends to diversify in order to achieve more efficient use of space.

The Company already has an active office space rental business in a variety of forms, such as

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exclusive rental of conference rooms for 1 month or 2 months for use in training during the spring demand period. The Company now wants to expand this business into ordinary offices.

A company that is growing rapidly will need to continually increase its space even as frequently as month to month. Business of monthly office rentals in addition to rental conference rooms is entirely possible. By improving the overall operating rate, it is possible to increase revenue. Diversification will also increase the Company's ability to acquire spaces for rental.

These spaces are not as expensive as Regus rental offices, and are aiming for different positioning than co-working spaces such as WeWork.

Some may be concerned that the expansion from hourly conference room rental to monthly office rental will result in a decline in profitability. However while conference rooms have an operating rate of around 30% and involve a certain level of personnel expenses, monthly office rentals will have a higher operating rate and involve relatively little personnel expenses. As a result, the business has a room to improve.

In the Tokyo Metropolitan Area, as new buildings are constructed and corporations move into them, space opens up in the buildings which these corporations formerly occupied. Successfully filling these gaps represents a business opportunity.

Expansion into commercial buildings

For the second objective of higher rental prices, the Company is working to capture demand for large-scale events by strengthening its presence in commercial buildings in addition to office buildings. Space in commercial buildings can be provided for a wide range of purposes including meetings and seminars, banquets, exhibition sales, events of all kinds, and pop-up stores. In particular, holding events that involve product sales in a commercial building will result in higher sales for the customer, and will be more directly linked to business results, than the use of conference rooms.

The company is expanding into commercial buildings in the NTT Cred Okayama Building (TKP Garden City Okayama), Otsuka Kagu Shinjuku Showroom (CIRQ Shinjuku), Otsuka Kagu Sendai Showroom (TKP Garden City PREMIUM Sendai Nishiguchi), and Marui Imai Sapporo Honten South Building (TKP Garden City PREMIUM Sapporo Odori).

Using Event Planner as a platform

For the third objective – creating a platform, the Company has developed and begun providing TKP Event Planner. Event Planner is a Cloud-based event management system for companies that are customers of TKP. It was created by converting a system originally owned by subsidiary Majors into ASP for customers. The numbers of Event Planner subscribers are growing and the platform is moving in a good direction.

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The Company provides spaces for 100,000 meetings and training sessions to 25,000 companies each year. It has applied the expertise gained through these operations to create a system that is easy for customers to use.

When a customer conducts an event of some kind (such as a seminar or special event), the Event Planner allows the customer to easily perform functions including the following: (1) Application, (2) Notification, (3) Centralized calendar management, (4) Ticket issue, (5) Reception using QR codes, (6) Notifications and distribution of materials to attendees. It is not necessary for these companies to assign their own staff to perform these functions, or to rely on outside work, significantly reducing the burden on the company.

The price is 100,000 yen for initial installation and a monthly fee of 10,000 yen for 5 accounts. TKP does not profit through the Event Planner itself, and instead is aiming for customers to use it as a platform that will help the Company to acquire new customers and increase repeat customers. In addition, if a database can be constructed as BD (Big Data), this database can be used to open up new customer needs.

During the development of Event Planner, system development was carried out by subsidiary Majors utilizing Group personnel.

Business model evolution and innovation

The TKP business model is continuing to evolve, and the Company has begun working on new innovations for it. This evolution involves the expansion from rental conference rooms to one-stop services that include food & beverages and accommodations. The expansion from offices to commercial facilities, and the expansion from hourly rentals to monthly rentals, are examples of new evolution.

At this time, President Kawano has positioned the launch of a platform using Event Planner as a new innovation. Although the sharing economy operates on the basis of space, the Company is here working to create a platform that incorporates full IT functions. In order to be the champion in the global sharing economy, it is aiming to lead the market through the use of this platform.

Although prices for use of Event Planner have been set, the company believes that it can be provided for free to existing excellent TKP customers (corporations) from the perspective of having the customers use the platform and thereby largely expanding the number of facility uses.

With space sharing, the key to high profits is to reduce the fluctuations in facility operating rates and maintain the highest possible level of operation. When the prices for each grade are considered appropriate by the customers, then a higher operating rate will generate overwhelming profitability for TKP. The key is creating an IT platform.

Although Majors had the core system of this platform, it had not yet put it to widespread use. TKP

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had for some time been studying how to create this sort of platform, and at this time has successfully made it a reality.

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

Space sharing with Otsuka Kagu

TKP has concluded a capital and business alliance with Otsuka Kagu (code 8186) in 2017. It involves a 1.05 billion yen allocation of shares to a third party, and the TKP holding ratio is now 6.65%. The objectives of this business include (1) Sales of Otsuka Kagu products to TKP facilities, (2) Use of Otsuka Kagu shop spaces by TKP, (3) Bilateral introduction of customers, and (4) Creation of new shops by joint investment from both parties.

In fact a new project has already been started. The 8th floor of the Otsuka Kagu Shinjuku showroom was not being used, and the space with 5.2 m ceilings is operated jointly by the 2 companies as an event hall. The 8th floor of the Shinjuku Showroom opened in March as CIRQ Shinjuku.

Space at the Otsuka Kagu showroom in Sendai is also being used as rental conference rooms. The 7th and 8th floors of the Sendai Showroom opened in April as TKP Garden City PREMIUM Sendai Nishiguchi (23 rooms, 1643 seats), and it has been performing exceptionally well.

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CIRQ performance in December was strong. As it is a large-scale facility, it took some time after launch for its use to ramp up, however its future is strong. The Company may consider expanding its business by further expanding its space.

Making clear the scope of collaboration

Investment for the capital and business alliance with Otsuka Kagu was started in November 2017. Even if the Company chooses to increase the amount of investment, it will not become involved in regeneration of the retail furniture business.

The fundamental restructuring will be carried out by Otsuka Kagu itself. TKP assistance with the business regeneration of Otsuka Kagu involves co-work for effective utilization of space in cases when the restructuring process results in idle space and Otsuka Kagu does not have a solution for it.

TKP provides support by leasing shop space. If deposits or other burden on the owner occurs due to the land contract, TKP will provide support for reviews of these contracts. Being able to expand the TKP business in commercial buildings is advantageous for the Company. This collaboration is limited to support for the business regeneration of Otsuka Kagu through synergy with the business of TKP.

Of the current investment of 1.05 billion yen, 620 million yen was recorded as an impairment loss. However this amount can be fully recovered through the business in Sendai and Shinjuku, and from a medium-term perspective it does not represent a substantial burden.

Another capital and business alliance of this type is a possibility in the future, however President Kawano considers that investment in loss-making companies is problematic. In this case, he has decided not to provide additional investment in the primary business of Otsuka Kagu. The scope of the alliance is limited to facility support for Otsuka Kagu restructuring. There are steps that TKP can take in the future aimed at increasing the usage of these spaces. However there is no reason for concern, as the Company has fully isolated itself from the risks related to involvement in the primary business of Otsuka Kagu.

Effects of Otsuka Kagu: Use for other large-scale retail business

Through the use of Otsuka Kagu space, the Company has expanded its network of links with the top management of other large-scale retail businesses. Moreover, based on this success, the Company has begun receiving a variety of business inquiries from other commercial facilities, and future growth can be expected.

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 2018. This facility is equipped with

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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 entered the South Building of the Marui Imai Sapporo Honten department store (operated by in Sapporo Marui Mitsukoshi). The Company has leased floors 5 – 7 and is operating them as rental conference rooms and rental event halls. It opened in November 2018 as TKP Garden City PREMIUM Sapporo Odori.

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.

TKP Garden City Okayama began 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

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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.

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

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

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

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 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 2018.

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. The Company is also planning to verify the business model of hotel + banquet facility + conference rooms in Asia.

Aiming to expand global operations as an entrepreneur

TKP president Kawano was selected as the 2017 EY Entrepreneur of the Year in November of 2017. In June of 2018, 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.

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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 2017, 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 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

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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.

5. 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 August 31, 2018 was 1,287 (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, the number of subsidiary companies at the end of the fiscal year was 19. To increase liquidity, the Company conducted a 1:100 stock split in January 2017 and a 1:7 stock split in September 2017.

Seasonality of quarterly business results

(Millions yen)

		1Q (Mar. - May)	2Q (June - Aug.)	3Q (Sept. - Nov.)	4Q (Dec. - Feb.)
2016.12	Sales	4447	4669	4511	4314
	Operating income	804	739	520	-60
2017.2	Sales	5756	5414	5339	5468
	Operating income	1226	915	458	94
2018.2	Sales	7253	6731	7317	7200
	Operating income	1415	884	743	560
2019.2	Sales	7253	8492	9051	
	Operating income	1415	818	909	

There is seasonality to the quarterly results. The 1Q (March – May) results are best. This is due to the boost in demand for rental conference rooms for purposes such as new employee training and hiring of recent graduates. 2Q and 3Q are generally on the same level, while 4Q (December – February) results tend to be lower. The Company is now taking steps to smooth out this unevenness in results. In past years, this was due in part to (1) concentrated buying of equipment and supplies, and

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(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

	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.

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%),

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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.

Earnings forecasts

(Millions yen, %)

	2016.2		2017.2		2018.2		2019.2 (forecast)		2020.2 (forecast)	
Sales	17941		21978		28689		35000		43500	
Garden City PREMIUM	317		1355		2407		4000		6200	
Garden City	6341		7523		8559		10000		11000	
Conference Center	6846		8034		9566		11000		12500	
Business Center	1657		1782		1898		2000		2000	
STAR conference rooms	250		179		190		300		300	
Accommodation facilities	711		1284		2355		4200		7000	
Others	1816		1819		3712		3500		4500	
Gross profit	6565	36.6	8271	37.6	10950	38.2	13800	39.4	17800	40.9
SG&A	4561	25.4	5576	25.4	7501	26.1	9600	27.4	11500	26.4
Operating income	2004	11.1	2694	12.3	3449	12.4	4200	12	6300	14.5
Ordinary income	1848		2552		3200		3900		6000	
Net income	935		1352		2071		1450		3500	

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

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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% 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.

Number of locations by grade and meeting rooms

	2017.2		2018.2		2019.2 3Q	
	locations	rooms	locations	rooms	locations	rooms
Garden City PREMIUM (GCP)	11	113	13	137	18	203
Garden City(GC)	32	372	39	417	43	422
Conference Center(CC)	67	796	79	881	89	979
Business Center(BC)	53	351	49	313	51	340
STAR rental conference rooms	41	91	38	88	44	97
Accommodation, training center	5	29	6	22	7	53
Total	209	1752	224	1858	252	2094

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

Strong performance that absorbed advance investment in the first three quarters of the fiscal year ending February 28, 2019

Cumulative results for the first three quarters of the fiscal year ending February 28, 2019 were sales of 26,662 million yen (+25.2% year-on-year), operating income of 3,493 million yen (+14.8%), ordinary income of 3,295 million yen (+16.8%), and net income of 1,095 million yen (-44.8%).

The reason for the decline in net income was an 821 million dollar loss on valuation of investment securities that was recorded as an extraordinary loss in the second quarter. This was temporary and is not a problem. Of this extraordinary loss, 621 million yen was due to Otsuka Kagu, whose shares were acquired at price of 815 yen and were later valued at 338 yen.

When we look just at the third quarter, sales were 9,051 million yen (+23.6% year-on-year), operating income was 909 million yen (+22.3%), ordinary income was 844 million yen (+19.7%), and

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net income was 500 million yen (+16.5%). These results absorbed the 200 million yen in expenses for opening new hotels and conference rooms, and produced around 900 million yen in operating income, demonstrating extremely strong performance.

When we look at the growth for each grade over the first three quarters, GCP (Garden City PREMIUM) grew by +63% year-on-year, GC (Garden City) grew by +8%, CC (Conference Centers) grew by +16%, accommodations and training facilities grew by +77%, and other business grew by +42%. This shows that rates of growth were higher in fields with higher added value.

The number of rooms at the end of the third quarter had increased steadily to 2,094 (+13% from the end of the previous fiscal year). Growth was particularly strong for GCP and LecTore.

The Company is continuing to open GCP (Garden City PREMIUM) facilities in landmark buildings in prime locations. Following the Sapporo Odori and Tamachi facilities that opened in December, a facility in Ikebukuro is planned for spring 2019, and at Hiroshima Eki Kitaguchi for April.

3Q result

(rooms, million yen, %)

		2017.2 3Q	2018.2 3Q	2019.2 3Q
Total rooms rent		1731	1829	2094
By Grade Sales	Garden City PREMIUM (GCP)	927 5.6	1771 8.2	2886 10.8
	Garden City(GC)	5687 34.5	6698 31.5	7243 27.2
	Conference Center(CC)	6196 37.5	7328 34.4	8478 31.8
	Business Center(BC)	1416 8.6	1468 6.9	1605 6.0
	STAR rental conference rooms	135 0.8	137 0.6	199 0.7
	Accommodation, training center	802 4.8	2068 9.7	3652 13.7
	Others	1344 8.1	1829 8.6	2596 9.7
By Service Sales	Room rent	9734 59.0	11240 52.8	13360 50.1
	Options	1630 9.9	2015 9.5	2562 9.6
	F&B	3368 20.4	4558 21.4	5317 19.9
	Accommodation	660 4.0	1878 8.8	2966 11.1
	Others	1110 6.7	1609 7.6	2455 9.2
Result	Sales	—	21301	26662
	Gross profit	—	8324 39.0	10412 39.0
	SG&A	—	5282 24.7	6918 25.9
	Operating income	—	3042 14.2	3493 13.1

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

Growth rates were high. Arranged by service, growth was +19% for room rental fees, +27% for options, +17% for food and beverages, +58% for accommodations, and +52% for other business. The

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share of room rental fees out of total sales is dropping each year. In this third quarter it was 50.1%. Soon it is expected to drop below 50%.

Of the 5,317 million yen in food and beverage sales, sales of Tokiwaken products accounted for 1,218 million yen. The 2,966 million yen in accommodations sales consisted of 1,935 million yen from APA Hotels, 978 million yen from seminar hotels, and 160 million yen from First Cabin.

APA Hotels are doing extremely well and are currently producing an operating profit ratio of 30%. When all 10 hotels are operating, annual income of 7 billion yen and an operating profit ratio of 30% or higher are expected.

In the fiscal year ending February 28, 2019, the Company focused on 4 major points. The first is the existing business area of working to expand one-stop services rather than quantitative expansion of rental conference room. The Company has worked to meet a wide range of customer needs including times, sizes, and purposes, of use. The second point is more active investment in human resources. The Company has focused on recruitment and training, and is working to improve its operations and hospitality.

The third point is system investment. The Company has begun providing Event Planner – a system that makes it easier for customers to conduct events using TKP facilities. In this way, it intends to strengthen its repeat business performance. The fourth point is increasing capital expenditure. In order to improve the functions of property and equipment, the Company is also directing new investment to audio and lighting equipment for improving the attractiveness of facility designs and providing benefits to the users.

The number of employees at the end of February was 1,101 (monthly wages: full-time employees + contract employees). At the end of August, this number had increased by 186 to 1,287 (+16.9%). In addition, the Company also employs part-time (hourly wage) employees, and this number grew by 6% from (total) 1,345 to 1,422.

Aiming to exceed the Company Plan

The forecast in the Company plan for the full year remains on track, calling for sales of 34,550 million yen (+20.4% from the previous year), operating income of 4,004 million yen (+16.1%), and ordinary income of 3,729 million yen (+16.5%). However the forecast for net income has been corrected downwards from 2,120 million yen to 1,299 million yen as a result of the loss on valuation of shares (821 million yen) that occurred in the second quarter.

However when we look at the current pace, the results look set to exceed the Company plan. The effects from advance investment will also become manifest, and the profit margin will likely increase in the future. The Company is opening new Garden City PREMIUM facilities one after another, and some time is required for these large-size facilities to reach full operation. They are expected to begin

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making a big contribution this spring.

APA Hotels are also making a contribution, with a large increase in results expected in the fiscal year ending February 29, 2020. The forecast calls for sales of 43,500 million yen (+24.3% from the previous year), operating income of 6,300 million yen (+50.0%), ordinary income of 6,000 million yen (+53.8%), and net income of 3,500 million yen (+141.3%).

Current expansion plan

	1Q	2Q	3Q	4Q
2019.2	TKP Sendai Minamidori CC (March) CIRQ Shinjuku (March) TKP GCP Sendai Nishiguchi (April) TKP GCP Minatomirai (April) LecTore Hayama Shonan Kokusaimura (April) TKP Tokyo Station Central CC (May)	APA (TKP Keikyū Kawasaki Ekimae) (June) TKP GC Osaka Riverside hotel (June) TKP GCP Yokohama Nishiguchi (July) TKP Sapporo Nishiguchi CC (August)	TKP GC Okayama (Sep.) TKP GCP Omiya (Sep.) TKP CC Nishi Shinjuku (Sep.) APA (TKP Sendai Ekikita) (Oct.) TKP GC Sendai ANNEX (Nov.) TKP Hiroshima Hondori Ekimae CC (Nov.) FC Ichigaya (Nov.)	TKP GCP Sapporo Odori (Dec.) TKP GCP Tamachi (Dec.) TKP Tsukiji Shintomicho CC (Feb.)
2020.2	TKP Utsunomiya CC (March) TKP Shinbashi Uchisaiwaicho CC (April) TKP GCP Hiroshima Ekikitaguchi (April) APA (TKP Nishi Umeda) (May) TKP GCP Ikebukuro (Spring)			
2021.2	APA (TKP Hakata Higashi Hie Ekimae) (March) APA (TKP Tenjin Nishi) (May)	APA (TKP Ueno Hirokoji) (Summer)		

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

Fundamentally strong financial health: Balance sheet and cash flows are used efficiently

The balance sheet at the end of the third quarter shows an increase in interest-bearing liabilities of 12.1 billion yen from the end of the previous fiscal year. However cash and savings increased by 8.6 billion yen. The increase in debt is due to increased advance borrowing in preparation for increases in future investment.

The shareholders' equity ratio at the end of the third quarter was 20.3%. What should be made of this level? President Kawano emphasizes three points. (1) In general, TKP operates based on asset-light management, however based on the trust it has gained from being listed on the Tokyo Stock Exchange, the Company will exercise leverage by making full use of its balance sheet. (2) At present, TKP is not considering equity financing at all. Other means of financing are sufficient. (3) Real estate actually owned by the Company is increasing, however it contains a substantial amount of unrealized profit. For example, a hotel can be converted to cash at any time. The Company will consider ways of maintaining liquidity while working to expand its business. President Kawano concludes that this is appropriate as a long-term strategy.

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Balance sheet trends

(Millions yen, %)

	2016.2	2017.2	2018.2	2018.11
Current assets	8048	8489	9715	18774
Cash and savings	5749	5494	5706	14318
Fixed assets	8563	15650	24815	29863
Tangible fixed assets	4689	10822	17021	21184
Buildings and structures	1743	4035	5551	10969
Land	2577	6507	8356	7989
Investments and others	3819	4763	7521	8423
Lease and guarantee deposits	3518	4021	4983	5955
Total assets	16612	24140	34530	48637
Current liabilities	4919	5284	7971	9643
Current portion of long-term loans payable	1326	1903	3154	4019
Fixed liabilities	8592	14385	17904	29072
Bonds	2492	3571	3696	5810
Long-term loans payable	5693	10363	13668	22607
Net assets	3100	4470	8655	9922
Interest-bearing liabilities	10253	16607	21358	33478
Ratio of interest-bearing liabilities to total assets	61.7	68.8	61.9	68.8
Capital adequacy ratio	18.6	18.3	24.9	20.3

Cash flows in the first half of the fiscal year ending February 28, 2019 were as follows. While the cash flow from operating activities was 2,028 million yen, the cash flow from investing activities was -3,859 million yen. With financing from long-term loans and corporate bonds, the Company has secured a cash position of 10,643 million yen.

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 was produced by sales of fixed assets (land) due to the sale of land in Osaka, however different land was purchased in its place. This is in accordance with the TKP plan to expand the hotel at that location.

The company was listed on the Tokyo Stock Exchange 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). Even so, ROE remained at a high level of 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

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than sit on it. The Company will continue to purchase its own properties rather than leasing them when doing so is advantageous in the future. Funds will be used not only for real estate but also for business investment.

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

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

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

Trends in cash flows

(Millions yen, %)

	2016.2	2017.2	2018.2	2019.2 (forecast)
Cash flows from operating activities	2618	1096	1995	2770
Net income before income taxes	1993	1058	2231	1450
Depreciation	407	440	635	800
Sale of fixed assets	0	0	-487	0
Impairment loss	98	191	91	820
Sales credits and trade payables	-154	-615	-567	-300
Cash flows from investing activities	-2729	-7705	-8515	-9000
Tangible fixed assets	-1943	-6769	-6368	-7500
Lease and guarantee deposits	-894	-776	-983	-1500
Free cash flow	-111	-6609	-6520	-6230
Cash flows from financing activities	2886	6310	6735	12500
Long-term loans payable	1320	5237	4434	10000
Bonds	1597	1073	178	2500
Sale of treasury stock	0	0	2153	0
Cash and cash equivalents	5799	5494	5706	11976

6. 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: (1) Space sharing accompanying reorganization of retail businesses, (2) Entering high added-value business areas that are one rank higher than the current areas, and (3) Large strengthening of the TKP Group sales power

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by utilizing an IT platform.

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

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

Always flexible

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

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

Making use of acquisition strength and customer attraction strength

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

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

In terms of business areas, the Company is expanding into retail services as broadly defined. For the finance business, while it may consider non-banking business, the Company does not intend to enter the strictly regulated traditional banking and securities sectors. Because President Kawano

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previously was involved with Internet securities and internet banking, he understands how strict the rules are. From the perspective of management freedom, these sectors are not very appealing.

Service industry on a global standard

Unlike the manufacturing industry, the service industry does not maintain an inventory and cannot sell it all at once. The value of services change over time, and service prices also fluctuate with demand. President Kawano is running the Company based on the assumption that the rules which apply to global markets are also basic preconditions in Japan. For example, it is natural that hotel reservations fluctuate over time with changes in demand, and whether the final 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.)

In no hurry to move from Mothers to the First Section of the Tokyo Stock Exchange

Currently the Company is listed on Mothers market, however it is in no hurry to move to the First Section. It is prioritizing the expansion of its business, and as its valuation by the stock market rises further and there is the need to improve liquidity on that base, then the Company may at that time decide to make the move.

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Expectations for further growth

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

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

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

At the current (January 23) share price, PBR is 10.9×, ROE is 14.6% (35.1% on the following year base), and PER is 74.3× (30.8× on the following year base). The share price is based on the current level of performance, however the mid-term growth potential will further increase in the future. With the launch of new businesses, profits are expected to continue increasing. These expectations are in the process of being incorporated in the share price, and the price will rise to match the growth in profits. Because PER also goes up when ROE rises, future developments deserve attention.