

## 3479 TKP

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

January 21, 2020

TSE Mothers

#### Points

- TKP is pursuing a business model based on combining rental conference rooms (the TKP model) and rental offices (the Regus model). The Company plans to integrate operations of the two entities including their sales forces beginning in Q4. This should accelerate TKP's advance into the rest of the Asian market.
- TKP completed the purchase of Regus Japan at the end of May 2019. This makes the Company the master franchisee in Japan for the global top-class Regus rental office business. The combination of 261 TKP locations plus 152 Regus Japan locations yields a total of 413 locations, and the Company has begun implementation of its strategy to expand this number to 1,500 locations in ten years. The Company is accelerating its growth potential.
- The purchase price is 300 million pounds (approximately 42.9 billion yen). If goodwill is amortized over 20 years, this is estimated to produce annual expenses of approximately 2.15 billion yen. Regus Japan has earning power that exceeds this figure, and effects from synergy with TKP are also expected. Therefore, consolidated operating income of 12 billion yen will be within sight after three years.
- TKP had already been planning to expand the framework of its business from hourly rentals (conference rooms) to monthly rentals (offices). President Kawano found a kindred spirit in IWG (Regus) founder and CEO Mark Dixon, and the decision to purchase Regus Japan was made without hesitation. As Mr. Dixon was appointed to the TKP Board of Directors, this can be expected to further the level of cooperation in the future.
- Regus Taiwan became a wholly owned subsidiary at the end of September 2019. It was acquired for 2.4 billion yen and the Company will amortize 150 million yen in goodwill per annum. Regus Taiwan has 14 locations (includes one planned location), mainly centered in Taipei. The Company will expand this number to 50 locations. TKP aims for 2.3 billion yen in revenue and EBITDA of 600 million yen after three years.
- TKP drew up a new medium-term plan (covering three years) in June last year, which was then revised in August. The plan outlines a strategy of cooperation with Regus to take the top position in the flexible workspace market. The Company thinks that market will grow from its current level of 200 billion yen to 6 trillion yen in 2030. TKP plans to broadly expand its market share through joint sourcing and location openings while growing its content-focused peripheral service businesses.
- Three years from now, in the fiscal year ending February 28, 2022, the company is aiming for operating income of 12.4 billion yen (operating income margin of 15.7%) and EBITDA of 18.3 billion yen (operating income margin of 23.1%), targets that are well within reach. President Kawano has his eye on overseas expansion. TKP's reputation in the market is set to greatly improve as it is on the cusp of dramatically enhancing its enterprise value.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

## Contents

1. Characteristics: Operating a sharing economy that is shifting from the value of ownership to the value of use.
2. Strengths: Increases in operating rates generate high profits with a regeneration business that others cannot imitate.
3. Large-scale M&A: Purchase of flexible workspace provider Regus Japan
4. Medium Term Business Plan: Accelerating growth potential through business model innovation
5. Near Term Earnings: Remain strong, and are continuing to set new records for peak income.
6. Our Assessment: Clear synergies, global expansion in view

Corporate rating: A

Share price (Jan.20, 2020): 4,410yen

Market capitalization: 1678 billion yen (38.0million shares)

PBR 3.38×      ROE 9.7%      PER 63.7×      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	35523	4289	4053	1893	58.1	0
2020.2 (forecast)	56500	6900	5300	2600	69.2	0
2021.2 (forecast)	70000	10200	9500	4700	125.2	0

(as of Nov 2019 base)

Total assets: 133691million yen    Net assets: 49035million yen    Capital adequacy ratio: 26.8%

BPS 1305.9 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. Results for fiscal year ending February 29, 2020 includes Regus Japan from 2Q.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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 of business, (3) Management of downturn risk, (4) Sustainability through the lens of ESG. The rating utilizes the following four grades. A: Favorable, B: Some improvement needed, C: Significant improvement needed, D: Extremely difficult conditions.

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

### Full-scale approach to a sharing economy

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

### Total Kukan Produce

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

### TKP Objective and Action Agenda

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

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

## **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 office. 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 47) previously worked in the foreign exchange and securities trading division of Itochu Corporation and participated in the founding of Japan Online Securities Co., Ltd. (now Kabu.com Securities Co., Ltd.). He later served as executive director and general manager of the Sales Division of E-bank Corporation (now Rakuten Bank Ltd.) before founding the Company. TKP was listed on the Tokyo Stock Exchange Mothers market in March 2017.

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

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

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

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

Following the lease of conference rooms to create the first TKP facility, next he leased a wedding

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors’ investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

hall on weekdays to create the 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.

### Overcoming difficulties

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

The first was in 2008, when the collapse of the Lehman Brothers triggered a global economic shock. The business by that time had grown. Because the business was rental conference rooms, the Company did not own assets. Although no large effect was expected from the economic crisis, sales were affected by 500 million yen in cancellations.

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		2019.2	
Hokkaido	85	5.0	93	5.1	113	5.4
Tohoku	105	6.1	126	7.0	146	6.9
Kanto	851	49.8	844	46.6	967	46.0
Hokuriku	45	2.6	38	2.1	44	2.1
Tokai	137	8.0	131	7.2	140	6.7
Kansai	298	17.4	375	20.7	438	20.8
Chugoku/Shik	50	2.9	66	3.6	105	5.0
Kyushu	139	8.1	139	7.7	151	7.2
Japan total	1710	100.0	1812	100.0	2104	100.0
Overseas	42	2.4	46	2.5	33	1.5
Total	1752		1858		2137	

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

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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

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

The number of rental conference rooms expanded rapidly, reaching 200 in 2007, 500 in 2009, and 1,000 in 2012. At the end of February 2018, the number of rental conference rooms was 1,858, including rooms overseas. At the end of last November, it crossed the 2,000 mark with 2,137 rooms.

### Acquisition of Regus Japan

TKP (rental conference rooms) completed the procedure of acquiring Regus Japan (rental offices) in May. TKP has been fortunate to be able to welcome the Japan branch of Regus (IWG Group), a global player in the coworking space industry, into its group.

TKP wanted to enter the rental office space industry and Regus judged it would be advantageous to collaborate with TKP to accelerate development of its base in Japan.

The Company’s business model is to source empty rooms from real estate owners in large blocks and rent them to users in small lots. TKP provides room rentals by the hour at facilities in older buildings, while Regus Japan offers monthly room rentals in new and almost new buildings. TKP offers rental conference rooms and Regus Japan focuses on rental office space (rental offices and co-working space).

**TKP and Regus Japan Locations and Scale**

As of November 30, 2019	Locations	Floor space ('000 m <sup>2</sup> )	Rooms	Seats ('000)
<b>TKP</b>	<b>261</b>	<b>402.0</b>	<b>2158</b>	<b>161.9</b>
<b>Regus Japan</b>	<b>152</b>	<b>119.7</b>	<b>9293</b>	<b>23.1</b>
<b>Total</b>	<b>413</b>	<b>521.7</b>	<b>11451</b>	<b>185.0</b>

**Note: TKP figures include conference rooms within accommodations and training facilities.**

**Japan Regus figures indicate rental office room count and workstation count**

### 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.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors’ investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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**

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 by themselves that time, however this business had 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. Until now, the Company had been continuing on a trial and error basis, but after the acquisition of Regus Taiwan of August 2019, it will likely commence full-blown overseas expansion starting with Asia.

### **Expansion of business fields**

TKP operates as a space regeneration and distribution company in five business areas: (1) Business operating hotel banquet facilities and rental conference rooms, (2) Hotels & resorts business, (3) Food/beverage and catering business, (4) Event space production business, and (5) Call center and BPO (Business Process Outsourcing) business. The Regus rental office business the Company acquired was added to the lineup in June 2019.

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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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 49.6% of overall sales, but food and beverage, accommodation, and other services are growing. While occupancy rates of conference rooms and profitability are increasing, the sales ratio of the conference rooms are falling, leading to diversified revenue sources.

**Breakdown of sales by service**

(Millions yen, %)

	2016.2		2017.2		2018.2		2019.2	
Rental conference room service	10304	57.4	12659	57.6	14865	51.8	17611	49.6
Optional services	1682	9.4	2135	9.7	2672	9.3	3373	9.5
Food & beverage services	4004	22.3	4657	21.2	6294	21.9	7293	20.5
Accommodation services	594	3.3	1093	5.0	2632	9.2	4053	11.4
Other services	1356	7.6	1433	6.5	2224	7.8	3187	9
<b>Total</b>	<b>17941</b>	<b>100.0</b>	<b>21978</b>	<b>100.0</b>	<b>28689</b>	<b>100.0</b>	<b>35523</b>	<b>100.0</b>

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.

**Strengthening sales power**

TKP hired 79 new employees in April 2018, and 82 new employees in April 2019, bringing a breath of fresh air into the company. Beginning from this fiscal year, TKP is also working to expand its business by selecting employees in their 30s who are working in local areas to become division managers in Tokyo.

The actual sales capabilities of the Company are growing stronger. From April 2018, 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.

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.

**Complete corporate governance**

At the general meeting of shareholders in May 2019, the number of directors at TKP was increased

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

from five to six. Mark Dixon of Regus parent IWG became an outside director and Regus Japan president Shingo Nishioka became a director. This made for three directors from the operating side and three outside directors (two of whom are independent outside directors).

As the head of IWG, Regus Japan's (TKP subsidiary) franchiser, Dixon is an outside director but not an independent one. The other outside directors are former president of Sharp Haruo Tsuji and former vice president of Itochu Corporation Kohei Watanabe.

The board of directors actively discusses matters of governance from the perspective of both defense and offense. 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, COO Nakamura, and Regus Japan president Nishioka. There are also 5 executive officers (in charge of overseas business, sales, administration, real estate development, and business promotion). The Company intends to further expand the ranks of its executive officers in the future.

President Kawano currently owns 60% 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 market of the Tokyo Stock Exchange.

Board discussions have taken a more global perspective thanks to the additions of CEO of IWG (Regus' parent) Mark Dixon and president of Regus Japan Shingo Nishioka.

### **Gaining a stake in Oita Trinita**

In June 2019, TKP became the largest shareholder (19.3%) in Oita FC, which manages the J. League team Oita Trinita. Oita FC is already being managed profitably. The Company has been supporting the team as a sponsor since 2012, and decided to become a shareholder having seen the turnaround of the club thanks to the assistance of a publicly and privately supported revitalization fund. President Kawano hails from Oita Prefecture originally, and hopes to contribute further to the local community while seeking opportunities to make productive use of the Company's facilities over the weekends by hosting soccer-viewing events.

## **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.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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

<b>Flexible office market</b>	<b>200 billion yen annually (2019) → 6,000 billion yen annually (2030)</b>
<b>Training services for corporations</b>	<b>500 billion yen annually</b>
<b>Hotels</b>	<b>1.9 trillion yen annually</b>
<b>MICE, customer attraction events</b>	<b>Related events: 2,600 days annually</b> <b>(meetings, exhibitions, expense-paid travel, etc.)</b> <b>Participants: 2 million annually</b>
<b>Event planning and operation</b>	<b>830 billion yen annually</b>
<b>Food &amp; beverage, restaurants</b>	<b>33 trillion yen</b> <b>(Restaurants: 76%, home replacement meals: 21%, delivery and catering: 3%)</b>

#### 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 reasonable prices that combine conference rooms and banquet facilities. Even at prices that are reasonable to the customer, the profitability of the Company increases significantly as a result of the higher operating rate.

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 2,200 conference rooms with 160,000 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 report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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: An original business model and a founder who is a true innovator**

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.

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

**Characteristics of TKP's corporate customers**

<b>Companies served annually</b>	<b>35000</b>
<b>Listed companies served annually</b>	<b>2000</b>
<b>Total companies served annually</b>	<b>94900</b>
<small>(Note: Every repeat use counted as one company)</small>	
<b>Existing vs. new customers</b>	<b>80% Existing, 20% new</b>
<b>Top customers by sales</b>	<b>Top 500 customers comprise over 50% of sales</b>
<b>Usage breakdown</b>	<b>Conference rooms/seminars/lectures 40%</b>
	<b>Training/hiring 30%</b>
	<b>Exams/social gatherings/ information sessions/exhibitions 30%</b>

**Flexible workspace business model**

The Company's flexible workspace business model combines TKP (rental conference rooms) and Regus (rental offices + co-working spaces), sourcing large blocks of space from real estate owners at a discount and selling them in small lots (space sharing) after improving usability and adding multiple services fit to customer needs. The business model makes it possible for any kind of company from

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

large- and medium-sized companies to startups to implement flexible working styles while reducing their rent costs.

## **6 basic policies**

The Company has been working to build the foundation for future growth based on its six basic policies.

### **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 14 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.

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

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

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

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

So how are the rental conference rooms used? They are rented by the hour, rental for the morning,

---

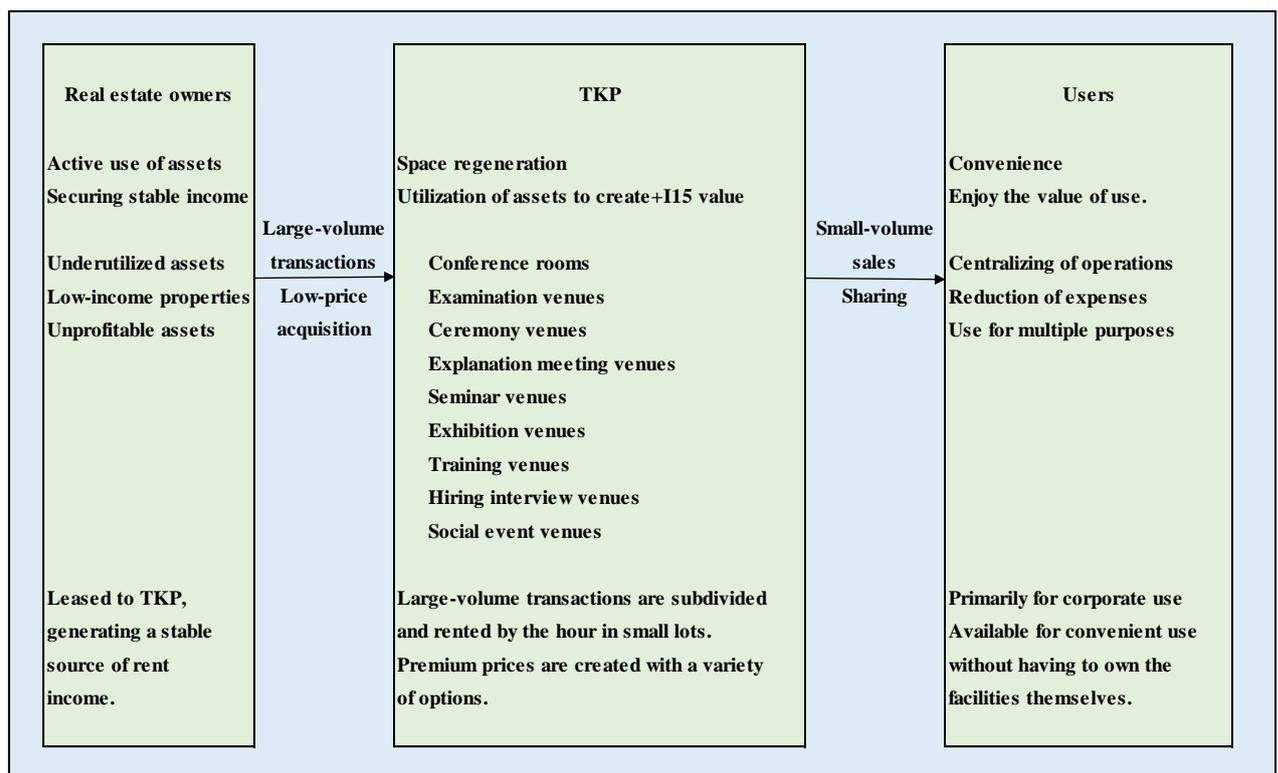
This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

The operating rate of the rental conference rooms is not 100%. On average it is 35~40%, with 60% 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 used be a slow season and there was almost no demand. To remedy this, a variety of improvements applied to operations, such as use of the facilities for English conversation classes and tutoring schools, and their use as examination venues for high school and university entrance exams.

**TKP Business Model**  
 <Sharing economy for space regeneration>



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

Because the market is available, the Company operates across Japan; however business is centered

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

on the Tokyo Metropolitan Area and major cities. When a new building is constructed, tenants move into the offices, however in all but a few cases the companies do not have their own conference rooms or other shared space. For the building owner to operate shared spaces for the tenants would be inefficient and troublesome. 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. Room rental fees have now dropped below 50% of total sales, and the company is planning to continue increasing the percentage of sales other than room rental fees in the future. 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. The recent large acquisition of Regus Japan is in line with this policy.

#### **5 grades**

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

The Company started with STAR rental conference rooms. The Company then expanded to the Business Center and Conference Center classes. At present, the Company is not actively opening the bottom 2 classes. They can be imitated and competition would intensify, resulting in a price competition. The Company does not engage in this kind of competition.

These two classes generally do not generate lots of demand for food & beverage, added value is not

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

high. The number of rental conference rooms at the end of the fiscal year ended February 28, 2019 was 2,137 (up 15% from the end of the previous fiscal year). A breakdown of this number shows that 1,673 (up 17%) were high added-value grades (Garden City PREMIUM, Garden City, Conference Center) that involve food and beverage sales, accounting for 80% of the total. 412 (up 3%) were reasonably-priced grades (Business Center, Star Conference Rooms, accounting for 20% of the total (compared to 25% at the end of 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
	Creative spaces	13	137	
		20	223	
Garden City	Hotel banquets	32	372	
	Large-size multipurpose office banquets	39	417	
		46	458	
Conference Center	Office banquets for meetings	67	796	
	Centered on meeting seminars	79	881	
		87	992	
Business Center	Collection of conference rooms	53	351	
	Centered on company internal meetings	49	313	
		50	319	
STAR rental conference rooms	Local community-based conference rooms	41	91	Expansion of base Focus on efficiency
	For small-scale and individual use	38	88	
		40	93	

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

Lower figures are for the end of February 2019.

#### 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 completes with full-service banquet functions.

#### Expansion of Garden City

TKP Garden City Sakae Ekimae in Nagoya opened in January 2018. The Company has leased the

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

entire 6th floor of Nagoya Hirokoji Place, creating 8 rooms (for 18 to 318 persons) with a total capacity of 1,020. 4 rooms are banquet halls, and the largest can accommodate 318 persons. Because the building is not new, it is different from Garden City PREMIUM.

TKP Garden City Yodoyabashi opened in March 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 2018 as TKP Garden City Osaka Riverside Hotel.

**Breakdown of sales by grade**

(Millions yen, %)

	2016.2		2017.2		2018.2		2019.2	
Garden City PREMIUM	317	1.8	1355	6.2	2407	8.4	4065	11.5
Garden City	6341	35.3	7523	34.2	8559	29.8	9735	27.4
Conference Center	6846	38.2	8023	36.6	9566	33.3	11043	31.1
Business Center	1657	9.2	1782	8.1	1898	6.6	2062	5.8
STAR rental conference rooms	250	1.4	179	0.8	189	0.7	251	0.7
Accommodations, training	711	4.0	1284	5.8	2355	8.2	5024	14.1
Other services	1816	10.1	1819	8.3	3712	12.9	3338	9.4
<b>Total</b>	<b>17941</b>	<b>100.0</b>	<b>21978</b>	<b>100.0</b>	<b>28689</b>	<b>100.0</b>	<b>35523</b>	<b>100.0</b>

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.

**Attacking with Garden City PREMIUM**

TKP Garden City PREMIUM Ikebukuro opened in April 2019 on 4F of Diamond Gate Ikebukuro, a building that was developed by the Seibu Group. This facility is a conference room and office banquet facility consisting of 11 rooms with a total of 448 seats.

TKP Garden City PREMIUM Sendai Nishiguchi opened in April 2018 and utilizes two floors (7F and 8F) of the Otsuka Kagu Sendai Showroom. Because the Otsuka Kagu Sendai Showroom closed in May of this year, the TKP facility will expand to four additional floors (3F – 6F). Reopening is planned for December.

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 report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

Due to its good location, the rent at Kyobashi is high, however the unit selling prices 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 July 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 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 2018 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 2018 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.

### **More reasonable than top grade hotels**

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

### **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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors’ investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

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 30,000 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.

### **Wide-ranging approach to conference centers**

The TKP Shimbashi Conference Center Shinkan opened in April 2019. This is the largest-ever TKP Conference Center, with 78 rooms and 5,712 seats. It opened in stages on seven floors of the Saiwai Building in Shimbashi. TKP rented this facility immediately after it was vacated by a major company that moved its offices to a new building. It is expected that a variety of this kind of large-scale properties will become available in the future.

There are also increasing numbers of existing facilities where additional floor space is being added. In February 2019, TKP Tokyo Station Nihonbashi Conference Center added 24 rooms with 756 seats, reopening with a total of 70 rooms and 3,477 seats. This is the second largest facility following the TKP Shimbashi Conference Center Shinkan.

### **“Cloud Space”**

In order to promote the effectively utilization of underutilized small and individually-owned spaces, the Company is providing 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 2,500 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.

### **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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### **Acquisition of Shinagawa Haizen**

July 2019 the Company acquired Shinagawa Haizen, a major company in the wait staff industry that dispatches banquet servers to prominent hotels and other sites. As of November 2020, Shinagawa Haizen had roughly 5,500 registered staff, whom it dispatches to establishments such as Palace Hotel Tokyo, Grand Hyatt Tokyo, and Tokyo Kaikan.

TKP can use this kind of personnel in its banquet business and use Shinagawa Haizen for training the staff. The Company had been employing outside staff as servers, but now it will move those jobs in-house.

The acquisition was a small investment and Shinagawa Haizen does less than 1.0 billion yen in sales, so the direct impact on earnings will be small, but it should make a large contribution from the perspective of improving the Company's services. In the fiscal year ended June 30, 2018, Shinagawa Haizen had gross assets of 192 million yen, net assets of 92 million yen, sales of 846 million yen, ordinary income of 8 million yen, and net income of 5 million yen.

TKP will leverage the strengths of Shinagawa Haizen to greatly increase its capabilities in the hotel food & beverage business. The Company has its sights on creating services with high added value such as providing TKP catering prepared by hotel culinary staff to its conference rooms.

TKP consolidated Shinagawa Haizen in September 2019.

### **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.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

Café-restaurant Forest is located on the 1st floor of APA Hotel <TKP Sendai Ekikita> which opened in October 2018. It offers a menu for diners seeking healthy dishes made from vegetables and fruits produced in Miyagi Prefecture.

At present, the Company has 27 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.

### **Expanding collaboration**

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.

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 lunches. This is a unique and highly interesting project.

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, 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.

Since the end of October 2019, the Company has been able to provide salad bars at TKP facilities in Tokyo and Yokohama through a collaboration with specialty salad shop **With Green**, whose products have been added to the catering menu for social events. Likewise, from November, the company began providing okonomiyaki (Japanese savory pancake) prepared by **Chibo** at TKP facilities across Japan, further expanding the catering menu.

### **Space sharing with Otsuka Kagu: The range of partnership is clear.**

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.

The 8th floor of the Otsuka Kagu Shinjuku showroom had not been put to use, so the Company

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

opened the space with 5.2 m ceilings as CIRQ Shinjuku in March 2018.

Space at the Otsuka Kagu showroom in Sendai had also been partly used as TKP's rental conference rooms. However, with Otsuka Kagu withdrawing from the building, TKP took over the entire space and launched TKP Garden City PREMIUM Sendai Nishiguchi and Regus Japan's SPACES Sendai, which are now operating in full swing.

Investment for the capital and business alliance with Otsuka Kagu, 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.

### **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 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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

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

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

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

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

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

### **Renovations for large improvements in profitability**

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

### **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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

LecTore. Each room is large, at 35 – 105 m<sup>2</sup> 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	2020.2 (planned)	2021.2 (planned)
<b>LecTore</b>	<b>Suburbs Resort-type seminar hotels within 1 hour of CBD Inexpensive to acquire and regenerate</b>	7	6	9	10	10
<b>Ishinoya</b>	<b>Suburbs High-grade resort-type seminar ryokan (traditional) Inexpensive to acquire and regenerate</b>	1	1	1	1	1
<b>Azur Takeshiba</b>	<b>City Resort-style training city hotel in central Tokyo Accommodation needs for rental conference rooms, means of customer referral</b>	0	1	1	1	1
<b>APA Hotel</b>	<b>City Business hotels with conference rooms Carefully selected investment within FC range</b>	3	4	6	7	10
<b>First Cabin</b>	<b>City Compact hotels with conference room Carefully selected investment within FC range</b>	0	1	2	2	2
<b>Total</b>		<b>11</b>	<b>13</b>	<b>19</b>	<b>21</b>	<b>24</b>

**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.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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%. The operation is efficiently run, and operating income on sales of close to 40% can be expected.

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

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

TKP is currently operating 7 APA Hotels. These are 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, the Sendai hotel that opened in October 2018, and the Osaka hotel that opened in May 2019, as well as the two hotels in Fukuoka and the hotel in Ueno Hirokoji.

#### **APA Hotel expansion: Adding TKP strengths to a FC**

TKP is an APA Hotel franchisee, and it has decided on plans for 10 hotels. Following the Sendai Ekikita hotel (306 rooms) in October 2018, Osaka Umeda hotel (161 rooms) in May 2019, it will be opening a hotel in front of Hakata Higashi Hie Station (206 rooms) in February 2020, a hotel in Tenjin Daimyo (268 rooms) in April 2020, and a hotel in Ueno Hirokoji (215 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 108. 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 Nippori Ekimae opened in December 2016, and APA Hotel TKP Tokyo Nishi-Kasai

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

opened in December 2017. TKP 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 800 million yen. Results have been strong, and even though it is located just 15 minutes by car from Tokyo Disneyland, at present business travelers account for the majority of guests.

APA Hotel TKP Keikyū Kawasaki Ekimae opened in June 2018. 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 2018 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 Garden City Sendai Ekikita ANNEX (6 rooms, 504 seats).

APA Hotel TKP Osaka Umeda opened 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 Higashi Hie Ekimae hotel is scheduled to open in February 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 income margin is expected to be 30 – 35%. 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.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### **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.

### **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.

Phase one of Azul Takeshiba renovations was completed in June 2019 and the Company expects it to have a substantial effect from here on out.

### **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 11 regenerated health care facilities and lodges (10 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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

and Osaka, and further renovations to improve the utilization of such facilities will likely continue in the future.

### **Large-scale LecTore Hayama Shonan Village**

As the sixth facility in the LecTore Series, the LecTore Hayama Shonan Village project will be launched in April 2018. Constructed by the Japan Productivity Center, operation of this facility had been contracted to Imperial Hotel. TKP acquired the facility together with the land.

On 39,600 m<sup>2</sup> 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 two 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**

In April 2019, TKP announced the acquisition of the Hisayamaonsen Hotel Yumeka. This is a hybrid facility that opened in June and operate as LecTore Hakata Hisayamaonsen. It is located at a natural hot spring 25 minutes by car from Hakata Station. The 16,500 m<sup>2</sup> grounds include 12 hot spring baths and saunas, 44 western and Japanese-style guest rooms, and banquet and conference room facilities for 10 – 120 persons. TKP will utilize this property for use as a training facility that includes accommodations.

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 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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### **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 November 2018, 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).

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

### Customer characteristics: Spendings by major corporate customers trending upward

TKP has a stable customer base centered on large companies. Roughly 35,000 corporate customers contribute to TKP's sales. Yet, the top 2,500 customers generate 80 percent of sales and the top 500 customers generate 50 percent of sales.

The top 500 customers generated average annual sales of 26.73 million yen in the fiscal year ended February 28, 2019 (+4.99 million yen YoY), far above the next 2,000 customers, which generated 3.87 million yen (+0.64 million yen YoY). The top customers frequently use TKP facilities as event spaces, seminar rooms, and meeting rooms to fulfill various functions their offices are unable to accommodate.

Offering a wide range of high value-added services has increased the customer retention rate and helped TKP deepen relationships with the top customers.

Amount spent by major corporate customers

(Million yen/company)

	2017.2	2018.2	2019.2
Average annual amount spent by top 500 customers	19.69	22.24	26.73
Average annual amount spent by the next 2,000 customers	2.60	3.23	3.87

### 3. Business Model Innovations: New expansion through M&A of Regus Japan

#### Strong performance of Regus Japan

As of end 3Q, TKP had 413 locations, and 521,400 m<sup>2</sup> in floor space, it include Regus Japan contributed 152 locations, and 118,800 m<sup>2</sup> in floor space.

Regus Japan financials in the fiscal year ending December 31, 2018 were as follows: total assets of 18.2 billion yen, net assets of 2.1 billion yen, sales of 12.9 billion yen, and EBITDA of 2.9 billion yen.

In April 2019, TKP acquired Regus Japan Holdings from the Regus Group, a subsidiary of Switzerland-based IWG. IWG (market cap: 456.1 billion yen) is a working space provider of the world's largest class, and is listed on the London Stock Exchange.

Regus operates the global No. 1 brand of rental offices, with 3,300 facilities in 1,100 cities in 120 countries worldwide, and with more than 2.5 million members (as of December 2018).

Regus Japan operates 152 facilities in 33 cities in Japan (as of December 2018). It has the top

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

network of rental offices in Japan, and operates rental offices, virtual offices, and coworking spaces under brands such as Regus, Openoffice, and SPACES.

By acquiring Regus Japan, TKP has (1) acquired existing facilities, and (2) formed a long-term partnership with IWG in Japan and gained an exclusive right to operate the IWG brands.

The relationship between rental conference rooms and rental offices is mutually complementary, and there is a high level of compatibility between the businesses. TKP was already considering entering the flexible workspace market, and was able to accomplish this at just the right time. The specific synergy is expected to produce results such as the following: (1) opening of jointly operated facilities, (2) conversion of existing TKP facilities to rental offices, and (3) improved customer services created by combining the resources of both companies.

The acquisition price for Regus Japan was 304 million pounds (42.9 billion yen). The results will be applied to the consolidated financial statements beginning from 2Q (June – August), and contribute to the results for 9 months in the current fiscal year.

As a TKP subsidiary, Regus Japan will pay a platform fee as a service fee to IWG. How much of a platform fee will be paid is not known, but it is expected that the profit margin will be sufficient to fully cover it.

### **Background behind the successful acquisition**

The founder of IWG is its CEO Mark Dixon (from the UK), and he and TKP President Kawano found that they were on the same wavelength. IWG was looking to change its region-based, speed-oriented business model that utilizes a system of FC (franchises) from a global business that is operated directly by Regus. As the first step in this, it selected TKP as the master franchisee for Japan.

From the TKP side, time would be required in order to operate a rental office business on its own due to the need to construct a brand and the speed of opening facilities. As it was considering M&A and alliances of some kind, the possibility of Regus came up. This perfect opportunity was decided after direct negotiations with M. Dixon.

President Kawano knew of Regus and WeWork from the TKP business in New York, and knew Regus Japan President Nishioka from another project.

The agreement for this deal was concluded on April 15, and the negotiations were completed with great speed in just 2 months.

### **New complementary business model**

The TKP rental conference rooms and hotel banquet facilities are rented by the hour. Although the hourly price is high, and the facilities operate at full capacity at peak times, surprisingly there is time when they are not in use. The preparation and services for hourly rentals also requires manpower. On

---

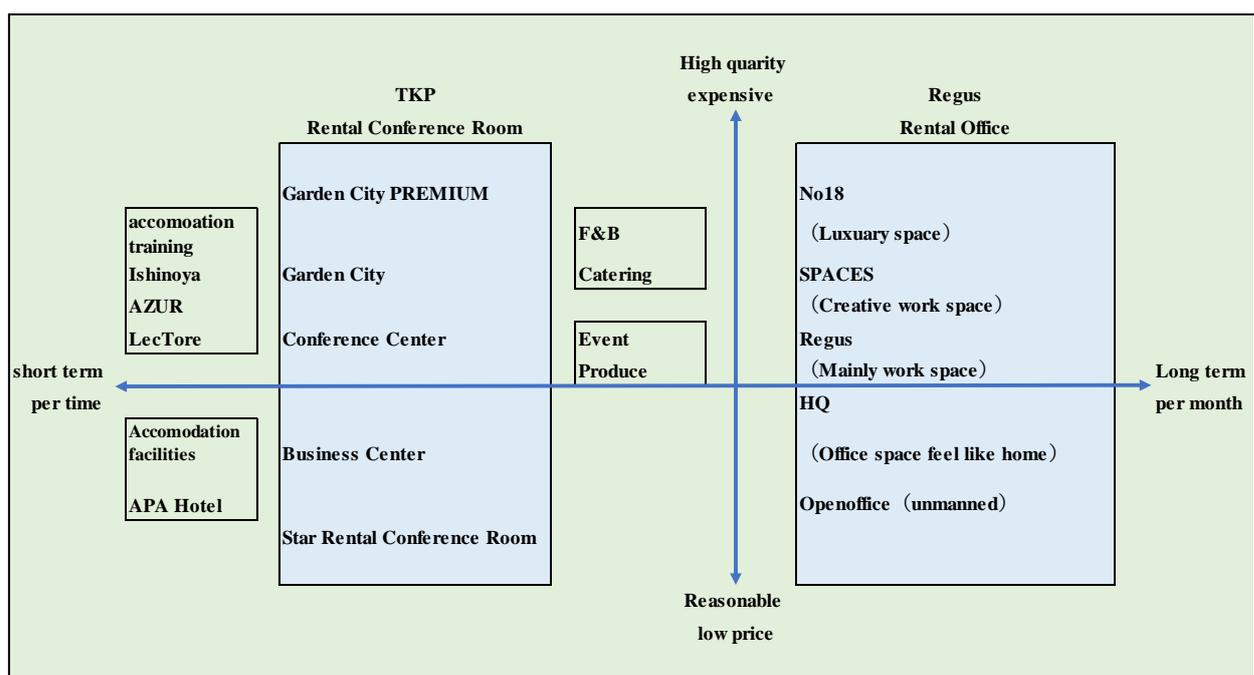
This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

the other hand, the Regus rental offices and coworking spaces are rented by the month. The prices are lower than hourly rentals, however full-time rent is paid even when the facilities are not used. In relative terms, little manpower is required. Therefore the profitability of rental offices can be raised even higher as a result of combined operation by TKP.

Rental offices and coworking spaces are similar to a fitness club. When a company becomes a member and pays the monthly fee, it can use the facilities whenever it wants. However they do not operate at night, and may be crowded during the day. Renting a facility exclusively may result in a correspondingly higher charge, however it is very convenient because the facility can be used in a wider variety of ways.

As a result of this deal, by utilizing spaces and providing space sharing, TKP has acquired both rental conference rooms and rental offices, and the potential for future business expansion has become much larger.

**Positioning map of TKP in flexible market office**



### Strengthening management

IWG CEO Mark Dixon joined TKP as an outside director. Shingo Nishioka of Regus Japan also took a position on the board and will continue in his role as president of Regus Japan. The 200 employees of Regus Japan also moved to TKP.

So why did IWG CEO Mark Dixon choose TKP? Aiming to increase the pace and expand business

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

in the Japan market, he chose TKP for reasons including the following: (1) its good management demonstrating dynamic leadership, (2) its good position as a company with a powerful platform in Japan, and (3) the good synergy produced by the company.

For the following reasons, Regus Japan President Nishioka had no hesitation about joining the TKP Group. (1) He knew TKP President Kawano well. (2) He felt that while their business areas were similar, they were complementary rather than competitive. (3) The companies had previously introduced customers to each other in the market. (4) By joining together, Regus Japan could diversify its menu and accelerate the pace of business growth.

Mr. Nishioka worked at IWG for many years, and has excellent language abilities. He will be a key person as TKP works for global operations in the future.

### **Utilizing the brands**

The Regus brands operate in a variety of grades including (1) Openoffice unmanned rental offices, (2) Regus rental offices with support services, and (3) SPACES coworking spaces.

New office buildings in the Tokyo Metropolitan Area will be completed one after another in the future. As this occurs, more and more companies will be moving out of their previous offices, resulting in vacant spaces. This will increase the opportunities for utilizing these spaces. In core regional cities, vacancies will also occur in commercial spaces and the branch offices of financial institutions.

As innovations in working styles continue, there will be needs for a higher degree of freedom in working locations. Job changing among working persons will also increase, and the number of people working independently will grow. This presents a wide range of opportunities.

### **Growth of a promising market**

TKP has 250 facilities (375,000 m<sup>2</sup>) and Regus Japan has 150 facilities (95,000 m<sup>2</sup>) for a total of 400 facilities (470,000 m<sup>2</sup>) at the time of merger. The Company plans to grow this number to 1,500 facilities in the next ten years.

Because TKP is a Regus master franchisee, it can expand the number of directly-operated facilities in Japan on its own, or depending on the sites it can also operate FC (franchises).

In Tokyo, 49.5 million m<sup>2</sup> of new office buildings will be coming online. The amount of rental space possessed by TKP is 528,000 m<sup>2</sup>. There is extremely large room for the company to expand.

When TKP users in Japan and Regus members expand internationally, it will be possible for them to use Regus facilities around the world. Conversely, when overseas Regus members enter Japan, they will be able to use the Japan facilities. It will be possible for the two companies to use each another's platforms.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

### **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**

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.

### **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.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### **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 2019, it leased 7 floors (10 – 16) of the Saiwai Building facing Hibiya Street in Tokyo. This facility will open in April as TKP Shimbashi 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 opportunities over the next several years for utilizing newly vacant spaces.

### **Acquisition of Regus Taiwan: Gaining a beachhead in Asia**

TKP acquired Regus Taiwan (13 subsidiaries in Taiwan) from an IWG group company in August, and made it a subsidiary in September last year. Regus Taiwan contributed to consolidated results beginning in December.

Regus Taiwan has expanded to 14 locations (including one contracted but not yet finished) in three cities in Taiwan. It manages rental offices and co-working spaces as the industry leader in Taiwan under the brands Regus, SPACES, and HQ.

The Company plans to expand the 14 locations (10 in Taipei, one in Hsinchu, and three in Taichung, including 11 Regus locations, two SPACES locations, and a head office planned for spring 2020) to

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

50 over the six years to 2025. The subsidiary targets sales of 2.3 billion yen, EBITDA of 600 million yen, and operating income of 480 million yen three years from now.

Regus Taiwan will contribute to TKP's consolidated results from December (4Q), meaning it will contribute to results for three months this fiscal year before contributing fully in the next. For the fiscal year ending February 28, 2021, we expect the subsidiary to contribute 1.7 billion yen in sales, 430 million yen in EBITDA, and 200 million yen in operating income.

The Company will solidify its base in Taiwan, all the while seeking to build partnerships with major local companies in Asia to pursue market entry into various countries. There are real estate companies run by overseas Chinese conglomerates in every region of Asia with whom the Company aims to form partnerships. In the more distant future, the Company has its sights on Europe and the US as well. Ties to IWG should prove a strength.

#### IWG (Regus Group) Network

	Locations	Cities	Countries/regions	Membership	
Worldwide	3300	1100	110	2.5 million	
Americas	1300				
UK	330				
EMEA	1020				
Asia Pacific	690				
		Japan	144 (acquired)	Indonesia	21
		China	123	Taiwan	14 (acquired)
		India	110	Vietnam	11
		Australia	81	Korea	10
		Malaysia	37	Sri Lanka	6
		Singapore	31	Cambodia	3
		Thailand	28	Bangladesh	2
		Hong Kong	28	Brunei	1
		Philippines	23	Nepal	1

#### Global cooperation with IWG

International Workplace Group (IWG) offers the world's top-class rental office and coworking space services. The Group has 1,300 locations throughout the Americas, 690 in the Asia Pacific region, 1,020 in Continental Europe, the Middle East, and Africa, and 330 in the UK. Business is humming along at IWG—the company recorded sales of 332 billion yen, EBITDA of 50.4 billion yen, and operating income of 20.1 billion yen in the fiscal year ending December 31, 2018.

TKP aims to expand globally through cooperation with IWG. TKP acquired Regus Taiwan as the first step, but there are many more opportunities as the Regus brand has expanded into many countries

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

in the Asia/Pacific region, with 123 locations in China, 110 in India, 81 in Australia, 37 in Malaysia, 31 in Singapore, 28 in Thailand, 28 in Hong Kong, and 21 in Indonesia. TKP will pursue multifaceted cooperation with IWG.

### **Leading up to the advance into Taiwan**

IWG CEO Mark Dixon asked which location TKP would like to expand into after Japan Regus. Owing to its proximity, Taiwan seemed the simplest choice for a first foray out of Japan, so the Company decided on Taiwan as the next area of focus. Mr. Dixon has a seat on TKP's board of directors and knows the ins and outs of the Company's managerial situation. It appears Mr. Dixon is interested in Regus-TKP cooperation in the rest of Asia if it is able to accelerate growth. TKP will likely start the advance into the next country provided development in Taiwan goes well.

### **Conditions of advancing into other Asian countries**

We believe TKP will be able to continue the advance into Asia by partnering with Regus in each country as long as combining rental conference rooms and accommodation facilities with rental offices and coworking spaces increases business opportunities and profitability. Several questions arise when considering another acquisition like in the case of Taiwan: 1) Will there be enough available capital? 2) Will the Company be able to keep a firm grip on the local management? and 3) Assuming TKP and Regus are to create synergy along the lines of the Japan model, is this new model translatable to each new region?

### **Supplementing the earnings pattern**

The earnings pattern differs for the TKP rental conference room model and Regus rental office model. The rental conference room model can produce earnings immediately depending on the occupancy rate, but it can take 8 to 12 months for the rental office model to turn a profit. Moreover, it takes roughly one year for the rental office model to build up to cruising speed.

Therefore, there is a heavier burden of upfront expenditures in the rental office model. However, the Company can achieve greater efficiency in utilization and improve profitability by combining rental conference rooms and rental offices in the same facility.

The synergy created by TKP-Regus cooperation consists of reciprocal introductions and customer referrals and the ability to conduct joint openings. The Company will conduct several joint openings in November following the September opening of Nishinippon Shimbun Kaikan in Fukuoka. These include one in the Mitsuwa Building in Hyogo Prefecture, one in the Aono Building in Ehime Prefecture, and one in the Sendai Solala Plaza in Miyagi.

### **Difference with WeWork: TKP avoids running a deficit**

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 workspaces.

When we look at the category of rental offices, WeWork and Regus provide high-price coworking spaces, while TKP can targeting 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 399,300 m<sup>2</sup>, and Regus has 118,800 m<sup>2</sup> of sharing space in Japan. In contrast, WeWork is headquartered in New York and has 270,000 m<sup>2</sup> 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 528,000 m<sup>2</sup> in order to expand profits or whether to increase the added value on its 528,000 m<sup>2</sup>, 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.

WeWork focuses on startups, striving for rapid large-scale growth in the co-working space industry. Thus, unlike TKP, it runs large deficits corresponding to large upfront expenditures.

TKP is similar to WeWork in that both companies are engaged in providing flexible offices in response to working style reforms. However, TKP seeks differentiation from the company by 1) combining rental offices with rental conference rooms, and 2) clearly grasping the needs of rental office users and providing a full range of content to meet those needs.

WeWork has been plagued with managerial and financial problems which should temporarily put the brakes on its expansion. While still considering WeWork a competitor, TKP recognizes opportunities for cooperation with the company as well. There is a significant possibility TKP would be able to cooperate with WeWork to generate synergy in much the same way as it does with Regus. At present, we don't see WeWork posing much of an obstacle to the Company's future business expansion.

## **4. Medium Term Business Plan: Accelerating growth potential by expanding business areas and increasing added value**

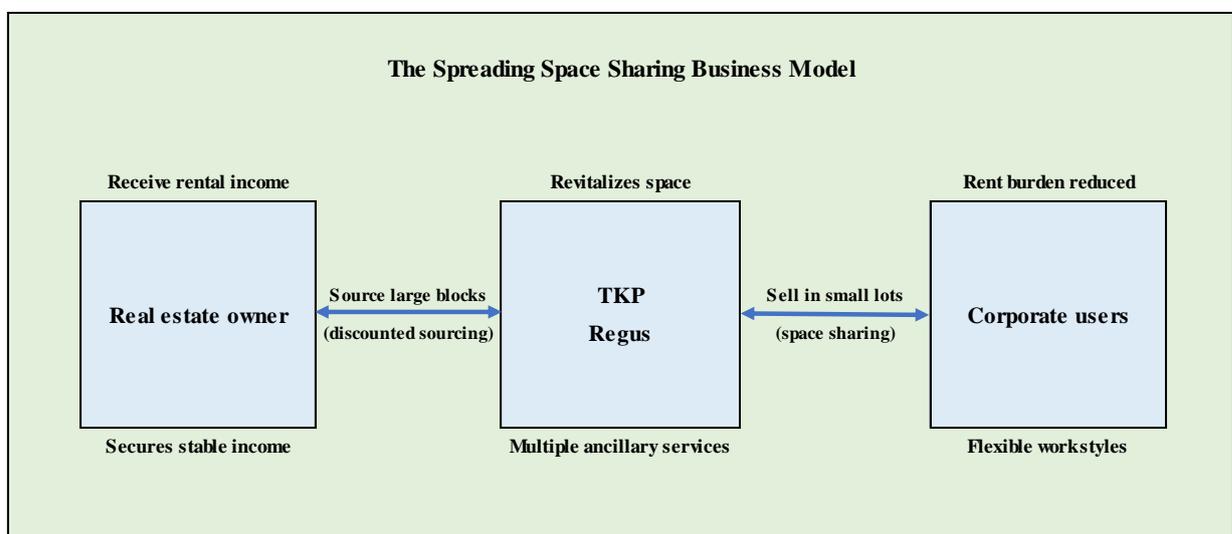
---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

## Rolling Medium Term Business Plan

The Company renewed its rolling medium-term business plan in June 2019. The three-year plan had just been renewed in January 2018, but the Company revised it in light of the acquisition of Regus Japan. This new medium-term plan announced in June was revised once again in August after the finalization of the decision to acquire Regus Taiwan, which adds another core element to TKP's global strategy. The Company reviewed its three-year projections and revised the earnings targets upward based on the new developments.

The most recent plan includes the projects in which Regus Japan and TKP are currently engaged and significantly revises earnings forecasts upward. Although there are many possibilities for synergy in the medium-term, the plan is still quite conservative in its assumptions.



## Differences in the TKP and Regus Japan business model

### • Rental conference room business model

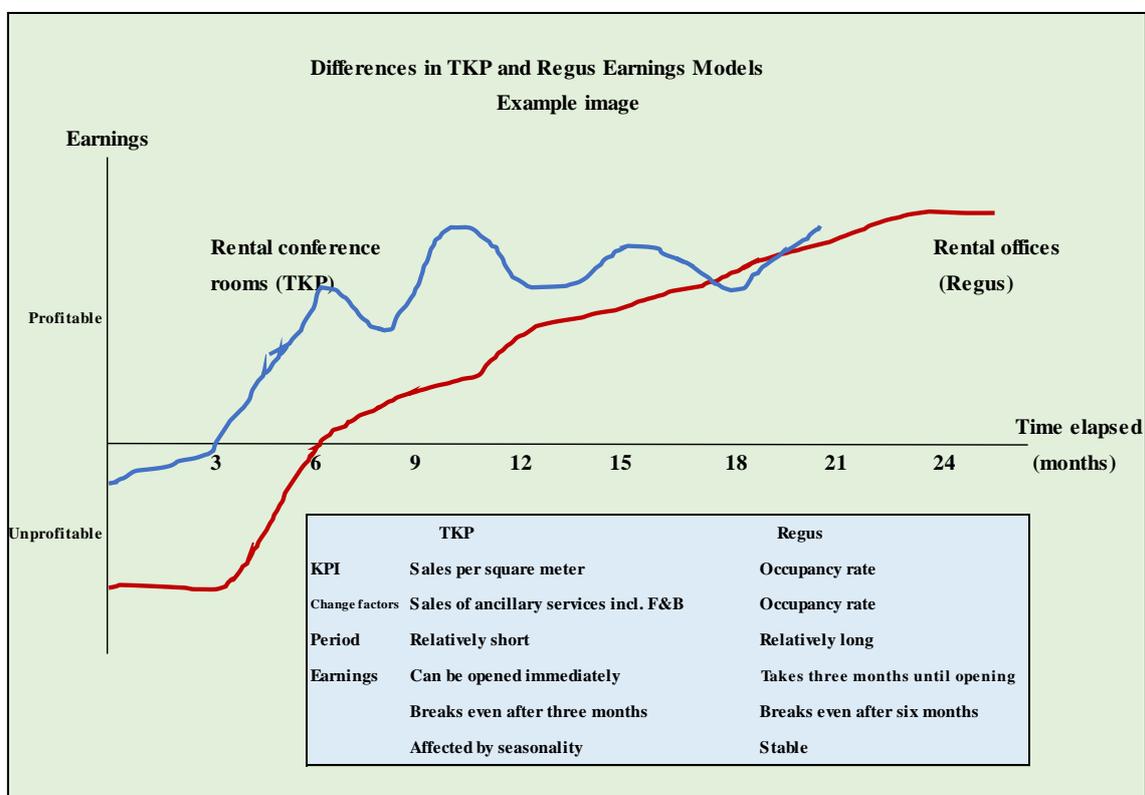
On average, it takes three months for a rental conference room facility to break even and 12 months to reach cruising speed in terms of earnings. That said, earnings are subject to seasonal fluctuations and are especially vulnerable to market conditions. On the other hand, sales of ancillary services such as food and beverage, catering, accommodation, and event production can influence sales more than the occupancy rate. Therefore, President Kawano emphasizes sales per square meter as the most important KPI, and highlights the importance of constantly raising the figure. Incidentally, sales per square meter in Q3 was 12,191 yen (versus 11,344 yen in the fiscal year ended February 28, 2019).

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

• **Rental office business model**

Unlike in the conference room business, Regus Japan facilities require three to four months of interior work before opening. They typically take eight to twelve months to break even (45% occupancy rate) and 18 months to reach cruising speed (65% occupancy rate). They take longer to become profitable than rental conference rooms and their contribution to profits rises only gradually. However, since rentals are by the month, earnings tend to be more stable as customers rent over longer periods of time.

Therefore, looking at the five-year conference room model and 10-year rental office model, it can be said that cumulative earnings are higher in the latter.



**Drawing a growth strategy based on a hybrid model**

By opening hybrid locations that combine the TKP and Regus models, the Company can offer the convenience of conference rooms to customers renting offices, adding greater flexibility to the function of rental offices as co-working space. Further, TKP can add value by offering rental offices, co-working space, and office services together, just as it has by adding hospitality services to its rental conference room model.

The growth strategy is to reach the world with a hybrid model of T (TKP) + H (hotels) + R (Regus).

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

The Company has already begun rolling out joint TKP and Regus locations, and these have produced favorable results. Financial integration has been completed at the head office and the company plans further reorganizational moves such as integrating sales.

**Outline of New Medium-term Plan**  
(2020.2–2022.2)

<b>Basic direction</b>	<ol style="list-style-type: none"> <li>1. Conduct joint development, sales, and management by sharing resources with Regus Japan</li> <li>2. Promote work style reforms as Japan’s largest flexible workspace provider, raising customer satisfaction and improving the repeat ratio</li> <li>3. Pursue the development of new flexible workspace-related businesses and M&amp;A</li> <li>4. Expand TKP’s network in Asia first and then globally with a combination of services including rental conference rooms, rental offices, co-working spaces, and lodging facilities</li> </ol>																																																																					
<b>Basic strategies</b>	<ol style="list-style-type: none"> <li>1. AAA strategy: Anytime, Anywhere, for All workers</li> <li>2. Three-dimensional expansion following growth in the flexible workspace market 1) grow brands in each segment, 2) improve market share, 3) expand peripheral services (content-based)</li> <li>3. Expand network of various types of idle space in Japan Expand from 409 locations in Japan to 1,500 locations in ten years</li> <li>4. Make use of global network Members can use the Regus network of 3,300 locations in 1,100 cities in 120 regions around the world</li> </ol>																																																																					
<b>Current business strategies</b>	<ol style="list-style-type: none"> <li>1. Accelerate openings through joint sourcing Add 891,000m<sup>2</sup> in ten years</li> <li>2. Improve efficiency of operations through joint openings The first is a joint opening by Regus and Garden City PREMIUM in Tenjin, Fukuoka</li> <li>3. Expand across Japan through joint development of SPACES brand facilities</li> </ol>																																																																					
<b>Financial targets</b>	<p>2022.3 Sales: 79.3 billion yen, Operating income margin: 15.7%, EBITDA margin: 23.1%</p> <p style="text-align: right;">(100 million yen, %)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">2019.2 (Act.)</th> <th colspan="2">2020.2 (Plan)</th> <th colspan="2">2021.2 (Plan)</th> <th colspan="2">2022.2 (Plan)</th> </tr> <tr> <th></th> <th></th> <th>(Original)</th> <th>(Current)</th> <th>(Original)</th> <th>(Current)</th> <th>(Current)</th> <th>(Current)</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>355</td> <td></td> <td>422</td> <td>562</td> <td>458</td> <td>692</td> <td></td> <td>793</td> </tr> <tr> <td>EBITDA</td> <td>51</td> <td>14.5</td> <td></td> <td>112</td> <td>20.0</td> <td>149</td> <td>21.7</td> <td>183</td> <td>23.1</td> </tr> <tr> <td>Operating income</td> <td>42</td> <td>12.1</td> <td>60</td> <td>76</td> <td>13.5</td> <td>67</td> <td>96</td> <td>13.9</td> <td>124</td> <td>15.7</td> </tr> <tr> <td>Ordinary income</td> <td>40</td> <td></td> <td>57</td> <td>59</td> <td></td> <td>64</td> <td>90</td> <td></td> <td>119</td> <td></td> </tr> <tr> <td>Net income</td> <td>18</td> <td></td> <td>32</td> <td>28</td> <td></td> <td>36</td> <td>44</td> <td></td> <td>64</td> <td></td> </tr> </tbody> </table> <p><small>**“Original” refers to previous three-year plan while “current” refers to forecasts announced in June and revised in August.</small></p> <p style="text-align: center;"><small>Numbers offset to the right refer to margins versus sales.</small></p>		2019.2 (Act.)		2020.2 (Plan)		2021.2 (Plan)		2022.2 (Plan)				(Original)	(Current)	(Original)	(Current)	(Current)	(Current)	Sales	355		422	562	458	692		793	EBITDA	51	14.5		112	20.0	149	21.7	183	23.1	Operating income	42	12.1	60	76	13.5	67	96	13.9	124	15.7	Ordinary income	40		57	59		64	90		119		Net income	18		32	28		36	44		64	
	2019.2 (Act.)		2020.2 (Plan)		2021.2 (Plan)		2022.2 (Plan)																																																															
			(Original)	(Current)	(Original)	(Current)	(Current)	(Current)																																																														
Sales	355		422	562	458	692		793																																																														
EBITDA	51	14.5		112	20.0	149	21.7	183	23.1																																																													
Operating income	42	12.1	60	76	13.5	67	96	13.9	124	15.7																																																												
Ordinary income	40		57	59		64	90		119																																																													
Net income	18		32	28		36	44		64																																																													

### Main points in the new medium-term plan

Expansion in the flexible workspace market (serviced offices and co-working spaces) is still just

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors’ investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

beginning and the market should grow significantly in the future. According to JLL, floor space in the flexible workspace market in five wards in Tokyo (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya) was 105,000 m<sup>2</sup> in 2017, 156,000 m<sup>2</sup> in 2018, and is expected to be 194,000 m<sup>2</sup> in 2019.

Flexible workspace still only makes up one percent of office space, but the share is predicted to grow to 30% owing to dramatic changes in working styles. When that happens, the market will greatly expand from its current valuation of 200 billion yen to 6 trillion yen. This is the level of growth President Kawano expects to see.

TKP plans to expand its business three-dimensionally along with this rapid market growth. There are many ways of using flexible workspace and TKP and Regus have multiple brands. The Company's strategy is to develop brands matched to the various ways of using shared space, thereby expanding the flexible workspace market and taking the expanded share. At the same time, the Company will not only focus on offering flexible workspace as is, but will add content services (i.e., event planning, training, and services that support the clients' businesses themselves) leveraging the hardware. The company seeks to take the number one position in the market following a strategy based on this kind of deep three-dimensional expansion.

The trend toward wanting to use flexible workspace is growing stronger across the world. The fourth pillar of the recent medium-term plan is to rapidly expand TKP's network, first in Asia and then globally, using its combination of rental conference rooms, rental offices, co-working spaces, and hotel facilities.

The Company's financial targets for the fiscal year ending February 28, 2022 are sales of 79.3 billion yen (2.23 times the figure for FY2019.2), operating income of 12.4 billion yen (2.95 times), operating income margin of 15.7% (12.1% in FY2019.2), EBITDA of 18.3 billion yen (3.59 times), and EBITDA margin of 23.1% (14.5% in FY2019.2).

### **Anticipated synergies**

The Company believes synergistic effects arising from cooperation of TKP and Regus will boost sales growth and profitability. Regus Japan has 152 locations in Japan. Within that number, there are 102 high-price-point Regus (and Regus express) rental offices, 46 budget-priced unstaffed Openoffice rental offices, and four co-working spaces under the brand SPACES.

SPACES is a large co-working space company similar to WeWork. In Europe and the US there are other brands as well, including those specializing in executive office.

The combination of TKP and Regus will make possible the utilization of all types of unused space. TKP (261 locations; 400,000 m<sup>2</sup>) and Regus (152 locations; 119,000 m<sup>2</sup>) have a combined total of 413 locations, 520,000 m<sup>2</sup>. The two entities can utilize each other's current facilities. Any new facilities can be streamlined for joint operations of both TKP and Regus businesses.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

When the unique strength of the TKP-Regus combination is demonstrated, Regus franchiser IWG should want to apply the model on a global scale.

To the current lineup of TKP conference rooms and accommodation and training facilities and Regus co-working spaces and rental offices, it could be possible to add businesses such as Regus conference rooms, Regus hotels, Regus event halls, etc.

TKP members will become able to use Regus facilities all over the world. President Kawano has a sense that the business is accelerating having adopted a global perspective from the acquisition of Regus Japan and addition of Mark Dixon to the board. Working styles will undergo large changes as the world advances toward a digital economy. Workspace will further diversify to meet these changing working styles. These changes should accelerate the development of new brands.

By merging its resources, the Company will execute its plan to increase utilized floor space to 891,000 m<sup>2</sup> (currently 521,400 m<sup>2</sup>) in the next ten years through new openings based on joint sourcing of space. In the first year, the Company will undertake joint development of 80 locations (69,000 m<sup>2</sup>).

Mr. Nishioka has been entrusted with the handling of sourcing for all of TKP alongside his duties as president of Regus Japan. The Company can achieve synergy by conducting sourcing and location openings together as one entity. Joint sourcing is at the center of the medium-term plan. TKP and Regus each had its own list of candidate locations for new openings and the scale of expansion suddenly increases when these are put together. Jointly operating existing facilities and opening new locations seem very likely to be successful.

Furthermore, the Company is conducting sales and operation jointly. The two entities will benefit from reciprocal customer referrals and sales, strengthening their ability to draw customers and improving sales through cross-selling. The Company will also provide unified reception and management duties at facilities. It also plans to increase efficiency by reducing redundancies at each company's headquarters.

In addition, the Company will concentrate energy on the expansion of SPACES in Japan. Regus Japan runs three SPACES locations, one in each of Tokyo, Nagoya, and Hakata. Including conversion of existing TKP facilities, the Company will accelerate the development of SPACES throughout the country.

Finally, the company plans to unify its "hard" and "soft" services. The Company has heretofore focused on "hard" services such as the provision of conference rooms, co-working spaces, rental offices, hotels, and training facilities. However, the Company will leverage opportunities these hard assets provide by adding soft services. This is where event planning business Majors Inc. (subsidiary) will have an increasingly greater role to play.

**TKP Group's Expansion Targets(Japan)**

	As of November 2019	2030 targets
<b>Locations</b>	<b>413</b>	<b>1500</b>
<b>Floor space('0,000 m<sup>2</sup>)</b>	<b>52.1</b>	<b>140</b>

**Competition dependent on market cultivation ability**

It looks as if WeWork is aiming to foster startups as an incubation office, rather than simply generating revenue from its co-working space services. TKP-Regus is a little more diversified and able to respond to the needs of startups even when they grow to become medium-sized companies.

The volume of freelance work should increase greatly in the medium-term. The Company plans to provide office space suited to freelance working styles, which it believes will be a highly profitable business model.

What if large real estate companies enter the market? There are already a number of real estate companies working on getting into the rental conference room and co-working space markets. However, the scale of these initiatives is small to the point of not being able to support their main business, let alone replace it or become extremely profitable. These competitors cannot stand up to the TKP group in terms of business growth potential.

**Expansion into commercial buildings**

For the 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 objective – creating a platform, the Company has developed and providing TKP Event

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

The Company provides spaces for 100,000 meetings and training sessions to 35,000 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 five 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.

Although the Event Planner has a set price, in order to encourage blue-chip corporate customers to try the system and rapidly expand their use, the Company is willing to provide the service for free to the existing blue-chip customers.

The key to high profitability in the space-sharing business lies in the ability to keep the occupancy rate high while controlling rate fluctuations. Assuming pricing for each facility grade is appropriate, the higher the occupancy rate the more dramatic the increase in profitability for TKP. This is where an IT platform comes in play.

Majors had a core system, but it was yet to be optimized for a wide scope of use. Meanwhile, for some time TKP had been studying how to put such a platform to practical use. This time around the combination of the two led to concrete results.

### **Utilization of Majors: Strengthening of event productions**

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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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 three 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.

Majors (total marketing production) excels in managing large events. The venues used for such events are different from the spaces offered by TKP, generally a rank higher. By becoming a TKP group company, Majors can use the Company's facilities for its events, while TKP can make way into operating facilities that are a rank higher. TKP plans to promote the exchange of personnel between the two companies and foster staff who would be able to run large events.

### **Making use of the effects of expanding EC**

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

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

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

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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

Sharing in commercial buildings will involve sharing with retail spaces that sell products, services, and information. Because this sharing directly produces revenue, the added value should be higher.

Although the cost of leasing the facilities (rent) is higher, they can be used to create multipurpose packages for sharing platforms, and it should be possible to fully absorb the extra costs. The Company also intends to establish links with EC.

The expansion from offices to commercial facilities represents a change from the personnel-related business of conference rooms and training. By renting to retail business operators, this new business area provides spaces for directly conducting business. As a result, 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

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### **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.

### **Aiming to expand global operations as an entrepreneur**

TKP president Kawano was selected as the 2017 EY Entrepreneur of the Year. 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.

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 startups. It is aiming for 3,000 business tenants. The facility is sponsored by major corporations, and provides co-working spaces and support for entrepreneurs.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

The Company is working this business not only in Japan but also globally. The key is providing new hybrid business spaces and entertainment spaces. The idea is to work out how to create new value through various combinations involving, for example, the internet and real world, retail shops and pop-up stores, training spaces and commercial event spaces, retail businesses and restaurants, or R&D facilities and startups. The Company is developing this as a business model and will continue constantly evolving it. The company is creating a strategy that links space regeneration to business regeneration.

### **EBITDA as Key Performance Indicator (KPI)**

Annual amortization of goodwill totals roughly 2.3 billion yen due to large acquisitions. Since this does not affect cash flows, however, TKP judges EBITDA (operating income before depreciation and amortization of goodwill) to be the best measure of its performance, and thus actively discloses its EBITDA. In this way TKP follows the trend of IFRS, in which goodwill is not amortized.

The effect of goodwill amortization will be diluted at an accelerated pace assuming TKP's earnings continue to grow. However, President Kawano is keen to expand globally, meaning TKP will likely

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

conduct additional M&A whenever the opportunity arises.

### Forecasts Under New Medium-Term Plan

(Millions of yen)

	2020.2 (plan)	2021.2 (plan)	2022.2 (plan)
<b>Sales</b>	<b>56206</b>	<b>69150</b>	<b>79326</b>
<b>TKP</b>	<b>42829</b>	<b>48355</b>	<b>54228</b>
<b>Regus Japan</b>	<b>12734</b>	<b>19060</b>	<b>22803</b>
<b>Regus Taiwan</b>	<b>642</b>	<b>1734</b>	<b>2293</b>
<b>EBITDA</b>	<b>11228 (20.0)</b>	<b>14996 (21.7)</b>	<b>18313 (23.1)</b>
<b>TKP</b>	<b>7774</b>	<b>9715</b>	<b>11434</b>
<b>Regus Japan</b>	<b>3284</b>	<b>4850</b>	<b>6293</b>
<b>Regus Taiwan</b>	<b>169</b>	<b>430</b>	<b>586</b>
<b>Operating income</b>	<b>7607 (13.5)</b>	<b>9617 (13.9)</b>	<b>12471 (15.9)</b>

Note: Figures in parentheses denote profit margin versus sales.

## 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 2019 was 1,301, 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 15.

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. However, 4Q profitability has been greatly improved. The company has identified operating and usage needs that have increased the 4Q use of its facilities.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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	95
2018.2 Sales	7253	6731	7317	7395
Operating income	1415	884	743	408
2019.2 Sales	9118	8492	9051	8861
Operating income	1765	818	909	795
2020.2 Sales	10405	13867	15402	
Operating income	2087	1477	1395	

Comparison of unconsolidated and consolidated results

A look at the non-consolidated results shows that land rent plays a large part among the main cost items in the profit and loss statement. 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.

Comparison of consolidated and nonconsolidated profit and loss statements

(Millions yen, %)

	2017.2		2018.2		2019.2	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Sales	21978	20806	28689	26804	35523	33036
Cost of sales	13707 62.4	12845 61.7	17738 61.8	16434 61.3	21802 61.4	20076 60.8
Materials		2059		2771		3243
Personnel		653		955		1081
Operation related fee		1117		1361		1543
Land rent		5537		6551		8000
Lease fees		806		998		1226
Gross profit	8271 37.6	7960 38.3	10950 38.2	10370 38.7	13722 38.6	12959 39.2
SG&A	5576 25.4	5128 24.6	7501 26.1	6802 25.4	9433 26.6	8609 26.1
Personnel		2834		3782		4818
Operating income	2694 12.3	2833 13.6	3449 12.0	3567 13.3	4289 12.1	4349 13.2

Note: Figures at right are percentages of sales.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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.

### Absorbing advance investment and strong performance in the fiscal year ended February 28, 2019

The results for the fiscal year ended February 28, 2019 were sales of 355.23 million yen (up 23.8% from the previous fiscal year), operating income of 42.89 million yen (up 24.3%), ordinary income of 40.53 million yen (up 26.6%), and net income of 18.93 million yen (down 8.6%). Net income fell as a result of a valuation loss (620 million yen) on shares resulting from the capital and business alliance with Otsuka Kagu, however all other figures cleared the targets for Year 1 in the medium-term three year plan.

In the fiscal year ended February 28, 2019, the Company focused on four 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.

#### Actual results of TKP

	(Millions yen, %)							
	2016.2		2017.2		2018.2		2019.2	
<b>Sales</b>								
<b>Garden City PREMIUM</b>								
<b>Garden City</b>								
<b>Conference Center</b>								
<b>Business Center</b>								
<b>STAR conference rooms</b>								
<b>Accommodation facilities</b>								
<b>Others</b>								
<b>Gross profit</b>	6565	36.6	8271	37.6	10950	38.2	13722	38.6
<b>SG&amp;A</b>	4561	25.4	5576	25.4	7501	26.1	9433	26.6
<b>Operating income</b>	2004	11.1	2694	12.3	3449	12.0	4289	12.1
<b>Ordinary income</b>	1848		2552		3200		4053	
<b>Net income</b>	935		1352		2071		1893	

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

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

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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 200 to 1,301 (+18.2%). In addition, the Company also employs part-time (hourly wage) employees, and this number grew by 18.4% from (total) 1,345 to 1,593.

Trends in cash flows

	2016.2	2017.2	2018.2	2019.2	2020.2(予)
Cash flows from operating activities	2618	1096	1995	2485	6200
Net income before income taxes	1993	1058	2231	1424	2600
Depreciation	407	440	635	845	1900
Amortization of good will					1700
Sale of fixed assets	0	0	-487	65	100
Impairment loss	98	191	91	836	300
Sales credits and trade payables	-154	-615	-567	-404	-400
Cash flows from investing activities	-2729	-7705	-8515	-11283	-52200
Tangible fixed assets	-1943	-6769	-6368	-9511	-4000
Acquisition of shares in subsidiaries					-43200
Lease and guarantee deposits	-894	-776	-983	-1656	-5000
Free cash flow	-111	-6609	-6520	-8798	-4600
Cash flows from financing activities	2886	6310	6735	15064	50300
Long-term loans payable	1320	5237	4434	13053	26000
Bonds	1597	1073	178	1963	0
Sale of treasury stock	0	0	2153	0	0
Public offering					24300
Cash and cash equivalents	5799	5494	5706	11967	16267

**Balance sheet and cash flows are used efficiently**

The balance sheet at the end of May 2019 shows total assets of 105.5 billion yen (+54.4 billion yen since the end of February), net assets of 24.0 billion yen (+13.2 billion yen), fixed assets of 86.4 billion yen (+5.1 billion yen in tangible fixed assets; +42.9 billion yen in goodwill), liabilities of 81.5 billion yen (short-term loans +27.0 billion yen; long-term loans +7.5 billion yen).

The acquisition price of Regus Japan was 42,905 million yen with goodwill of 42,906 million yen (amortized over 20 years), for 8.9 billion yen in assets received.

Interest-bearing liabilities including loans increased by a significant 34.3 billion yen. However, there should be no problems with repayment since the company expects EBITDA to total over 40 billion yen in three years.

The company's properties include considerable unrealized capital gains, and there are several hotels, for example, which could be converted to cash. It is expected that the company will work to expand

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

its business while considering the method of liquidating its assets.

Regus Japan (former IWG subsidiary) reports in accordance with International Financial Reporting Standards (IFRS). TKP uses Japanese GAAP, but is looking into the possibility of switching to IFRS considering its plans to expand globally.

**Balance sheet trends**

(Millions yen, %)

	2016.2	2017.2	2018.2	2019.2	2019.11
<b>Current assets</b>	<b>8048</b>	<b>8489</b>	<b>9715</b>	<b>16957</b>	<b>34075</b>
Cash and savings	5749	5494	5706	11967	27560
<b>Fixed assets</b>	<b>8563</b>	<b>15650</b>	<b>24815</b>	<b>34108</b>	<b>99615</b>
Tangible fixed assets	4689	10822	17021	24959	38390
Buildings and structures	1743	4035	5551	12316	20406
Land	2577	6507	8356	8425	11019
Intangible fixed assets				254	45272
Goodwill				112	45097
Investments and others	3819	4763	7521	9103	15952
Lease and guarantee deposits	3518	4021	4983	6416	12751
<b>Total assets</b>	<b>16612</b>	<b>24140</b>	<b>34530</b>	<b>51066</b>	<b>133691</b>
<b>Current liabilities</b>	<b>4919</b>	<b>5284</b>	<b>7971</b>	<b>9299</b>	<b>48744</b>
Short-term borrowings				0	27500
Current portion of long-term loans payable	1326	1903	3154	4540	4833
<b>Fixed liabilities</b>	<b>8592</b>	<b>14385</b>	<b>17904</b>	<b>31003</b>	<b>35911</b>
Bonds	2492	3571	3696	5505	4794
Long-term loans payable	5693	10363	13668	24826	29035
<b>Net assets</b>	<b>3100</b>	<b>4470</b>	<b>8655</b>	<b>10763</b>	<b>49035</b>
<b>Interest-bearing liabilities</b>	<b>10253</b>	<b>16607</b>	<b>21358</b>	<b>35911</b>	<b>67220</b>
Ratio of interest-bearing liabilities to total assets	61.7	68.8	61.9	70.3	50.3
Capital adequacy ratio	18.6	18.3	24.9	21	26.8

**Flush with capital after public offering**

In a public offering announced in September 2019, the Company raised 23.4 billion yen, including from third-party allotment. Of this amount, 13.1 billion yen was allocated to repurchasing the preferred shares issued in line with the acquisition of Regus. The effect should bring the equity ratio to slightly above 30% in February 2020.

The equity ratio dropped to 10.5% at the end of August due to the acquisition of Regus Japan, compared to 21.0% at the end of February, but rose to 26.8% at the end of November. With the repurchase of preferred shares issued to bridge finance the acquisition, the ratio should rise to around 30% at the end of February 2020.

The financing round increased total shares by five million (15.1% dilution) and the issue price was 4,857 yen/share, which yielded 23.4 billion yen in total capital raised.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

Looked at another way, it could be possible to generate 50–100 billion yen of new debt financing if TKP leveraged the 23.4 billion yen of funding. This would allow the Company to execute the next step of its M&A strategy. However, it is important for TKP to first build up its earnings before rushing into new ventures.

In terms of capital efficiency, if TKP were to target a 15% ROE with net assets of 49 billion yen, it would require 7.4 billion yen in net income, which calls for around 18 billion yen in operating income. This seems quite achievable in five years, and the Company could likely raise its ROE target to over 15% in the coming years.

### Results for Regus Japan

(Millions of yen)

2020.2		Sales	EBITDA	Operating income
Regus Japan	2Q	4136	1078	415
	3Q	4334	503	-169
TKP(excluding Regus Japan)	2Q	9731	1396	1061
	3Q	10785	1886	1544
TKP(consolidated)	2Q	13867	2474	1476
	3Q	15401	2418	1395

Note: 2Q : June-August, 3Q : September-November

### Robust performance in the first nine months of the fiscal year ending February 29, 2020 but with a large increase in one-time expenses related to acquisitions and openings

In the first nine months of the fiscal year ending February 29, 2020, the Company had sales of 39.7 billion yen (+48.8% YoY), EBITDA of 7.3 billion yen (+77.3% YoY), operating income of 5.0 billion (+42.0% YoY), ordinary income of 3.4 billion yen (+2.6% YoY), and net income of 1.3 billion yen (+17.6% YoY).

EBITDA achieved impressive growth due to strong performance of TKP and the consolidation of Regus Japan starting Q2. EBITDA increased by 3.2 billion yen YoY, but 1.1 billion yen in goodwill amortization related to acquisitions and 400 million yen in one-time expenses related to integration of Regus Japan caused operating income growth to settle at an increase of 1.5 billion yen.

Ordinary income was nearly flat YoY as a result of roughly 1.3 billion yen in one-time non-operating expenses including: (1) 500 million yen in arrangement fees to banks, (2) 180 million yen in forex losses, (3) 400 million yen in M&A fees, and (4) 140 million yen in interest payments (for a bridge loan).

Meanwhile, the parent maintained a rapid pace of growth in the first nine months with +16% YoY in sales, +38.0% YoY in EBITDA, and +34.4% YoY in operating income.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

TKP's EBITDA-to-sales ratio was 18.3% (15.4% in the previous fiscal year) and its operating profit margin was 15.2% (13.1% in the previous fiscal year). Regus Japan had an EBITDA-to-sales ratio of 18.7%, near the same at TKP's, but its operating profit margin was dragged down by goodwill amortization and finished at 2.9%

### Goodwill amortization related to TKP's acquisitions is taxable

The 42.9 billion yen in goodwill from the acquisition of Regus Japan will generate 2.15 billion yen in amortization per year over a twenty-year period. TKP acquired Regus Taiwan for 2.9 billion yen, which adds roughly 150 million yen in goodwill amortization.

The acquisitions of Regus Japan and Regus Taiwan are treated as acquisitions of independent master franchisee companies rather than a business transfer from IWG. This means the amount equivalent to goodwill amortization from these acquisitions is not deductible for tax purposes. In other words, the 2.3 billion yen in annual goodwill amortization is subject to tax. Therefore, TKP's after tax profit will be lower than usual since goodwill amortization will not be tax deductible. It is necessary to pay attention to this fact going forward since it involves a cash outflow.

TKP Group Consolidated Results Forecasts

	(Millions of yen)			
	2019.2	2020.2 (forecast)	2021.2 (forecast)	2022.2 (forecast)
<b>Sales</b>				
TKP	35523	43000	48800	54700
Regus Japan		12900	19500	23000
Regus Taiwan		600	1700	2300
<b>Total</b>	<b>35523</b>	<b>56500</b>	<b>70000</b>	<b>80000</b>
<b>EBITDA</b>				
TKP	5180	7800	9800	11900
Regus Japan		3300	4900	6500
Regus Taiwan		100	400	600
<b>Total</b>	<b>5180</b>	<b>11200</b>	<b>15100</b>	<b>19000</b>
<b>Depreciation</b>	<b>845</b>	<b>1900</b>	<b>2500</b>	<b>3600</b>
<b>Amortization of goodwill</b>	<b>46</b>	<b>1700</b>	<b>2400</b>	<b>2400</b>
<b>Operating income</b>	<b>4289</b>	<b>7600</b>	<b>10200</b>	<b>13000</b>
<b>Ordinary income</b>	<b>4053</b>	<b>6000</b>	<b>9500</b>	<b>12000</b>
<b>Net income</b>	<b>1893</b>	<b>2900</b>	<b>4700</b>	<b>6500</b>

Note: Results for FY2020.2 include Regus Japan for nine months beginning in 2Q and Regus Taiwan for three months beginning in 4Q.

Forecasts are analyst forecasts

### Company plan for the fiscal year ending February 29, 2020: It should be possible to fully absorb the amortization of goodwill.

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

The new company plan for the fiscal year ending February 29, 2020 calls for sales of 56.2 billion yen (+58.2% YoY), operating income of 7.6 billion yen (+77.4% YoY), ordinary income of 5.9 billion yen (+45.9% YoY), and net income of 2.9 billion yen (+51.2% YoY).

Looking at the first nine months, the Company has somewhat high hurdles to overcome to achieve its forecasts. One-time expenses are above plan and there is a high likelihood the Company will not be able to cover them in Q4 alone. Versus company forecasts for the fiscal year ending February 29, 2020, progress through Q3 was 71% for sales, 65% for EBITDA and operating income, 57% for ordinary income, and 45% for net income. Things will return to normal in Q4 as one-time expenses surrounding the acquisitions have already been recorded, but even assuming Q4 profits come in remarkably high, there is a high probability the Company will not achieve its targets. Even if this happens to be the case, it should be able to achieve record high profits for the year.

When the Regus Japan P/L for nine months and the Regus Taiwan P/L for three months are added, the results for the fiscal year ending February 29, 2020 are expected to be sales of 56.5 billion yen and operating income of 6.9 billion yen. Amortization of goodwill for Regus Japan amounts to 42.9 billion yen amortized over 20 years, which translates to about 2.2 billion yen annually. To this, there is another 150 million yen amortized annually from the acquisition of Regus Taiwan.

This examination does not consider synergy. With the current M&A, the amortization of goodwill will not negatively affect operating income. Although it depends on the amount of the service fee that Regus Japan will pay to IWG, the effects from addition of Regus income can be fully expected beginning from the second year.

Synergy between rental conference rooms and rental offices will accelerate income growth. Looking at the company after the merger, TKP operating income of 10 billion yen in three years is entirely possible.

### **Actively opening new locations**

In the fiscal year ending February 29, 2020, TKP has opened 23 locations for 34,711 m<sup>2</sup> of added floor space (44 locations and 56,198 m<sup>2</sup> in the previous year), while Regus, which was consolidated in Q2, opened 14 locations in three quarters for 14,215 m<sup>2</sup> of added floor space (initial target: 12,231 m<sup>2</sup>).

In standalone Q3 (September–November 2019), TKP curtailed conference room openings while aggressively opening Regus facilities. The tight real estate market means demand for new rental offices is greater than demand for older and larger spaces, so the Company is focusing on Regus openings and TKP-Regus joint openings.

Regus openings are accelerating, but pre-opening costs are recorded on the profit and loss statement under Japanese GAAP, whereas they can mostly be recorded as assets under IFRS accounting. In

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

addition, it takes three months to open Regus locations due to interior construction work. Thus, in the short term, accelerating Regus openings translates to higher upfront spending.

In May, the Company opened its first hotel in the Kansai region, APA Hotel Osaka Umeda. There is a TKP Cafeteria on the first floor and 162 rooms available from the second to fourteenth floors. Since TKP Garden City Osaka Umeda is located right next door, the Company can offer an integrated facility combining rental conference rooms and accommodation.

#### 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 Keikyu 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 CC Shinkan (April) TKP GCP Hiroshima Ekikitaguchi (April) TKP GCP Ikebukuro (April) APA (TKP Osaka Umeda) (May)	LecTore Hkata Hisayamaonsen (June) AZUL Takeshiba Renewal Open (June) Regus Abenoharaku C (June) Regus Umedasquare C (July)	TKP GCP Tenjin skyhall (Sep.) Regus Tenjin skyhall (Sep.) Regus Nagasaki Biz Port center (Otc.) TKP Grand Central Tower CC (Oct.) SPACES Shinagawa (Nov.) TKP Matsuyamashi Ekimae CC (Nov.) TKP Himeji Conference room (Nov.) Regus Hachinohe (Nov.) Regus Akita Ekimae (Nov.) Openoffice Osaka Higobashi (Nov.) Regus Okayama Across Cube (Nov.)	TKP GCP Marunouchi PCP (Dec.) TKP GCP Sendai Nishiguchi (Dec.) Regus Kumamoto PLACE Hanabata C (Jan.) Rwgus Matsuyamashi Ekimae C (Jan.) TKP GCP Kanazawa Eki Nishiguchi (Jan.) Regus Shin Hiroshima Building C (Jan.) Regus Shin Yokohama Square C (Feb.) APA (TKP Hakata Higashi Hie Ekimae) (Feb.)
2020.2	Regus Kyoto Shijokarasuma C (March) TKP GCP Shinagawa (April) TKP GCP Yokohama Eki Shintakashima (April) SPACES Sendai (May) APA (TKP Tenjin Nishi) (May)	APA (TKP Ueno Hirokoji) (June)		

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 call

The Company made progress in renovating Bayside Hotel Azur Takeshiba. In June, the Company finished renovations on guest rooms (122 rooms), a banquet hall (TKP Garden City Hamamatsucho),

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

and the public bath area. From now on, the company will take measures toward increasing the number of rooms and banquet halls. The renovations should improve the occupancy rate and average spend by a large degree.

In June, the Regus Abeno Harukas Center opened. The facility offers 773 m<sup>2</sup> of workspace on the 31st floor of the Abeno Harukas building. In July, the Regus Umeda Square Center opened on the first floor of the high-rise Umeda Square Building, near the Hanshin Department Store. The center has a floor space of 793 m<sup>2</sup>. It is the 20th location in the Kansai region and the 15th in the Osaka area.

September will see the first TKP- Regus Japan joint location opening. The companies moved into the 16th floor of the large Nishinippon Shimbun Kaikan building (Tenjin, Fukuoka) with unified reception and a shared administrative office. TKP manages five rooms with 627 seats for a total of 1,672 m<sup>2</sup> and Regus Japan manages 727 m<sup>2</sup> of rental office space.

In November, the Company jointly opened TKP Himeji Conference Room (5F) and Regus Himeji Ekimae Center (1-4F) in the Mitsuwa Building near JR Himeji Station. Also in November, it opened TKP Garden City PREMIUM Marunouchi Pacific Century Place (four rooms and 417 seats). This was a joint opening with Regus Marunouchi Pacific Century Place Business Center.

Following the closing of Otsuka Kagu Showroom in Sendai, the Company expanded TKP Garden City PREMIUM Sendai Nishiguchi in the vacated space and also opened SPACES Sendai in December.

In January, the Company opened TKP Garden PREMIUM Kanazawa Eki Nishiguchi in JR Kanazawa Eki Nishi NK Building No. 3. It has 10 rooms and 672 seats. In the same month, TKP opened Regus Kumamoto PLACE Hanabata Center in a new building in Kumamoto City as well as Regus Hiroshima Building Center.

In February, the Company plans to open Regus Shin-Yokohama Square Center and plans to open Regus Kyoto Nishi Shijo Karasuma Center in March.

The Company plans to open TKP Garden City PREMIUM Shinagawa in April in Shinagawa's Keikyu Building No. 11 (four rooms and 561 seats). In the same month, it plans to open TKP Garden City PREMIUM Yokohama Eki Shin-Takashima at Yokohama GRANGATE in the Minato Mirai 21 district. The building, located thirty minutes from Haneda Airport, is slated to open in March. The TKP facility will occupy seven rooms, 756 seats, and a 600-guest capacity hall with a 3.5 meter-high ceiling.

### **Regus on the offensive—moving forward with post-merger integration (PMI)**

In November, Regus opened SPACES Shinagawa. It was its fourth SPACES location after the Otemachi Building (2016), JP Tower Nagoya, and Hakata Ekimae. The new location occupies 4,000 m<sup>2</sup> on the seventh and eighth floors of the Shinagawa East One Tower. Regus already has a presence in the building, which allows customers to choose the brand best suited to their working style.

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

In October, the subsidiary opened the Regus Hachinohe Center (503 m<sup>2</sup>) in Aomori Prefecture. The new location is in a business district near Hachinohe City Hall. It is the second location in Aomori Prefecture. In the same month, the company opened the Regus Omiya West Center (717 m<sup>2</sup>), which is located a five-minute walk from Omiya Station's west exit. It also opened Regus Nagasaki BizPORT Center (501 m<sup>2</sup>) in October, the first Regus location in Nagasaki Prefecture.

In November, Regus opened the Akita Ekimae Center (462 m<sup>2</sup>). It is the first location in Akita Prefecture. It also opened Openoffice Osaka Higobashi (496 m<sup>2</sup>) in November. Openoffice locations are Regus facilities that operate without managerial staff.

PMI at Regus Japan involves the following projects: 1) in September, joint opening of TKP Garden City PREMIUM and Regus in the Nishinippon Shimbun Kaikan (Fukuoka), 2) in November, the joint opening of a TKP Conference Center and Regus in the Aono Building (Matsuyama, Ehime), and 3) also in the fall, a joint opening of Garden City PREMIUM and SPACES at Solala Garden in Sendai (previously occupied by Otsuka Kagu, Ltd.).

TKP is engaged in a campaign of promoting reciprocal customer referrals by referring major Japanese companies that are TKP customers to Regus rental offices while at the same time referring the non-Japanese companies that are Regus customers to TKP rental conference rooms. These efforts are already showing positive results.

### **Substantial profit growth predicted for the fiscal year ending February 28, 2021**

One-time costs will disappear in the fiscal year ending February 28, 2021. As a result, operating income will increase by more than 500 million yen and ordinary income will increase by more than 1.8 billion yen.

The Company has made an upfront investment in Regus, from which it expects a payout in profit contributions that will begin to grow after a year and a half has passed. Therefore, Regus earnings should significantly improve in the fiscal year ending February 28, 2022.

## **6. Our Assessment: Currently still in the early growth stage as the Company works towards Phase 3.**

### **Present issues**

President Kawano's present execution strategy is to first implement organizational reform and promote the mutual exchange of leader-class personnel to quickly build synergy between TKP and Regus.

The second point on his agenda is to promote systematization in order to increase the efficiency of

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

operations and also put considerable effort into digital transformation (DX).

The third is to create and maintain balance among the different businesses along the lines of 60% rental conference rooms (TKP), 30% rental offices (Regus), and 10% hotels. The Company plans to follow this three-point strategy to accelerate business expansion.

### **Accelerating growth through synergy with Regus Japan**

In full swing of the partnership with Regus Japan, Director Nishioka (President of Regus Japan) has been placed in charge of overall procurement. The number of projects has increased dramatically. The businesses can have flexibility and engage in joint development and opening of locations together. The Company is expecting greater efficiency of operations as well.

Being able to open locations based on a high profitability model is completely different from WeWork's business. The number of SPACES openings is also accelerating, so the Company should be able to lead the industry in the co-working space business as well.

### **Utilizing both Internet and real-world means: Always flexible**

President Kawano 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.

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.

### **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 changes over time, and service prices also fluctuate with demand. President Kawano is running the Company based on the assumption that the rules which apply to global markets are also basic preconditions in Japan. For example, it is natural that hotel reservations fluctuate over time with changes in demand, and whether the final prices are 10 times the starting price or one-tenth the starting price, the company must start by accepting such changes as the rules of business.

### **Future image: 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.

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.

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.)

### **Granted Award for Excellence in Corporate Disclosure**

The Securities Analysts Association of Japan granted TKP the 2019 Award for Excellence in Corporate Disclosure (Emerging Markets). The Association praised TKP for how its top management sufficiently explained its management strategy. It also commended the IR department's competence in representing the views of management. Furthermore, the Association applauded how TKP proactively discloses information on its weaknesses and unprofitable business.

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

TKP is making preparations so it will be able to move to the First Section of the Tokyo Stock Exchange at any time. It is hard to make the move with all the rapid changes taking place within the Company, including back-to-back acquisitions and a changing business model. TKP will likely switch to a First Section listing after the busy business transformational period settles down.

Currently the Company is listed on Mothers market, however it is in no hurry to move to the First

---

This report was created from an independent standpoint, and in principle was not created from the position of the Company. This report is intended to facilitate greater understanding of the Company by investors, and does not recommend, solicit, or provide advice regarding investment in the Company. Although the analyst is entirely responsible for the contents, he has no interests of any kind in relation to investors' investment decisions. This report presents the views of the creating analyst listed above, and its unauthorized use is prohibited.

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. A stock split of would be effective in increasing liquidity.

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.

At the current (January 20th) share price, PBR is 3.38, ROE is 9.7%, and PER is 63.7× (35.2× 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. These expectations are in the process of being incorporated in the share price, and the price will rise to match the growth in profits. The Company is currently in a phase of ROE recovery and improvement and we will closely watch the developments going forward.