3479　TKP

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

July 31, 2020　TSE Mothers

Points

・In July, TKP formed a business and capital partnership (12.6% stake) with Escrit, which operates wedding halls. The aim is to fully utilize the off-hours of wedding halls in good locations for high quality meetings and events. This significantly changes the strategy for opening new conference rooms, enabling TKP to efficiently make the shift toward high value-added services. Escrit will also benefit from this as facility utilization rates will increase.

・TKP's May rental conference room sales were down 70% YoY to 8 million yen. Meanwhile, Regus Japan has maintained sales in the range of 1.4–1.5 billion every month since November. The novel coronavirus has had a large impact on the TKP model. However, sales rebounded sharply in June, with bookings mostly back to normal. There is a greater than expected need to use actual space for testing venues, public service venues, and web-enabled conferences.

・President Kawano's management policy until the end of the coronavirus shock is to: 1) secure sufficient working capital while suppressing fixed costs, 2) pursue business selection and concentration, and 3) respond to forthcoming changes in demand. Under the first policy, the Company has already secured over 35 billion yen in capital. As for the second policy, TKP is paring down its operations to temporarily return to its core business through selection and concentration of peripheral businesses. For now, the Company will not open any new locations and will promote the use of its facilities as temporary decentralized office space including remote offices.

・Under the third policy, demand will increase for flexible contracts, and TKP will brush up its business model so that it will be able to flexibly respond to those needs from the supply side. Companies are reviewing their space utilization efficiency and business continuity plans. Adoption of remote work and associated IT issues, and changes in the workplace locations are also areas being considered. TKP aims to develop in a way that will enable it to respond to all these needs at once.

・TKP believes it can achieve operating income of 10 billion yen within four or five years. Evaluating the Company's enterprise value on this basis, achieving this level of profit will require a certain amount of effort, but the Company's share price will sooner or later reflect its overcoming of the coronavirus shock. We will keep a close eye on the timing of when that will happen.

Contents

Corporate rating: B

Share price (Jul.30, 2020): 2,383yen

Market capitalization: 908 billion yen（38.0million shares）

PBR 2.53× ROE 3.7% PER 68.9× 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	54343	6325	4761	1743	50.4	0
2021.2 (forecast)	48000	1500	700	-500	-13.3	0
2022.2 (forecast)	55000	4500	3500	1300	34.6	0

(as of May 2020 base)

Total assets: 117381million yen Net assets: 35433million yen Capital adequacy ratio: 29.3%

BPS 942.7 yen

Notes: ROE, PER, and dividend yield are based on forecasts for the next 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.

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

Total Kukan Produce-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.

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

What is "space regeneration & distribution"?

"Space regeneration & distribution" refers to a retail distribution business which acquires unused space, regenerates it to create conference rooms and 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 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.

TKP Objective and Action Agenda

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

Overcoming difficulties

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

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

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.

Most recently, the coronavirus shock has presented a challenge. The Company has explored how to overcome it and is firmly taking measures toward that end.

Numbers of rental conference rooms by region

(No. of rooms, %)

	2018.2		2019.2		2020.2	
Hokkaido	93	5.2	113	5.3	109	5.0
Tohoku	126	7.0	150	7.1	196	9.0
Kanto	844	46.9	970	45.9	947	43.4
Hokuriku	38	2.1	44	2.1	60	2.7
Tokai	135	7.5	144	6.8	145	6.6
Kansai	353	19.6	438	20.7	442	20.3
Chugoku/Shikoku	66	3.7	101	5.0	121	5.5
Kyushu	146	8.1	151	7.1	162	7.4
Japan total	1801	100.0	2111	100.0	2182	100.0
Overseas	42	2.3	33	1.5	25	1.1
Total	1843		2144		2207	

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

Operating rental conference rooms across Japan

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

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 2020, the number of rental conference rooms was 2,207, including rooms overseas.

Acquisition of Regus Japan

TKP (rental conference rooms) completed the procedure of acquiring Regus Japan (rental offices) in May 2019. 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 May 31, 2020	Locations	Floor space('000㎡)	Rooms	Seats('000)
TKP	255	40.61	2179	16.13
Regus Japan	159	12.4	na	1.35
Regus Taiwan	13	2.03	na	0.23
Total	427	55.04	2179	17.71

Note: TKP figure includes conference rooms in training facilities.
Regus Japan figure denotes conference rooms in rental office facilities.

Leasing hotel banquet facilities

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

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

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

Expanding overseas

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 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

(Million yen, %)

	2016.2		2017.2		2018.2		2019.2		2020.2	
Rental conference room	10304	57.4	12659	57.6	14865	51.8	17611	49.6	19882	48.3
Optional services	1682	9.4	2135	9.7	2672	9.3	3373	9.5	3912	9.5
Food & beverage services	4004	22.3	4657	21.2	6294	21.9	7293	20.5	7788	18.9
Accommodation services	594	3.3	1093	5.0	2632	9.2	4053	11.4	5283	12.8
Other services	1356	7.6	1433	6.5	2224	7.8	3187	9.0	4327	10.5
Total	17941	100.0	21978	100.0	28689	100.0	35523	100.0	41192	100.0

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

Complete corporate governance

President Kawano held 60.5% of TKP shares as of the end of February 2020. The company had 1,712 employees (and 1,629 temporary staff) as of the end of February 2020, an increase of 405 (+94) from a year earlier.

The Company added one outside director to its board of directors at its shareholders' meeting held in May. Newly appointed Shinichi Saijo is the Representative Director of XTech, with expertise in new businesses and incubation of IT companies. This brings the total number of directors to seven, including one outside director and three independent outside directors.

At the last year, Mark Dixon of Regus parent IWG became an outside director and Regus Japan president Shingo Nishioka became a director.

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 4 executive officers (in charge of overseas business, sales, administration, and business promotion). The Company intends to further expand the ranks of its executive officers in the future.

President Kawano 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.

Shift in leadership establishes Nishioka as COO and Nakamura as CFO, with Kawano remaining as CEO

In March 2020, Director Nishioka (Representative Director of Regus Japan Holdings) was appointed COO and Director Nakamura was appointed CFO. Nishioka helped establish Regus in Japan when the company first came to Japan in 1998. He has displayed leadership at Regus Japan since that time.

The change in leadership clarified the division of responsibilities: COO Nishioka will shoulder marketing strategy and real estate procurement strategy, while CFO Nakamura handles financial strategy and administration.

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 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.

Size of related markets

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

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

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

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

3) More effective utilization of existing spaces

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

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

Characteristics of TKP's corporate customers

Companies served annually	35000
Listed companies served annually	2000
Total companies served annually (Note: Every repeat use counted as one company)	94900
Existing vs. new customers	85% Existing, 15% new
Top customers by sales	Top 500 customers comprise over 50% of sales
Usage breakdown	Conference rooms/seminars/lectures 40% Training/hiring 30% Exams/social gatherings/ information sessions/exhibitions 30%

4) Continued active opening of new facilities

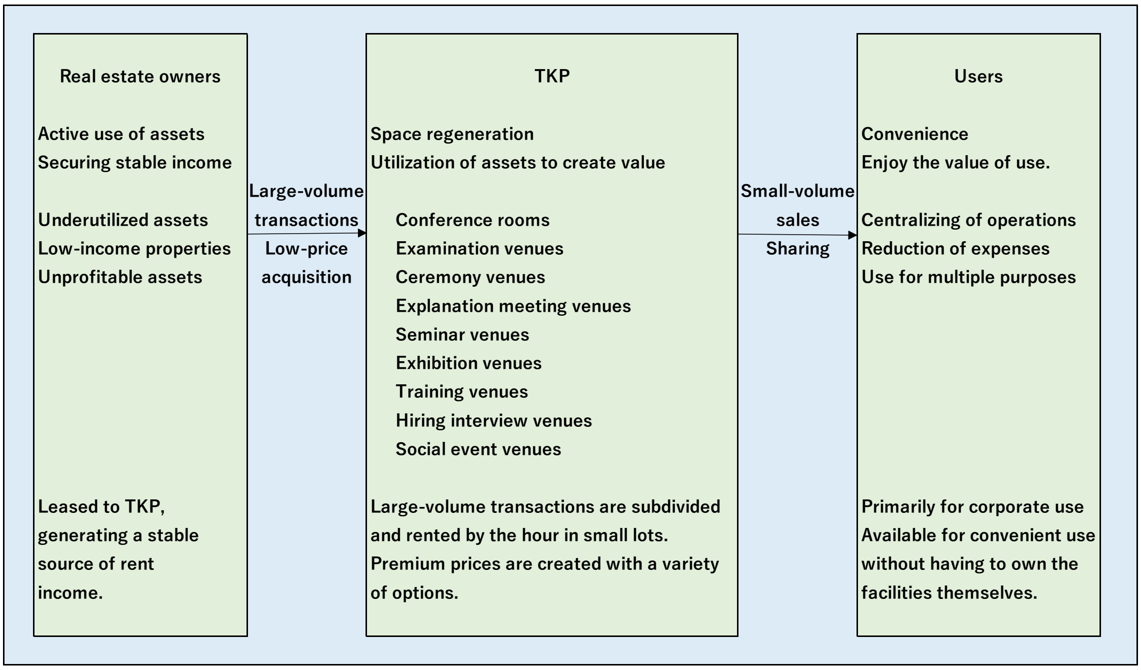
Because the market is available, the Company operates across Japan; however business is centered on the Tokyo Metropolitan Area and major cities. When a new building is constructed, tenants move into the offices, however in all but a few cases the companies do not have their own conference rooms or other 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.

TKP Business Model
<Sharing economy for space regeneration>



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 large acquisition of Regus Japan is in line with this policy.

5 rental conference room grades

Name	Format	Facilities	Rooms	Business objective
Garden City PREMIUM	High-grade office banquets Creative spaces	13 20 25	137 223 300	High added value
Garden City	Hotel banquets Large-size multipurpose office banquets	45 55 56	480 557 561	
Conference Center	Office banquets for meetings Centered on meeting seminars	74 83 82	806 920 918	
Business Center	Collection of conference rooms Centered on company internal meetings	48 49 45	310 316 286	
STAR rental conference	Local community-based conference rooms For small-scale and individual use	38 36 36	88 76 70	Expansion of base Focus on efficiency

Notes: Upper figures are for the end of February 2018. Middle figures are for the end of February 2019.
Lower figures are for the end of February 2020

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.

The number of rental conference rooms at the end of the fiscal year ended February,2020 was 2,207. A breakdown of this number shows that 1,779 were high added-value grades (Garden City PREMIUM, Garden City, Conference Center) that involve food and beverage sales, accounting for 81% of the total. 356 were reasonably-priced grades (Business Center, Star Conference Rooms.

From promoting Garden City and Garden City PREMIUM to fully leveraging Escrit

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.

The coronavirus shock led to the decision to collaborate with wedding venue operator Escrit. Going forward, the Company plans to use Escrit's space to expand its high value-added services.

Breakdown of sales by grade

(Millions yen, %)

	2016.2		2017.2		2018.2		2019.2		2020.2	
Garden City PREMIUM	317	1.8	1355	6.2	2407	8.4	4065	11.5	5314	12.9
Garden City	6341	35.3	7523	34.2	9050	31.5	9735	27.4	10303	25
Conference Center	6846	38.2	8034	36.6	9566	33.3	11043	31.1	12204	29.6
Business Center	1657	9.2	1782	8.1	1898	6.6	2062	5.8	2149	5.2
STAR rental conference rooms	250	1.4	179	0.8	189	0.7	251	0.7	303	0.7
Accommodations, training	711	4	1284	5.8	2904	10.1	5024	14.1	6643	16.1
Other services	1816	10.1	1819	8.3	2672	9.3	3338	9.4	4275	10.4
Total	17941	100.0	21978	100.0	28689	100.0	35523	100.0	41192	100.0

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

Entering the full-scale hotel banquet facility business： 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.

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

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

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 77 rooms and 5,712 seats. It occupied 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.

Under the coronavirus shock, there is a need to keep the conference rooms less crowded. Assuming that conference room capacities have to be reduced to 50% of the pre-corona capacities, the floor space will need to be doubled to accommodate the same number of people. Given the diverse needs for conference rooms, the Company will likely continue to address the shortage of floor space.

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

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

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

Tokiwaken also received contracts for in-flight boxed lunches from a major airline, and for boxed lunches at meetings in high-grade hotels. It became the subsidiary Tokiwaken Foods and the Company became able to purchase boxed lunches from within its own group.

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. 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.

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.

Expansion into commercial facilities

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

Junkudo Bookstore (Maruzen Junkudo Bookstore) occupies the 2nd – 4th underground floors. The facility is a good match for business customers who come for meetings and training.

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

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

Regenerating leisure facilities to create facilities that operate as training centers and resort hotels: Renovations for large improvements in profitability

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.

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 LecTore. Each room is large, at 35 – 105 m^2 in size, and there are rooms that include private outdoor baths. The facility is used for training (15,000 yen per person) on weekdays, and is used as a resort for travelers on weekends. On weekends, the rate is 30,000 – 50,000 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	2021.2 (planned)
LecTore	Suburbs	Resort-type seminar hotels within 1 hour of CBD Inexpensive to acquire and regenerate	7	6	9	10	9
Ishinoya	Suburbs	High-grade resort-type seminar ryokan (traditional inn) Inexpensive to acquire and regenerate	1	1	1	1	2
Azur Takeshiba	City	Resort-style training city hotel in central Tokyo Accommodation needs for rental conference rooms, means of customer referral	0	1	1	1	1
APA Hotel	City	Business hotels with conference rooms Carefully selected investment within FC range	3	4	6	8	10
First Cabin	City	Compact hotels with conference room Carefully selected investment within FC range	0	1	2	2	1
Total			11	13	19	22	23

APA Hotel FC (franchisee)

The Company has also begun constructing its own hotels. In December 2016, it opened the APA Hotel TKP Nippori Ekimae in Nippori, Tokyo. For this project, the Company purchased land and invested 3.0 billion yen to create a facility with 278 rooms. The average room price is 9,000 yen and the operating rate is nearly 100%. 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^2 per room to construct high-efficiency hotels, while the Company is using its own network to attract guests and achieve a high operating rate.

TKP is currently operating 8 APA Hotels. These are hotels that include conference room facilities.

Following 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.

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 hotel in front of Hakata Higashi Hie Station (206 rooms) in February 2020, Fukuoka Tenjin Nishi (268 rooms) in May 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.

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. Increasing collaboration with TKP conference rooms will produce high customer-attracting effects. 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.

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.

Continuing LecTore renovations: Large-scale LecTore Hayama Shonan Village

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).

LecTore Atami Momoyama and LecTore Hakone Gora reopened after renovations in August, and LecTore Atami Korashi reopened in November. These serve as suburban type training centers located within 90 minutes from central Tokyo and Osaka.

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^2 of land, it contains a training building (22 training rooms) and guest room building (160 guest rooms), and was designed so it could also be used for international forums. However it was never fully utilized and remained completely unprofitable. TKP acquired this facility for an extremely low price.

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.

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

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.

2. Strengths: Purchase of flexible workspace provider Regus Japan

Strong performance of Regus Japan

As of end of May, TKP had 427 locations, and 551,000 m^2 in floor space, it include Regus Japan contributed 159 locations, 124,000 m^2 , and Regus Taiwan contributed 13 locations, 20,000 m^2 in floor space.

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 110 countries worldwide, and with more than 2.5 million members.

Regus Japan operates in 33 cities in Japan. It has the top 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, TK 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

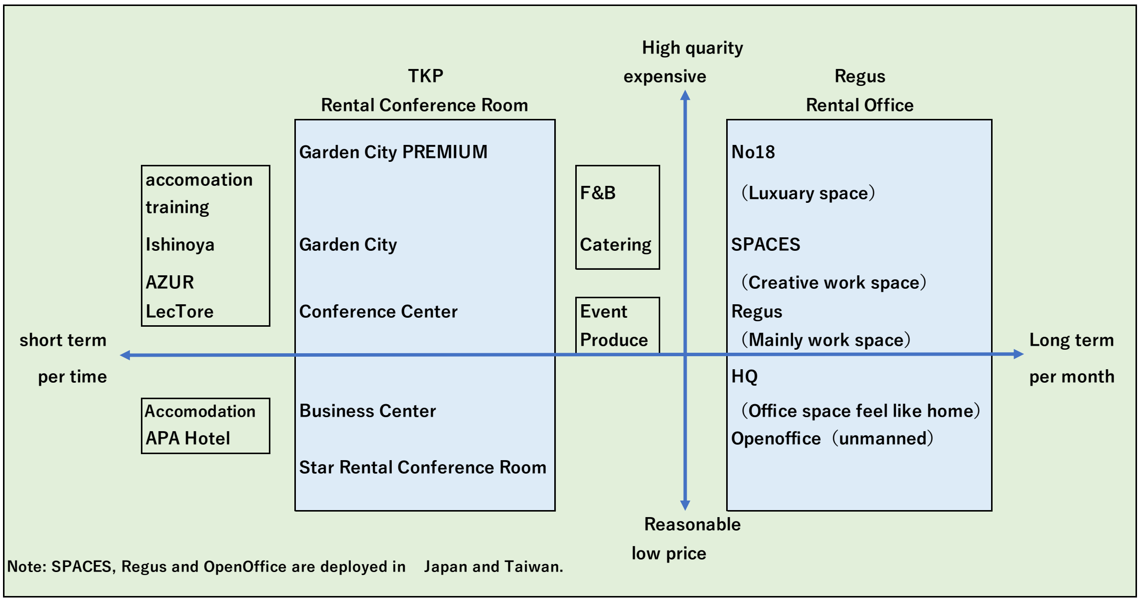
The founder of IWG is its CEO Mark Dixon (from the UK), and he and TKP President Kawano found that they were on the same wavelength. IWG was looking to change its region-based, speed-oriented business model that utilizes a system of FC (franchises) from a global business that is operated directly by 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 in April 2019, and the negotiations were completed with great speed in just 2 months.

Positioning map of TKP in flexible market office



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 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.

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 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^2) and Regus Japan has 150 facilities (95,000 m^2) for a total of 400 facilities (470,000 m^2) 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^2 of new office buildings will be coming online. The amount of rental space possessed by TKP is 528,000 m^2. 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.

Diversification for acquisition

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.

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.

IWG (Regus Group) Network

	Locations	Cities	Countries/regions	Membership
Worldwide	3388	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	Bangladesl	2
Hong Kong	28	Brunei	1
Philippines	23	Nepal	1

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 2019. 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), 11 Regus locations, three SPACES locations (a head office planned for spring 2020) to 50 over the six years to 2025.

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.

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 360 billion yen, EBITDA of 58.2 billion yen, and operating income of 16.2 billion yen in the fiscal year ending December 31, 2019.

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 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 Regus Japan. 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^2, and Regus has 118,800 m^2 of sharing space in Japan. In contrast, WeWork is headquartered in New York and has 270,000 m^2 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^2 in order to expand profits or whether to increase the added value on its 528,000 m^2, 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.

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

Management policies to counter the coronavirus shock

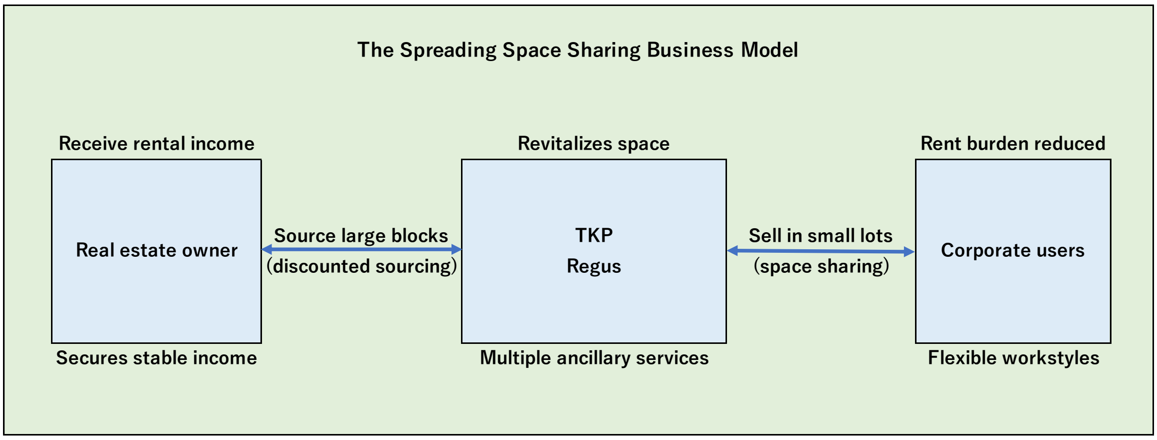
President Kawano has raised three policies to guide operations until the coronavirus shock subsides: 1) secure sufficient working capital and suppress fixed costs, 2) pursue business selection and concentration, and 3) respond to forthcoming changes in demand.

Under the first policy, the Company has already secured over 35 billion yen in capital.

As for the second policy, TKP is paring down its operations to temporarily return to its core business through selection and concentration of peripheral businesses. In other words, the Company positions its hourly rental office business, for which it expects continued demand, as its core business, and will expand or contract its peripheral businesses in line with changes in the market.

For the time being, TKP will refrain from opening new facilities and take measures to provide conference rooms and offices that limit the risk of spreading coronavirus, thereby developing as a provider of temporary decentralized office space including remote offices.

Under the third policy, demand will increase for flexible contracts, and the Company will brush up its business model so that it will be able to flexibly respond to those needs from the supply side. Companies are reviewing their space utilization efficiency and business continuity plans. Adoption of remote work and associated IT issues, and changes in the workplace locations are also areas being considered. TKP aims to develop in a way that will enable it to respond to all these needs at once.



Changes in conference room use and rollout of new services: Growth in web-enabled conferences

In May, the Company began offering a package deal supporting the live streaming of shareholder meetings. There has also been a rapid rise in cases where companies rent a conference room and use it for web-based live streaming.

Amid rising cancellations due to the coronavirus shock, TKP’s Conference Center facilities, often used as training and testing venues, became the most utilized among the company’s conference room lineup. Thus, for conference rooms, the Company will be primarily expanding the Conference Center format rather than the Garden City and Garden City PREMIUM formats going forward.

In the flexible workspace business, social distancing could, for instance, mean a more spacious use of a conference room per person. Although it is up to the renter to decide how many people to put into a conference room, assuming the base case is one-half or one-third the capacity per conference room compared to pre-corona usage, conference room rental and usage are bound to change.

1. A customer may not rent a conference room if the event can be done online.
2. A customer may choose to rent a web-enabled conference room.
3. If there is a need to physically assemble and if the number of attendants cannot be reduced, a customer will rent a bigger conference room than before.

Since it became difficult to rent university classrooms/halls for various tests, TKP's conference rooms are frequently being used as a testing venue since June. Additionally, the conference rooms are increasingly being used as a venue for shareholders' meetings, and this is expected to expand further next year. Sales of live-streaming packages have also been strong.

Public-sector demand is also on the rise. In fact, starting in July, 60 TKP venues across the country will be used to provide assistance for rent support benefit applications for two months.

The Company can also rent out conference rooms as office space for longer periods. By offering flexibility, TKP aims to improve utilization.

Offices are changing – to a hub and spoke model

In terms of offices, President Kawano believes that a hub and spoke model will become more common. With the head office being the hub, social distancing needs to be factored into the use of the office space there. While teleworking may reduce the amount of office space required at the head office compared to the pre-corona days, companies will also need to consider office decentralization by setting up satellite offices. If this happens, TKP and Regus will work together to develop satellite “spoke” offices in Tokyo’s Shimbashi, Shinagawa, Shibuya, Shinjuku, and Akasaka/Roppongi areas, where the Company has not targeted thus far.

Capital and business partnership with Escrit

In July, TKP announced its capital and business partnership with bridal business Escrit (TSE1: 2196, market capitalization: 4.5 billion yen) aimed at jointly developing corporate banquet venues.

The Company acquired 1.7 million shares (334.4 yen/share) from Escrit founder, Hiroshi Iwamoto, making it the second largest shareholder with a total investment of 568 million yen (TKP ownership ratio of 12.59%).

Weddings are mainly held on weekends, but the companies aim to fill weekday banquets with TKP's corporate demand. Additionally, Shibutani, a consolidated subsidiary of Escrit, excels in facility renovations, maintenance, and repair, and this expertise will be used in TKP and Regus facilities. In particular, the companies will jointly develop satellite offices using Shibutani's expertise in antibacterial and anti-viral interior construction technology.

President Shibutani of Escrit brought the idea of a capital and business partnership to TKP's President Kawano. Since the founding of the Company, President Kawano believed that the use of wedding halls would provide the greatest synergy for both parties involved. In light of the recent coronavirus situation, the partnership was quickly realized.

The Company decided to invest in Escrit as it determined that strengthening the relationship with Escrit and making TKP the exclusive agent for weekday use of Escrit's bridal banquets to attract customers is important from an efficiency standpoint.

Synergies at work

In living with the coronavirus, securing social distance is key. TKP was hoping to secure new venues with the increase in space needed per person. The Company expects more distributed use.

Meanwhile, Escrit needs to grow revenues by improving its weekday utilization rates as the number of attendees per wedding gets cut back to ensure space. Since Escrit has high quality banquet halls within building complexes at good locations, its facilities could be used to provide high quality corporate seminars, events, and parties.

Compared to TKP's Garden City (55 facilities) and Garden City PREMIUM (27 facilities), Escrit has 33 locations and 63 facilities. By utilizing these facilities, the companies will be able to significantly open up business opportunities.

Escrit has focused on increasing weekday use and had booked corporate banquets as part of its party hunter business, but decided to team up with TKP, which has strong corporate clientele, to quickly boost utilization rates. Escrit holds 8,000 weddings per year, and the two companies plan to leverage the wedding venues to hold high quality seminars, training sessions, events and parties.

The two companies will likely create a brand going forward. TKP has already used hotel banquets as venues in the past and is already familiar with how it works. Escrit has also familiarized itself through its party hunter business. As such, the future looks promising. With that said, it may take some time to develop given the coronavirus situation.

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.

・**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.

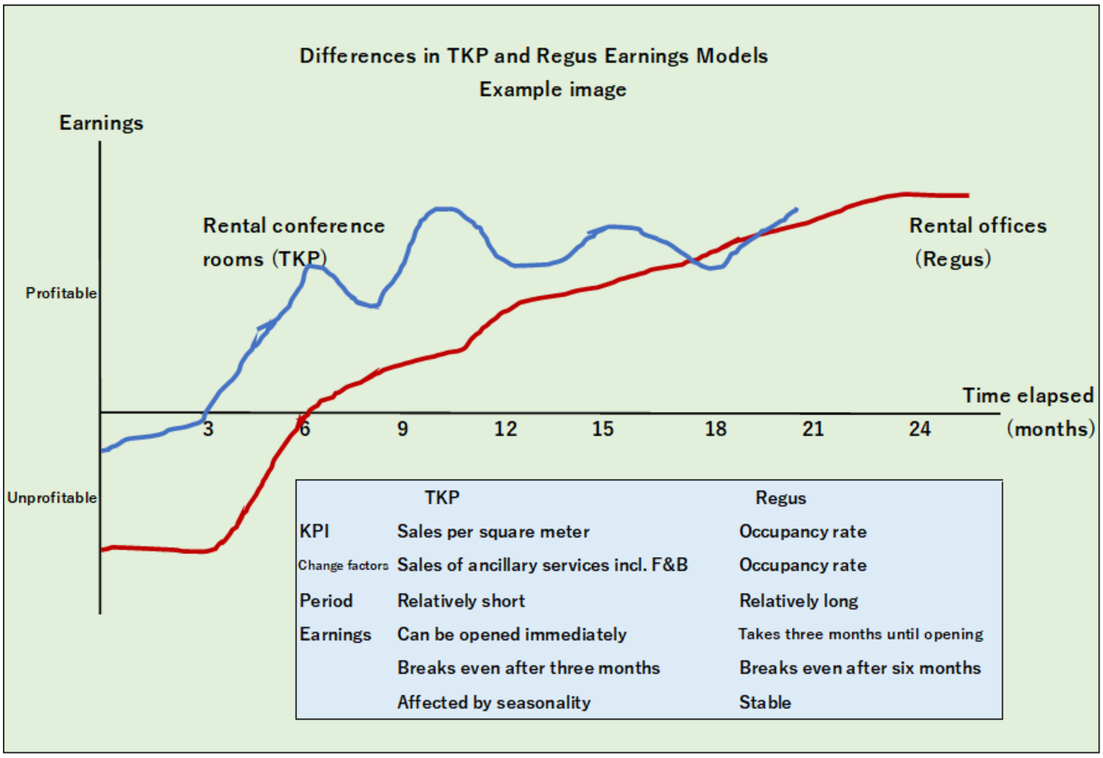
Therefore, looking at the five-year conference room model and 10-year rental office model, it can be said that cumulative earnings are higher in the latter.

Synergy of the business models

The Company expects the combination of hourly conference room rentals and monthly office rentals to create synergy in 1) facility development (sharing, conversion), 2) the customer base (corporate customer-oriented), and 3) operational efficiency (reception and facility management). As a company exhibiting strength in both areas, the Company aims to be the leader in the flexible workspace field by a large margin.

Comparing the business models, 1) TKP aims for dominance in large urban areas while Regus can also open small-scale locations in regional cities, residential areas, and industrial areas. 2) The earnings model for TKP focuses on hourly rentals, which makes it possible to turn a profit in the first month of opening at the cost of greater variability in revenue. Regus, by contrast, offers monthly rentals. This format takes some time to achieve satisfactory occupancy rates, but delivers stable earnings after occupancy reaches a certain level. Regus facilities on average turn a profit after 18 months, and are highly profitable after that point.

When the two brands undertake a joint opening, the Company can count on the characteristics of the TKP and Regus models combining to produce profits at an early date and generate high earnings that remain stable.



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). 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.

Positioning in the flexible workspace market

Expansion of the flexible workspace (serviced offices + coworking spaces) market has just begun and it should grow significantly going forward. According to JLL, flexible workspace floor space in five wards in Tokyo (Chiyoda, Chuo, Minato, Shinjuku, Shibuya) was 105,000 m^2 in 2017, 156,000 m^2 in 2018, and is forecast to rise to 194,000 m^2 in 2019.

The flexible workspace market is only 1% of overall office space in Japan, but while working styles are undergoing significant change, it is well within reason to expect this ratio to rise to 30%. If that happens, the market, which is currently worth 200 billion yen, will expand to an enormous 6 trillion yen in 2030. This is what President Kawano predicts.

In line with this market growth, TKP plans to expand its business in three dimensions. Flexible workspace has many different uses. Both TKP and Regus have many brands. In other words, the Company can expand the flexible workspace market by rolling out brands tailored to certain uses and capture market share. At the same time, TKP will provide more than the simple use of flexible workspace. It will cover content-based services (events and training, business contents) as well. The Company's strategy is a three-dimensional approach of spreading wide while digging deep to take the top share in the market.

The trend toward using flexible workspace should gain ever more momentum across the world as we move forward. TKP aims to expand its network globally through the springboard of Asia with the combination of rental conference rooms, rental offices, coworking spaces, accommodation facilities, and other facilities.

Anticipated synergies

The Company believes synergistic effects arising from cooperation of TKP and Regus will boost sales growth and profitability. Regus Japan has 159 locations in Japan. Within that number, there are 107 high-price-point Regus (and Regus express) rental offices, 47 budget-priced unstaffed Openoffice rental offices, and 5 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. 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.

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.

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.

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

Basic direction

1. Conduct joint development, sales, and management by sharing resources with Regus Japan
2. Promote work style reforms as Japan's largest flexible workspace provider, raising customer satisfaction and improving the repeat ratio
3. Pursue the development of new flexible workspace-related businesses and M&A
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

Basic strategies

1. AAA strategy: Anytime, Anywhere, for All workers
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
3. Expand network of various types of idle space in Japan
   Expand from 409 locations in Japan to 1,500 locations in ten years
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

Current business strategies

1. Accelerate openings through joint sourcing
   Add 891,000㎡ in ten years
2. Improve efficiency of operations through joint openings
   The first is a joint opening by Regus and Garden City PREMIUM in Tenjin, Fukuoka
3. Expand across Japan through joint development of SPACES brand facilities

Financial targets

2022.3 Sales: 79.3 billion yen, Operating income margin: 15.7%, EBITDA margin: 23.1%

(100 million yen, %)

	2019.2 (Act.)		2020.2 (Plan)			2021.2 (Plan)			2020.2 (Plan)	
			(Original)	(Current)		(Original)	(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	

*"Original" refers to previous three-year plan while "current" refers to forecasts announced in June and revised in August.
Numbers offset to the right refer to margins versus sales.

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 fifth SPACES locations, one in each of Tokyo, Shinagawa, Nagoya, Hakata, and Sendai. Including conversion of existing TKP facilities, the Company will accelerate the development of SPACES throughout the country.

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.

In September 2019, 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^2 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. Later, a fifth location was opened in Sendai.

Regus Japan moving forward with post-merger integration (PMI)

PMI at Regus Japan involves the following projects: 1) in September 2019, joint opening of TKP Garden City PREMIUM and Regus in the Nishinippon Shimbun Kaikan (Fukuoka), 2) in November 2019, 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.

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.

Balance sheet trends

(Millions yen, %)

	2016.2	2017.2	2018.2	2019.2	2019.8	2019.11	2020.2
Current assets	8048	8489	9715	16957	21347	34075	16854
Cash and savings	5749	5494	5706	11967	16271	27560	9131
Fixed assets	8563	15650	24815	34108	89722	99615	100618
Tangible fixed assets	4689	10822	17021	24959	31028	38390	39049
Buildings and structures	1743	4035	5551	12316	18615	20406	22216
Land	2577	6507	8356	8425	8425	11019	10932
Intangible fixed assets				254	42959	45272	44875
Goodwill				112	42785	45097	44702
Investments and others	3819	4763	7521	9103	15734	15952	16694
Lease and guarantee deposit	3518	4021	4983	6416	12618	12751	13147
Total assets	16612	24140	34530	51066	111069	133691	117473
Current liabilities	4919	5284	7971	9299	48135	48744	20221
Short-term borrowings				0	30500	27500	0
Current portion of long-term loans payable	1326	1903	3154	4540	4853	4833	6929
Fixed liabilities	8592	14385	17904	31003	38164	35911	61448
Bonds	2492	3571	3696	5505	4985	4794	4490
Long-term loans payable	5693	10363	13668	24826	31954	29035	51863
Net assets	3100	4470	8655	10763	24769	49035	35802
Interest-bearing liabilities	10253	16607	21358	35911	73332	67220	64297
Ratio of interest-bearing liabilities to total assets	61.7	68.8	61.9	70.3	66	50.3	54.7
Capital adequacy ratio	18.6	18.3	24.9	21	10.5	26.8	30.4

Increase in goodwill on the balance sheet

The balance sheet as of February 29, 2020, affected by the acquisition of Regus Japan and Regus Taiwan, showed total assets of 117.4 billion yen (+66.4 billion yen YoY), net assets of 35.8 billion yen (+25.0 billion yen YoY), fixed assets of 100.6 billion yen (+14.1 billion yen YoY in tangible fixed assets; +44.5 billion yen YoY in goodwill [including customer-related assets]), and liabilities of 81.6 billion yen (+29.4 billion yen YoY in long-term loans payable).

The acquisition price for Regus Japan was 42.4 billion yen (300 million pounds sterling), with goodwill of 37.9 billion yen (to be amortized over 20 years), customer-related assets of 5.4 billion yen (to be amortized over 11 years), and 14.3 billion yen in assets received.

Interest-bearing debt including loans payable increased a significant 28.3 billion yen, but the Company forecasts EBITDA will total more than 30.0 billion yen over the next four years, and foresees no problems in repayment. Company-held real estate had unrealized gains and TKP plans to expand business while considering how to make these assets liquid.

Regus Japan, formerly an IWG subsidiary, originally practiced IFRS accounting. TKP reports based on Japan GAAP, but may consider switching to IFRS moving forward as it plans further global expansion.

Trends in cash flows

(million yen)

	2016.2	2017.2	2018.2	2019.2	2020.2
Cash flows from operating activities	2618	1096	1995	2485	6756
Net income before income taxes	1993	1058	2231	1424	2046
Depreciation	407	440	635	845	1830
Amortization of good will					1896
Sale of fixed assets	0	0	-487	65	58
Inpairment loss	98	191	91	836	878
Sales credits and trade payables	-154	-615	-567	-404	-129
Cash flows from investing activities	-2729	-7705	-8515	-11283	-58544
Tangible fixed assets	-1943	-6769	-6368	-9511	-9808
Acquisition of shares in subsidiaries					-45658
Lease and guarantee deposits	-894	-776	-983	-1656	-4104
Free cash flow	-111	-6609	-6520	-8798	-51788
Cash flows from financing activities	2886	6310	6735	15064	49141
Long-term loans payable	1320	5237	4434	13053	26933
Bonds	1597	1073	178	1963	-1040
Sale of treasury stock	0	0	2153	0	0
Public offering					23418
Cash and cash equivalents	5799	5494	5706	11967	9131

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 brought the equity ratio to 30.4% 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 raised 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.

In terms of capital efficiency, if TKP were to target a 15% ROE with net assets of 35.8 billion yen, it would require 5.4 billion yen in net income, which calls for around 10 billion yen in operating income. This seems quite achievable in five years.

Stabilization of funds required for acquisition

For external loans, in January, the Company entered a syndicated loan agreement with three major banks for 25 billion yen, thereby stabilizing the bridge loan connected with the acquisition of Regus Japan. With this, the company has taken care of the funding it needed for M&A activity.

The acquisition price for Regus Japan was 42.4 billion yen, and for Regus Taiwan was 2.4 billion yen. Out of the 58.5 billion yen in cash outflows from investing activities, 44.8 billion yen went to the acquisition of Regus companies. The company raised 23.4 billion yen through a public offering and 25.0 billion yen through long-term loans from banks.

Goodwill amortization related to TKP's acquisitions is taxable

The acquisition of Regus in Japan will result in annual amortization of goodwill of 37.8 billion yen (amortized over 20 years) and customer-related assets of 5.4 billion yen (amortized over 11 years), resulting in 2.30 billion yen in amortization of goodwill and customer-related assets. TKP acquired Regus Taiwan for 2.4 billion yen, which adds roughly 120 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 annual goodwill amortization for both companies will be a taxable amortization. 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.

4. Near Term Earnings: Fully capable of overcoming the coronavirus shock

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			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	3567	13.3	4289	12.1	4349	13.2

Note: Figures at right are percentages of sales.

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 2020 was 1,712, 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 88.

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	14668
	Operating income	2087	1477	1395	1365

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, but the company has identified operating and usage needs that have increased the 4Q use of its facilities.
However, things have changed drastically this year.

Record high operating income in the fiscal year ended February 29, 2020, despite downward revisions due to the coronavirus shock

In the fiscal year ended February 29, 2020, sales were 54.3 billion yen (+53.0% YoY), EBITDA was 10.1 billion yen (+95.6% YoY), operating income was 6.3 billion yen (+47.5% YoY), ordinary income was 4.8 billion yen (+17.5% YoY), and net income was 1.7 billion yen (-7.9% YoY).

Operating income and ordinary income surpassed previous record highs by a significant margin. Net income fell due to impairment losses on fixed assets to the tune of 660 million yen.

SG&A expenses were 14.4 billion yen (+52.6% YoY), but acquisition-related goodwill amortization accounted for 1.9 billion of this amount, and one-time costs accompanying integration with Regus Japan accounted for 400 million yen. Non-operating expenses were 400 million yen in M&A fees, 700 million yen in bank arrangement fees, and a 230 million yen increase in commissions. One-time expenses accompanying M&A were approximately 1.5 billion yen.

In the fiscal year ended February 29, 2020, the Company began including Regus Japan in its consolidated results from 2Q, and Regus Taiwan from 4Q.

In 4Q, especially in February, the novel coronavirus outbreak caused customers to curtail events and the Company revised its forecasts downward. There were two major factors for downward revision of operating income. One was that demand for brand rental conference rooms and events at TKP (parent) decreased significantly in February due to the novel coronavirus, including cancellations.

The other factor was that goodwill amortization associated with the acquisition of Regus was higher than originally expected, and expenses were considerably higher than the initial forecast.

At the net income level, while profits of TKP (parent) fell significantly, Regus' performance did not change significantly. However, since goodwill amortization (including amortization of customer-related assets) for Regus increased, taxable depreciation rose. This increased the tax burden and further dragged down net income.

Profit of TKP and Regus

As for openings in the fiscal year ended February 29, 2020, the Company exercised restraint in rental conference room openings considering the tight real estate market, cutting openings to half the number of the previous year. Meanwhile, the Company accelerated the opening of Regus rental offices and gradually increased the number of TKP-Regus joint openings.

TKP (rental conference rooms) opened 44 locations (64,500 m^2) the previous year, but only 22 locations (45,600 m^2) in the fiscal year ended February 29, 2020. Regus opened 14 locations (11,900 m^2).

Breaking down results by TKP and Regus (included Regus Taiwan), TKP generated sales of 41.2 billion yen (+16.0% YoY), EBITDA of 7.2 billion yen (+39.0% YoY), and operating income of 5.9 billion yen (+36.9% YoY).

Regus had sales of 13.1 billion yen (Regus Taiwan: 305 million yen), EBITDA of 2.9 billion yen (Regus Taiwan: 124 million yen), and operating income of 454 million yen (Regus Taiwan: -89 million yen). Looking at EBITDA, the breakdown between the two businesses was 70% for TKP to 30% for Regus. Even after goodwill amortization (including amortization of customer-related assets), Regus has made a positive contribution to TKP group operating income in its first year.

Difference in KPIs: TKP uses sales per square meter while Regus uses occupancy rate

The KPI for rental conference rooms is sales per square meter of floor space, which is subject to seasonality and tends to fluctuate greatly based on the month. In the fiscal year ended February 29, 2020, this was up YoY in 1Q through 3Q, but fell in 4Q. The KPI was down most conspicuously in February at 11,585 yen per square meter (-13.0% YoY).

The KPI for Regus is the occupancy rate of the space. The occupancy rate averages above 70%, with locations that are a year old reaching over 60% occupancy, well above the break-even point (BEP) of 45%. The occupancy rates at locations established within the past year are still below the break-even point, although climbing by the month.

TKP Group KPIs

			2020.2				2021.2			
			1Q	2Q	3Q	4Q	1Q	March	April	May
Rental conference rooms (TKP)	Sales per m2 (10,000 yen/m2)		4.18	3.67	3.97	3.86	2.44	3.22	2.88	1.23
Rental offices (Regus Japan)	Occupancy rate (%)	Pre-2018.2	82.1	83.9	84.2	83.1	81.5			
		2019.2	61.1	63.6	62.3	65.6	72.2			
		2020.2	24.1	34.4	30.9	48.9	31.4			
		Average	74.6	76.9	73.4	75.9	74.0			

Note: The quarterly occupancy rates show the rates for May, August, November, and February.

Impact of the coronavirus shock

YoY comparisons for TKP rental conference room sales were +18% in November, +7% in December, +7% in January, -8% in February, -19% in March, -40% in April, and -68% in May. Sales in May plummeted to 800 million yen, with sales per square foot of 1.23 million yen. Meanwhile, sales at Regus Japan were stable since November, staying above 1.4 billion yen every month.

The novel coronavirus has had a large impact on the TKP model. Events using rental conference rooms were cancelled and the rental conference room, banquet hall, food and beverage, and event businesses have all been affected. Occupancy rates at hotels and accommodation facilities have fallen as well.

On a more positive note, since rental offices are rented by the month and are primarily used as offices, there has been no immediate movement to withdraw from office rentals. Eventually the performance of the renting companies may fall and they may end their contracts when they no longer need the office space, but this will likely not occur for another six months or more. If the coronavirus shock shows some indication of letting up in the meantime, it not end up causing such a large drag on results.

Monthly Sales

(Millions of yen)

		January	February	March	April	May
TKP rental conference rooms	2019	2018	2748	2636	3065	2543
	2020	2253	2522	2137	1844	803
Regus Japan rental offices	2020	1454	1460	1511	1491	1453

Booked operating losses, but secured positive EBITDA in 1Q

For the first three months of the fiscal year ending February 28, 2021 (March—May 2020), sales were 10,447 million yen (+0.4% YoY) and EBITDA was 367 million yen (-84.6% YoY). The Company reported an operating loss of 968 million yen (vs. operating income of 2,087 million yen a year earlier), ordinary loss of 1,291 million yen (vs. ordinary income of 1,053 million yen), and net loss of 1,471 million yen (vs. net income of 409 million yen).

EBITDA was positive, but lower utilization of conference rooms had a significant negative impact on results. The Japanese government's declaration of a state of emergency on April 7 due to the novel coronavirus led to numerous cancellations and postponements of conference room bookings. The state of emergency was lifted on May 25, and the Company experienced the worst business performance during the two-month period from April to May.

The Company's consolidated operations now consist of the main TKP operation, Japan Regus, and Taiwan Regus, but in 1Q of the previous fiscal year, the Company had only the TKP operation on an unconsolidated basis.

Results for Regus Japan

(Millions of yen)

			Sales	EBITDA	Operating income
Regus Japan	2020.2	2Q	4136	1078	415
		3Q	4334	503	-169
		4Q	4371	1227	296
	2021.2	1Q	4456	1034	271
Regus Taiwan	2020.2	4Q	305	124	-89
	2021.2	1Q	297	161	-68
TKP(excluding Regus Japan)	2020.2	2Q	9731	1396	1061
		3Q	11066	1914	1563
		4Q	9991	1504	1158
	2021.2	1Q	5693	-828	-1171
TKP(consolidated)	2020.2	2Q	13867	2474	1476
		3Q	15401	2418	1395
		4Q	14668	2856	1365
	2021.2	1Q	10447	367	-968

Note: 2Q : June-August、3Q : September-November、4Q : December-February

Sales from the main TKP operation were 5,693 million yen (-45.3% YoY), but with the addition of sales from Japan Regus of 4,456 million yen and sales from Taiwan Regus of 297 million yen, overall sales were roughly on par with 1Q a year earlier.

EBITDA was -828 million yen for the main TKP operation (vs. 2,383 million yen in 1Q a year earlier), which was offset by Japan Regus at 1,034 million yen and Taiwan Regus at 161 million yen.

Operating income was -1,171 million yen at the main TKP operation (2,087 million yen in 1Q a year earlier), 271 million yen at Regus Japan and -68 million yen at Regus Taiwan. Operating income at Regus Japan and Regus Taiwan was lower due to acquisition-related goodwill amortization. As a result, poor performance of the main TKP operation impacted the company as a whole.

Regus openings will continue

The Company opened 10 facilities in 1Q: six TKP facilities, two Regus facilities, and two joint facilities. Meanwhile, nine TKP facilities with expiring leases were closed.

TKP Garden City PREMIUM Nagoya Station Front opened in July. The building is located on the 3rd floor of the 14-story Nagoya Daiya Meitetsu Building and offers a total of 8 conference rooms.

New Garden City and Garden City PREMIUM openings will be suspended, and the Company will concentrate on utilizing Escrit's banquet halls.

Meanwhile, the Company plans to continue opening new Regus facilities. It opened the Regus Sun Terrace Mikawa Anjo Business Center and the Regus Kintetsu Namba Business Center in July, and plans to expand and renovate the Regus Yokohama Landmark Plaza Business Center and the Regus COI Naha Building Business Center in August.

As for APA Hotel, the Company opened APA Hotel Fukuoka Tenjin Nishi in May and APA Hotel Ueno Hirokoji in July. A total of 10 buildings have now been completed.

Large decrease in profits in the fiscal year ending February 28, 2021, with recovery expected the following year

In the fiscal year ending February 28, 2021, the rental conference room business will take a direct blow from the coronavirus shock. The business was experiencing difficulty in 1Q (March – May).

Conference room rentals are expected to recover from 2Q onwards, with expected recovery of 60 to 70% of normalized levels through 3Q and 4Q, and 80 to 90% in the fiscal year ending February 28, 2022.

In 1Q, against sales of 10.45 billion yen, rent expense was 5.08 billion yen, labor costs were 2.46 billion yen, depreciation was 1.32 billion yen, and operating income was -970 million yen. Based on 1Q results, the break-even point is estimated to be around 12 billion yen on a quarterly basis. Even taking into account the change in rent, the Company's marginal profit ratio is high at around 60-70%, which means it should be able to return to profitability as soon as sales recover.

Monthly sales of conference room rental usage (excluding cancellation fees), were 993 million yen in March (-61.9% YoY), 803 million yen in April (-73.3% YoY), and 420 million yen in May (-83.5% YoY). However, since June, there was an unexpected and rapid recovery in conference room demand.

Meanwhile, monthly sales at Regus have remained largely unchanged and stable, with the number of prospects touring the offices picking up in June.

Bookings and orders for conference rooms have been strong since June. At this pace, the Company is on track to return to profitability in 2Q. However, corporate customers that paid a cancellation fee in 1Q and subsequently decide to use the conference room will be given a discount, which will affect results for the time being.

The rent payment structure for both TKP and Regus consists of 60% fixed rent and 40% variable rent, giving the Company some flexibility.

TKP Group Consolidated Results Forecasts

(Millions of yen)

	2019.2	2020.2	2021.2(f)	2022.2(f)
Sales				
TKP	35523	41194	28000	32100
Regus Japan		12843	18600	21000
Regus Taiwan		305	1400	1900
Total	35523	54343	48000	55000
EBITDA				
TKP	5180	7198	1400	3700
Regus Japan		2809	4400	5200
Regus Taiwan		124	700	800
Total	5180	10132	6500	9700
Depreciation	813	1830	2400	2600
Amortization of goodwill	32	1896	2600	2600
Operating income	4289	6325	1500	4500
Ordinary income	4053	4761	700	3500
Net income	1893	1743	-500	1300

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

Focus on business aimed at novel coronavirus countermeasures

COO Nishioka promotes three measures to combat the effects of the novel coronavirus. The first is to suppress fixed costs. The Company can reduce fixed costs by reducing rent and reducing personnel. The second is to pick up the demand for telework. The company has started some rentals to special specifications, according to special plans, and for special prices. The third measure is to make use of the flexibility in its agreements with which it hedges risk. TKP can stop the use of 40% of its rental conference rooms on short notice because of a cancellation clause in some of its contracts with real estate owners. Also, about half of the rent for Regus rental offices is pinned to sales, so there is a mechanism in place that will bring rent down if the occupancy rate falls.

TKP has begun providing business continuity planning support offices to companies as a countermeasure against the novel coronavirus. The new business is a response to new market needs. The Company is receiving numerous inquiries from companies that want to mitigate the impact of the novel coronavirus. These companies: 1) want to decentralizing their office space to hedge against risk, 2) are looking for temporary offices in cases where their offices have closed, and 3) are looking for space other than the home where they can have employees telework or work remotely in environments set up for that purpose.

To respond to these needs, TKP started providing its rental conference rooms as office space in March. This involved rapidly converting the conference rooms to useable offices by setting up chair

and desks. The Company is also able to renovate these rooms based on customer wishes in the case of long-term rental agreements.
TKP provides work space at a monthly rate of around 9,000 yen per m^2, along with complimentary access to Regus business lounges (156 locations nationwide). The rental agreements also come with more detailed conditions meant to suppress the coronavirus.

Secured working capital to respond to the coronavirus pandemic

The Company had 12.7 billion yen in cash and deposits at the end of 1Q, or 35 billion yen in cash and deposits when including funding facilities. This is well in excess of the company's annual working capital requirements.

Financing to deal with the novel coronavirus included: 1) a syndicated loan of 2.5 billion yen concluded with Sumitomo Mitsui Banking Corporation in March, 2) a commitment line agreement for 5.0 billion yen concluded with Mizuho Bank in April, and 3) a bank overdraft agreement for 10.0 billion yen concluded with Sumitomo Mitsui Banking Corporation in April, for a total of 17.5 billion yen in secured funding.

Additionally, in April the Company agreed to issue 1.8 billion yen of preferred stock to the APA Group to increase its net assets. TKP currently operates eight APA hotels in Japan as a franchisee of APA Hotels & Resorts, with plans to operate two more in the future. The move will strengthen the financial base of these hotels.

There is no need to worry about working capital for the next two years, since the Company can also sell off real estate if necessary. There are certain financial provisions attached to the loan for M&A (25 billion yen), so TKP must proceed carefully, but there is no need to worry at present.

5. Our Assessment: Clear synergies, global expansion in view

Rapid response to the coronavirus shock

Amidst the coronavirus shock, the Company decided to take its next step by entering into a capital and business partnership with Escrit. It is pushing forward with bold selection and concentration, which will reduce costs considerably, and include a conversion of rental conference rooms to be used as rental offices (for remote work, as satellite offices, and for business continuity planning). Regus' rental offices have shown relative stability and will earn a certain level of profit. The Company has sufficient working capital and is free of problems in that regard. The Company believes these factors will enable it to effectively respond to the novel coronavirus pandemic.

Future developments

It is not yet possible to predict when the coronavirus shock will end, but if the pandemic drags on to the extent next year's Olympic Games get postponed again, the Company may revise forecasts further downward.

Granted, if it becomes possible to read the situation by the end of summer, the Company will be able to expect recovery in the fiscal year ending February 28, 2022 with more confidence, and results should enter a phase of recovery.

TKP temporarily withdrew the financial targets under its medium-term plan, but the general trajectory of its medium-term plan has remained unchanged. The Company has, however, added a strategy focused on cultivating new demand in office rentals by providing offices for business continuity planning support.

Looking at the next five years, operating income of 10.0 billion yen is well within reach, and the Company should be able to get past the coronavirus shock and back on the path of growth.

Judging the Company's enterprise value on this basis, the share price should recover relatively quickly, reflecting TKP's overcoming of the coronavirus shock, though this will take a certain amount of effort to accomplish. We would like to keep our attention on the timing of when that will happen.

Accelerating growth through synergy with Regus Japan

Coordination with Regus Japan has begun and the number of projects has increased significantly. This allows the two businesses to share their resources and conduct joint development and location openings. The Company expects gains in operational efficiency to appear as well. Being able to open locations with a high-earnings model clearly differentiates the Company from WeWork. TKP should be able to take the leading position in the flexible workspace industry.

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.

Future image: 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.

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 B. (For the definitions of corporate ratings, refer to page 2.)

Granted Award for Excellence in Corporate Disclosure last year

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.

Expectations of future growth

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

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 (July 30) share price, PBR is 2.53, ROE is 3.7%, and PER is 68.9×. The Company should be able to make it through the coronavirus shock and regain its growth momentum in the medium term. For now, the results of the Company's handling of the novel coronavirus pandemic warrant attention.