

3479 TKP

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

January 29, 2021

TSE Mothers

Key Points

- TKP's flexible workspace business won the Excellence Award at the Nihon Service Awards. In the award selection, the flexible workspace business was praised for 1) flexibly responding to telework and satellite office needs, 2) providing convenience that promotes work style reform, and 3) creating high value-add.
- The rental office business has been stable, but the impact of the COVID-19 pandemic has forced the Company to reorganize its rental conference room business. As a result, it decided to 1) promote hybrid use combining the merits of actual spaces and digital transformation (DX), and 2) shift from hourly to long-term rental, in order to promote use in both formats.
- The Company will begin full-scale operation of its satellite office business under the new brand name of "Work X" in March 2021. The first step will be to convert rental conference rooms in the Tokyo metropolitan area to satellite offices. The ratio of long-term rentals has already risen due to the COVID-19 pandemic, so the launch is expected to go smoothly. Higher occupancy rates will contribute to improved profitability.
- In the fiscal year ending February 2021, 1) the Company posted positive EBITDA in the first half, but operating loss amounted to 2.0 billion yen. 2) However, the Company posted operating income in 3Q (September - November). 4Q will be affected by the third wave of COVID-19, but is not expected to generate substantial operating losses. Results for the next fiscal year ending February 2022 will be partially affected by COVID-19, but the Company should be able to secure a profit.
- 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. The Company has already secured more than 35 billion yen in lines of credit, which violates financial covenants but does not pose a problem.
- In January, TKP announced equity financing through the issuance of warrants. The Company expects to raise 21.2 billion yen over a three-year exercise period, but can flexibly instruct the exercising of these rights based on market conditions. The warrants will cause a 20.8% dilution of equity, so the key will be whether the Company can achieve earnings growth that exceeds dilution. In the medium term, its goal is to achieve operating income of 10 billion yen.
- With the satellite office brand "Work X" at its core, the Company is trying to greatly increase the occupancy rate of TKP rental conference rooms by combining standard demand with special coronavirus-related demand. President Kawano aims to restore profitability through this initiative. Although some effort is required, the stock price is gradually taking into account the Company's overcoming of the coronavirus shock. The pace of recovery in performance warrants attention.

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

Contents

1. Characteristics: Developing the sharing economy though revitalizing space in a way that cannot be imitated
2. Strengths: Purchase of flexible workspace provider Regus Japan
3. Medium Term Business Plan: Further business model innovation with full-scale entry into the satellite office market
4. Near Term Earnings: Fully capable of overcoming the coronavirus shock
5. Our Assessment: Creating the strongest foundation in the flexible workspace market

Company rating: B

Stock price (January 29, 2021): 2380 yen

Market capitalization: 90.7 billion yen (38.1 million shares)

PBR 2.54 ROE 2.6% PER 97.9 Dividend yield 0.0%

(million yen, yen)

Fiscal yearend	Sales	Operating	Ordinary	Net	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)	43000	-2200	-2200	-3100	-83.6	0
2022.2 (forecast)	53000	3000	2500	900	24.3	0

(as of November 2020 base)

Total assets: 117673 million yen Net assets: 34781 million yen Equity ratio: 27.9%

BPS: 519.5 yen

Notes: ROE, PER, and dividend yield are based on forecasts for the next fiscal year. EPS figures above do not take into account dilution caused by the equity financing from private placement of warrants announced in January 2021. Equity could be diluted by up to 20.8%. 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.

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

1. Characteristics: Developing the sharing economy though revitalizing space in a way that cannot be imitated.

Total Kukan Produce: Full-scale development of space regeneration & distribution

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.

“Space regeneration & distribution” refers to a distribution business which acquires unused space, and regenerates it to create conference rooms and offices that are ultimately offered to the end users. TKP’s business model is to acquire idle assets from the property owners, subdivide them into small-lot spaces for sharing predominantly with corporate customers.

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 48) 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

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

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.

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

The 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 "Oversea

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 August 2020, the number of rental conference rooms was 2,087, 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),

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

a 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 Nov. 30, 2020	Locations	Floor space('000m ²)	Rooms	Seats('000)
TKP	260	47.8	2085	154.7
Regus Japan	164	13.3	na	25
Regus Taiwan	13	2	na	2.3
Total	437	63.1		182.0

Note: TKP figure includes conference rooms in training facilities and escort 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.

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

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.

Breakdown of sales by service

	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

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.

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

In terms of sales by service, room rental fees have dropped to 48.3% of total sales, below the Company's target of 50% for the fiscal year ending February 2020. Meanwhile, 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.

Corporate governance

President Kawano held 60.5% of TKP shares as of the end of February 2020. The Company added one outside director to its board of directors at its shareholders' meeting held in May, 2020. 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.

In 2019, 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.

At the shareholders' meeting scheduled for May this year, the Company plans to pass a resolution to introduce a restricted stock compensation plan as part of a revision to its executive compensation system. This is aimed at providing incentives for sustained improvement in enterprise value.

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.

Size of related markets

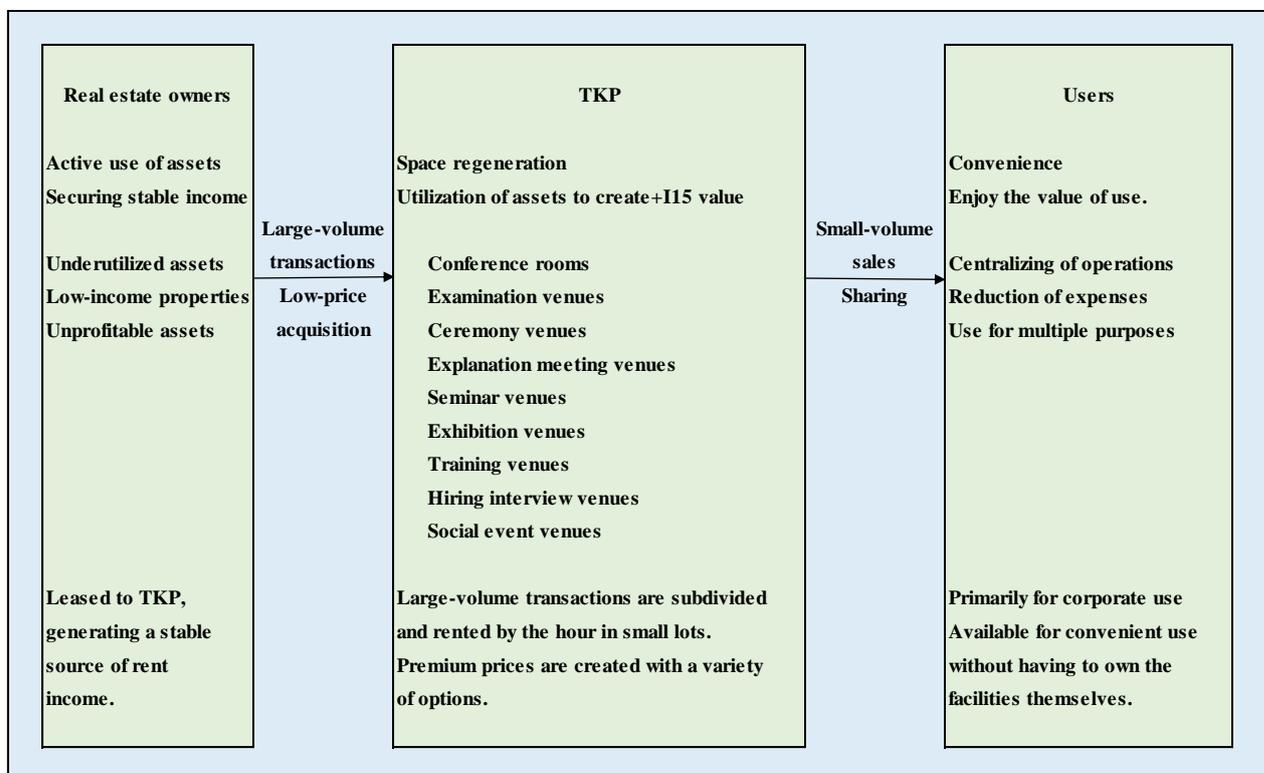
Flexible office market	200 billion yen annually (2019) → 6,000 billion yen annually (2030)
Training services for corporation	500 billion yen annually
Hotels	1.9 trillion yen annually
MICE, customer attraction event: Related events:	2,600 days annually (meetings, exhibitions, expenses Participants: 2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

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

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

TKP Business Model
<Sharing economy for space regeneration>



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.

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

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.

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%

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.

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

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.

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) 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 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.

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

The number of rental conference rooms at the end of the fiscal year ended February,2020 was 2,238. A breakdown of this number shows that 1,781 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.

5 rental conference room grades

Name	Format	Facilities	Rooms	Business objective
Garden City PREMIUM	High-grade office banquets	13	137	High added value
	Creative spaces	20	223	
		25	300	
Garden City	Hotel banquets	45	480	
	Large-size multipurpose office banquets	55	557	
		58	563	
Conference Center	Office banquets for meetings	74	806	
	Centered on meeting seminars	83	920	
		82	918	
Business Center	Collection of conference rooms	48	310	
	Centered on company internal meetings	49	316	
		45	286	
STAR rental conference	Local community-based conference rooms	38	88	Expansion of base Focus on efficiency
	For small-scale and individual use	36	76	
		36	70	

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

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.

Wide-ranging approach to conference centers

The TKP Shimbashi Conference Center Shinkan opened in April 2019. This is the largest-ever TKP

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

Conference Center, with 77 rooms and 5,712 seats. It opened in stages on seven floors of the Saiwai Building in Shimbashi. TKP rented this facility immediately after it was vacated by a major company that moved its offices to a new building. It is expected that a variety of this kind of large-scale properties will become available in the future.

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

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.

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.

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

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

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.

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	10	14	12
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

A talent for renovation: Renovation of Ishinoya

Ishinoya Izu Nagaoka was purchased by a different owner from Sekitei after performance at that company slumped. TKP then leased and began managing the facility. It is essentially a higher-grade version of LecTore. Each room is large, at 35 – 105 m² in size, and there are rooms that include private outdoor baths. The facility is used for training (15,000 yen per person) on weekdays, and is used as a resort for travelers on weekends. On weekends, the rate is 30,000 – 50,000 per night.

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

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

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

The Company is promoting weekday training instead of weekend training for reasons that include improvements in employee working styles. It is a two birds, one stone approach. Ishinoya is positioned as a resort-type seminar lodge, while LecTore is a resort-type seminar hotel.

In September 2020, the Company opened Ishinoya Atami as the second Ishinoya location. It is a

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

luxury lodge (34 rooms in total) that can be used for workcations and chartered for training.

APA Hotel FC (franchisee) :Adding TKP strengths to a FC

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 occupancy rates quickly reached nearly 100%. If the rooms are fully occupied, an 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 m² per room to construct high-efficiency hotels, while the Company is using its own network to attract guests and achieve a high operating rate.

TKP is currently operating 10 APA Hotels. These are hotels that include conference room facilities.

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.

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 them. 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. TKP Garden City Hamamatsucho will be constructed within this facility as a banquet facility for improved efficiency. The first phase of renovations on Azur Takeshiba was completed in June 2019, but the project has since been canceled due to the impact of coronavirus.

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

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

Differences in the TKP and Regus Japan business model

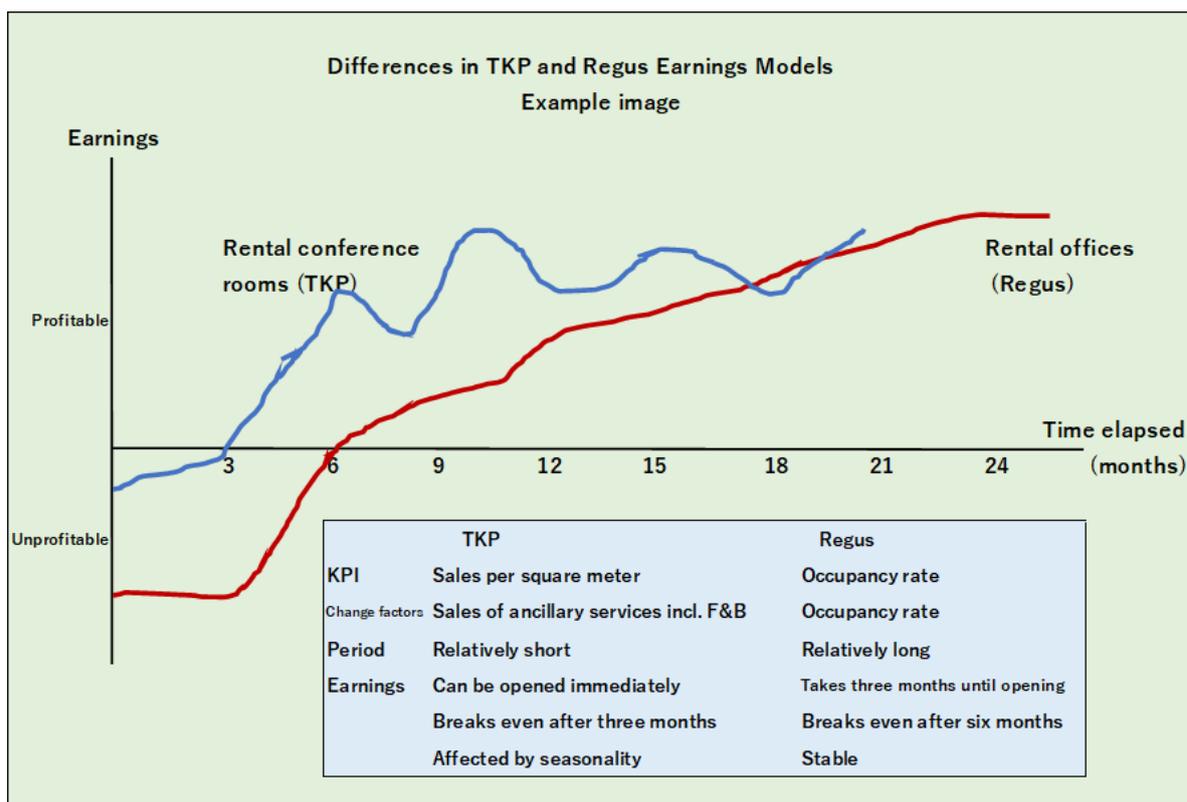
• **Rental conference room business model** On average, it takes three months for a rental conference room facility to break even and 12 months to reach cruising speed in terms of earnings. That said, earnings are subject to seasonal fluctuations and are especially vulnerable to market conditions. On 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)

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

and 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

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

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.

Strong performance of Regus Japan

As of end of November, TKP had 437 locations, and 63,4000 m² in floor space, which includes Regus Japan's 164 locations and 133,000 m², Regus Taiwan's 13 locations and 23,000 m², and Escrit's 24 facilities and 65,000 m².

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

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

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 300 million pounds (42.3 billion yen). The results will be applied to the consolidated financial statements beginning from 2Q (June – August), and contribute to the results for 9 months in the current fiscal year.

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

Background behind the successful acquisition

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

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

President Kawano knew of Regus and WeWork from the TKP business in New York, and knew Regus Japan President Nishioka from another project. The agreement for this deal was concluded on April 2019, and the negotiations were completed with great speed in just 2 months.

New complementary business model

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

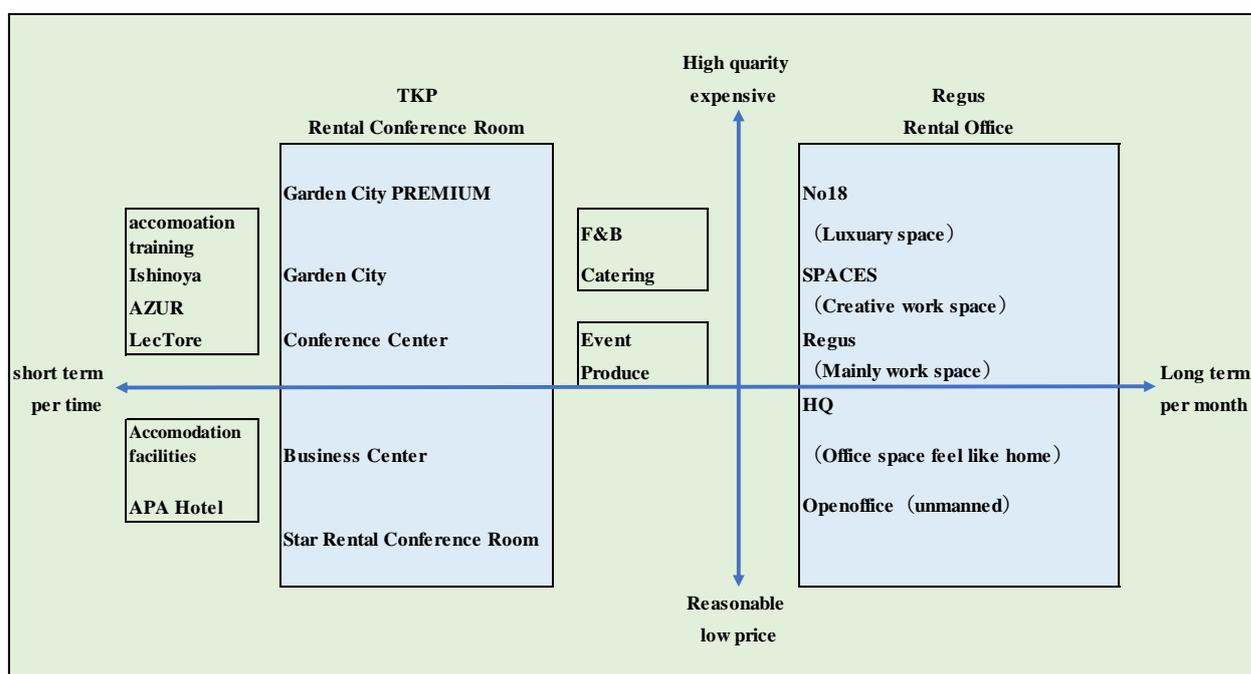
Rental offices and coworking spaces are similar to a fitness club. When a company becomes a member and pays the monthly fee, it can use the facilities whenever it wants. However they do not

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

operate at night, and may be crowded during the day. Renting a facility exclusively may result in a correspondingly higher charge, however it is very convenient because the facility can be used in a wider variety of ways.

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

Positioning map of TKP in flexible market office



Regus Japan has 164 locations in Japan. Of these, 107 are high-priced Regus rental offices, five are Regus express locations adjacent to transportation infrastructure, 47 are low-priced unmanned Openoffice rental offices, and five are SPACES large coworking space facilities.

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.

Strengthening management

In November of last year, President Kawano was appointed Chairman of subsidiary Regus Japan Holdings. He was previously a director, but by clarifying his position as chairman, the link between decision-making and execution has been further strengthened.

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

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 m²) and Regus Japan has 150 facilities (95,000 m²) for a total of 400 facilities (470,000 m²) 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 m² of new office buildings will be coming online. The amount of rental space possessed by TKP is 528,000 m². There is extremely large room for the company to expand.

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

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, 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.

Acquisition of Regus Taiwan: Gaining a beachhead in Asia

TKP acquired Regus Taiwan (13 subsidiaries in Taiwan) from an IWG group company in August,

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

and made it a subsidiary in September 2019. Regus Taiwan contributed to consolidated results beginning in December.

Regus Taiwan has expanded to 13 locations (+1 contracted but not yet finished location) 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 13 locations (9 in Taipei, one in Hsinchu, and three in Taichung), 11 Regus locations, three SPACES locations (a head office planned for January 2021) 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.

IWG (Regus Group) Network

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

Global cooperation with IWG

International Workplace Group (IWG) offers the world's top-class rental office and coworking space services. The Group has 1,300 locations throughout the Americas, 690 in the Asia Pacific region, 1,020 in Continental Europe, the Middle East, and Africa, and 330 in the UK. Business is humming along at IWG—the company recorded sales of 380.7 billion yen, EBITDA of 61.4 billion yen, and operating income of 25.3 billion yen in the fiscal year ending December 31, 2019.

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

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 following the opening of Nishinippon Shimbun Kaikan in Fukuoka in 2019. These include one in the

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

Mitsuwa Building in Hyogo Prefecture, one in the Aono Building in Ehime Prefecture, and one in the Sendai Solala Plaza in Miyagi from 2019.

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 target 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 478,000 m², and Regus has 13,3000 m² of sharing space in Japan. In contrast, WeWork is headquartered in New York and has 300,000 m² 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 space in order to expand profits or whether to increase the added value on its space, 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.

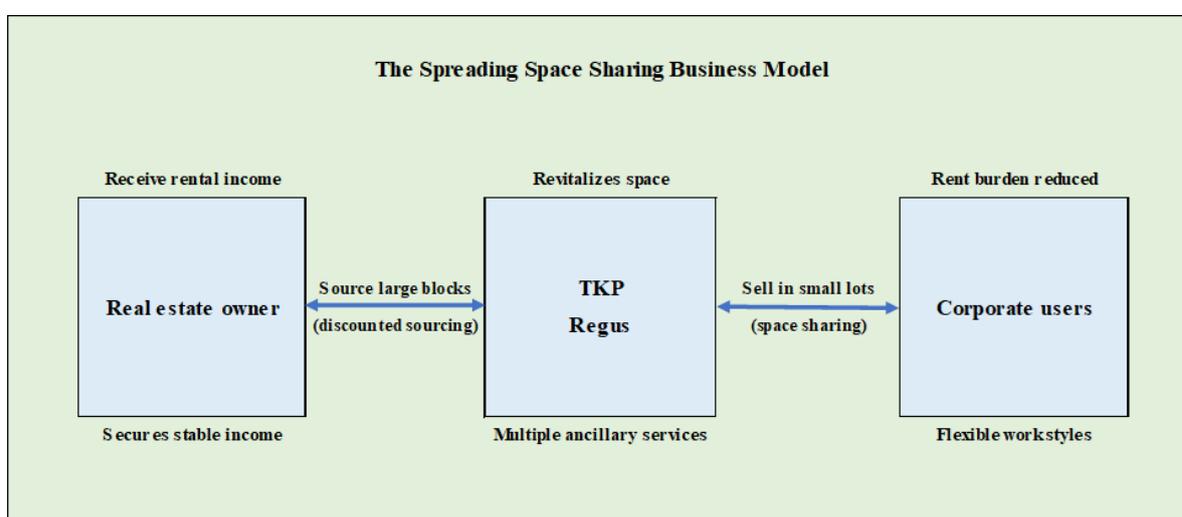
TKP is similar to WeWork in that both companies are engaged in providing flexible offices in response to working style reforms. However, TKP seeks differentiation from the company by 1) combining rental offices with rental conference rooms, and 2) clearly grasping the needs of rental office users and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

Received the Excellence Award at the Nihon Service Awards

TKP's flexible workspace business won the Excellence Award at the 2020 Nihon Service Awards. The Nihon Service Awards is designed to encourage innovation and productivity improvement in the service industry, contribute to the revitalization of regions and society, and promote market growth and job creation.



Organized by the Japan Productivity Center and other organizations, with support from the Japanese government, the event was first held in 2015. This was the third time it was held, as it is a biennial event. The Prime Minister's Award went to Komatsu, but in addition to TKP, Aucnet, Toridoll Holdings, and Asics were also selected for the Excellence Award.

TKP was selected for 1) flexibly responding to telework and satellite office needs, 2) providing convenience that promotes work style reform, and 3) creating high value-add.

Flexible workspace market

In the office market under the coronavirus pandemic, there are the following trends: (1) rising vacancy rates, (2) shrinking offices, and (3) increasing demand for satellite offices. These are tailwinds for the Company, which will follow the policy of 1) having Regus be the main source of new openings, and 2) avoiding opening TKP-only locations while forming alliances with other companies and utilizing their facilities.

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

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 m² in 2017, 156,000 m² in 2018, and is forecast to rise to 194,000 m² 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.

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.

The first policy is to secure working capital of over 35 billion yen in cash and deposits and funding facilities.

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 conference centers 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.

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

Medium-term management policies
Countermeasure to COVID-19

Basic direction	<ol style="list-style-type: none">1. Conduct joint development, sales, and management by sharing resources with Regus Japan2. Promote work style reforms as Japan's largest flexible workspace provider, raising customer satisfaction and improving the repeat ratio3. Pursue the development of new flexible workspace-related businesses and M&A4. 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 facilities5. Promote remote offices for taking measures to COVID-19
Basic strategies	<ol style="list-style-type: none">1. AAA strategy: Anytime, Anywhere, for All workers2. Three-dimensional expansion following growth in the flexible workspace market<ol style="list-style-type: none">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 years4. Make use of global network Members can use the Regus network of 3,300 locations in 1,100 cities in 120 regions around the world5. Offering BCP support offices
Business strategies	<ol style="list-style-type: none">1. Accelerate openings through joint sourcing Add 891,000㎡ in ten years2. Improve efficiency of operations through joint openings3. Expand across Japan through joint development of SPACES brand facilities4. New spacing of small scale, the dispersion type

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

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 primarily expanded the Conference Center format rather than the Garden City and Garden City PREMIUM formats.

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

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

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. Additionally, the conference rooms are increasingly being used as a venue for shareholders' meetings, and this is expected to expand in the future. Sales of live-streaming packages have also been strong. Public-sector demand is also on the rise. In fact, starting in July 2020, 60 TKP venues across the country have been used for providing assistance for rent support benefit applications for seven months.

Conference rooms can also be rented out as offices for longer terms. By offering this kind of flexibility, the Company is trying to boost utilization efficiency.

Webinar needs: Hybrid use

In the conference room business, demand for conference room rentals with webinar functions is increasing, and the Company has put in place a structure to handle this need as quickly as possible, which is leading to more business. While companies can handle regular online meetings without support, larger events and conferences call for large-scale webinars with full online support. TKP offers webinar services in a full package. Large-scale webinars are used by major pharmaceutical companies, telecoms companies, banks, and others.

In addition, the Company is selling the convenient TKP Webinar Package Plan, which has grown significantly.

The combination of conference room rentals and webinar support (hybrid use) can be easily adjusted to the needs of the customer. For example, a 100-person venue can be used for 30 people, with the rest viewing the content online. Social distancing requires doubling or tripling venue space. Conducting events over the internet also serves to make them more accessible to customers who may have found it difficult to join otherwise.

Supporting remote shareholders' meetings

In May 2020, the Company began offering a package deal supporting the live streaming of shareholder meetings. There has been a rapid rise in cases where companies rent a conference room and use it for web-based live streaming.

In addition, for shareholders' meetings held at TKP's rental conference room venues with online

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

support (hybrid use), the Company started offering an attendance-based service in addition to its conventional participation-based service in December. The participation-based service enables shareholders to observe meetings online, but does not allow them to take part in Q&A or resolutions.

Now, through a sales partnership with Wills (TSE Mothers: 4482), shareholders who are not present at the actual venue can make motions and participate in resolutions under the Companies Act. This service will be provided through Wills' blockchain-based electronic shareholder voting platform.

Ratio of TKP Conference Room Long-term Rental Ratio

	Hourly	Long-term	Breakdown of Long-term		
			Over 2 days	Over 2 weeks	Over 1 month
2020.2 3Q	62.9	37.1	30.7	2.5	3.9
2021.2 3Q	47.4	52.6	27.6	3.2	21.9

(Note) Based on nine-month figures through 3Q

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 will 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.

Future development: From hourly rentals to long-term rentals

TKP’s conference rooms are rented on an hourly basis, but the need to rent them over longer periods had become apparent since before the coronavirus pandemic. The number of long-term users is increasing and this increase was even more conspicuous in the first half of this term. A year ago, only 6% of customers rented for more than two weeks, but this figure has risen to 25%. Further, 22% of users rented for more than two days. In other words, the Company is shifting from hourly rentals to long-term rentals while it continues to rent out conference rooms for multiple purposes.

TKP is adapting its rental conference rooms for infection prevention, and aims to greatly increase occupancy going forward. President Kawano aims to restore profitability through this initiative. The fiscal year ending February 2022 should mark the start of a full-scale recovery.

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

Work X ~A new satellite office brand~	
Concept	Work style reform x digital transformation
Business model	Shifting from hourly to long-term rental in the space regeneration & distribution market From rental conference rooms to satellite offices Flexible and mutually complementary use of interconvertible rental conference rooms and rental offices
Objective	Full-scale entry into the satellite office market Expansion of DX service through alliances New facility openings through smart space acquisition
Types of use	Use of rental conference rooms as satellite offices already starting to emerge Rental offices and coworking spaces also being used as satellite offices Convenient small office away from the main office Usage expanded due to the COVID-19 pandemic
Launch	Launch in March 2021, using existing rental conference rooms at 42 locations in Tokyo
Equipment support	Formed a business alliance with RentalBusters to rent necessary office furniture
New acquisitions	Supply of new office buildings is on the rise; existing office spaces are being reassessed; companies are making progress in office relocation There will be a large number of offices that are no longer needed, and the Company plans to make use of them

Full-scale entry into the satellite office market under the new brand "Work X Office"

TKP is making a full-scale entry into the satellite office market. The Company had already begun offering rental conference rooms as satellite offices in various ways, but decided to take this demand and turn it into a business.

The new brand will be called "Work X Office" and is set to launch in March of this year. The term "Work X" is derived from a combination of the terms "work style reform" and "DX (digital transformation)".

TKP's existing space will be developed into satellite offices. First, the Company will utilize 56,000 m² in Tokyo to provide hassle-free customized offices at reasonable prices.

For office furniture, the Company has formed a business alliance with RentalBusters, a subsidiary of OfficeBusters, the leading company in the industry.

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

Capital and business alliance with Escrit

In July, 2020, TKP announced its capital and business partnership with bridal business Escrit (TSE1: 2196) 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 (57 facilities) and Garden City PREMIUM (27 facilities), Escrit has 24 locations and 33 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.

In addition, Escrit's "Le Crit Amore" small group wedding service was introduced at Azur Takeshiba

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

at the end of October.

Joint brand CIRQ

CIRQ is a TKP-Escrit joint brand. By using Escrit's facilities (24 facilities, 3,871 seats, 65,455 m²), the Company can increase floor space by 12%, the number of facilities by 6%, and the number of seats by 2%. TKP will continue to expand these alliances.

The Company can expect annual sales of over 1 billion yen if all goes well with CIRQ. The establishment of CIRQ makes it possible to open CIRQ locations in place of Garden City ones.

Development of Joint Brand CIRQ			
*Use Escrit's wedding halls			
*Provide party and social gathering services for TKP customers, mainly on weekdays			
*Similar to banquet services offered at TKP Garden City			
Facility	TKP	Escrit	[Ratio]
Floor space	540,000 m ²	65,000 m ²	100 : 12
No. of facilities	421	24	100 : 6
Seats	183,000 seats	3,800 seats	100 : 2
*Use underutilized space in good locations to expand space without shouldering location opening costs			

Expansion of SPACES

The Company is concentrating its energy on the expansion of SPACES in Japan. Regus Japan runs six SPACES locations in Tokyo, Nagoya, Hakata, and Sendai. Including conversion of existing TKP facilities, the Company will accelerate the development of SPACES throughout the country.

The Company also plans to integrate hardware and software. It has grown its "hardware," consisting of meeting rooms, workspaces, rental offices, hotels, and training facilities, but must consider the next step. It will use this hardware to make plans for software.

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 m² 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. After that, the Company opened a fifth SPACES location in Sendai.

Regus opened a SPACES location occupying an entire building in Shinjuku in October, and will

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

open similar locations in Akasaka in March 2021 and Roppongi in June. All locations feature TKP conference rooms as well. SPACES locations will total eight nationwide following these openings.

Expansion of SPACES			
	SPACES Shinjuku	SPACES Akasaka	SPACES Roppongi
Opening	October 2020	March 2021	June 2021
Floor space	2,526 m ²	3,277 m ²	3,046 m ²
Type	All floors of a 10-floor building TKP conference rooms on the 10th floor	Floors 3 to 6 Floors 7 to 8 host TKP conference rooms	All floors of a 9-floor building
Location	4-minutes' walk from Shinjuku station West Exit	3-minutes' walk from Tameike station	1-minute walk from Roppongi station
*Three to four times the average floor space of a Regus facility (approx. 800 m ²)			
*Features coworking spaces, event spaces, meeting rooms, and cafés			
*Includes conference rooms in addition to rental offices			

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.

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

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

billion yen (+29.4 billion yen YoY in long-term loans payable).

Balance sheet trends

(Millions yen, %)

	2017.2	2018.2	2019.2	2020.2	2020.8
Current assets	8489	9715	16747	16847	19744
Cash and savings	5494	5706	11967	9131	14006
Fixed assets	15650	24815	34318	100704	98500
Tangible fixed assets	10822	17021	24959	39049	40255
Buildings and structures	4035	5551	12316	22216	26307
Land	6507	8356	8425	10932	10514
Intangible fixed assets			254	44960	43602
Goodwill			112	44788	43424
Investments and others	4763	7521	9103	16694	14642
Lease and guarantee deposits	4021	4983	6416	13147	10132
Total assets	24140	34530	51066	117551	118245
Current liabilities	5284	7971	9299	20171	20845
Current portion of long-term loans payable	1903	3154	4540	6929	6889
Fixed liabilities	14385	17904	31003	61581	62127
Bonds	3571	3696	5505	4490	4037
Long-term loans payable	10363	13668	24826	51863	52056
Net assets	4470	8655	10763	35798	35271
Interest-bearing liabilities	16607	21358	35911	64297	63930
Ratio of interest-bearing liabilities to total assets	68.8	61.9	70.3	54.7	54.1
Capital adequacy ratio	18.3	24.9	21.0	30.4	28.2

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.

EBITDA as Key Performance Indicator (KPI)

Goodwill and customer-related assets associated with large-scale acquisitions will be amortized by about 2.4 billion yen annually. Since this does not affect cash flows, however, TKP judges EBITDA

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

(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.

Trends in cash flows

	2017.2	2018.2	2019.2	2020.2	2021.2 (2Q)
Cash flows from operating activities	1096	1995	2485	6756	3139
Net income before income taxes	1058	2231	1424	2046	-2448
Depreciation	440	635	845	1830	1342
Amortization of good will				1896	1362
Sale of fixed assets	0	-487	65	58	-710
Impairment loss	191	91	836	878	548
Sales credits and trade payables	-615	-567	-404	-129	1288
Cash flows from investing activities	-7705	-8515	-11283	-58544	411
Tangible fixed assets	-6769	-6368	-9511	-9808	-1762
Acquisition of shares in subsidiaries				-45658	0
Lease and guarantee deposits	-776	-983	-1656	-4104	2924
Free cash flow	-6609	-6520	-8798	-51788	3550
Cash flows from financing activities	6310	6735	15064	49141	1234
Long-term loans payable	5237	4434	13053	26933	152
Bonds	1073	178	1963	-1040	-520
Sale of treasury stock	0	2153	0	0	
Public offering				23418	
Cash and cash equivalents	5494	5706	11967	9131	14006

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 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.

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

The 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.

Violation of financial covenants no cause for concern

The Company had 15.4 billion yen in cash at the end of 3Q. It had sufficient working capital, and had secured 35 billion yen in cash and deposits and funding facilities by the end of November. This is equivalent to 10 months of sales.

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.

Also in April, the Company issued preferred stock (total issue price of 1.8 billion yen) to APA Hotels & Resorts in an effort to bolster 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.

Due to the deterioration of business performance in the first half, there were cases in which the financial covenants attached to some syndicated loans were violated. However, the Company does not expect the banks to exercise their claims for the following reasons: 1) operating cash flow in the first half provided 3.1 billion yen, 2) free cash flow was also positive, providing 3.6 billion yen, and 3) cash and deposits and funding facilities (committed credit line contracts and overdraft agreements) exceed working capital for one year. Currently, financial institutions have agreed to refrain from exercising their claims.

In the current fiscal year ending in February 2021, the Company recorded an operating loss of over 2 billion yen, but if it can restore this to a profit of around 3 billion yen, it will be able to satisfy its financial covenants. Alternatively, the Company can sell assets and repay its debt to meet covenant requirements. Equity financing is also an effective solution.

TKP announces equity financing through the issuance of warrants

In January, the Company announced two types of equity financing through the issuance of warrants. Both were private placements of 3.943 million shares to Daiwa Securities, each accounting for 10.4% of equity dilution (20.8% in total). Based on the share price on the day before the announcement

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

(January 13, 2021; 2,672 yen), the total amount raised would be 21.2 billion yen. The discount rate for the exercise price is 8%.

In the two days following the announcement, the Company's share price dropped by about 24%, but later recovered to around 2,300 yen. The exercise period is about three years until February 5, 2024. During this period, the warrants will be exercised according to the share price, and the Company will encourage institutional investors in Japan and overseas to purchase shares.

Overcoming the 20.8% dilution and boosting enterprise value per share will depend on whether the Company can develop its business toward achieving 10 billion yen in operating income.

Although it is uncertain how much the Company will raise, it plans to use its initial estimate of 21.2 billion yen of capital in the following ways: (1) 8 billion yen for opening new flexible workspaces and satellite offices, (2) 10 billion yen for reducing interest-bearing debt to strengthen its financial base, and (3) 3.2 billion yen for business expansion through M&A. While the enhancement of equity capital and reduction of interest-bearing debt will be prioritized, the business expansion into the satellite office market is promising.

Equity financing through private placement of warrants	
Number of underlying shares	<p>Series 7: 3.974 million shares (10.4% dilution) * TKP specifies the period when exercise of warrants is prohibited</p> <p>Series 8: 3.974 million shares (10.4% dilution) * Warrants cannot be exercised without TKP's permission</p>
Two-part structure	The reason for the two-part structure is to allow for flexibility in responding to the end of the COVID-19 pandemic
Revision of exercise price	<p>Includes exercise price revision clause, -8% of the closing price on the trading day immediately prior to the effective date (8% discount rate)</p> <p>Date of resolution for issuance: January 14, 2021; Period for determining issuance terms: January 20 - 25, 2021</p>
Exercise period	Approximately three years until February 5, 2024. Series 8 warrants to be exercised after Series 7 warrants are exercised
Expected proceeds	Approx. 21.2 billion yen (net proceeds based on February 13 closing price, estimate)
Use of proceeds	<p>8 billion yen for investment in flexible workspaces and satellite offices</p> <p>10 billion yen for repayment of interest-bearing debt</p> <p>3.2 billion yen for capital tie-ups and M&A</p>

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

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

Comparison of unconsolidated and consolidated results

A look at the non-consolidated results for the fiscal year ended February 29, 2020 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, %)

	2018.2		2019.2		2020.2	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Sales	28689	26792	35523	33036	54343	38131
Cost of sales	17738 62	16421 61.3	21802 61.4	20076 60.8	33620 61.9	22741 59.6
Materials		2758		3243		3530
Personnel		955		1081		1066
Operation related fee		1361		1543		1501
Land rent		6551		8000		9972
Lease fees		998		1226		1261
Gross profit	10950 38	10370 38.7	13722 38.6	12959 39.2	20722 38.1	15390 40.4
SG&A	7501 26	6802 25.4	9433 26.6	8609 26.1	14396 26.5	9597 25.2
Personnel		3782		4818		5260
Operating income	3449 ##	3567 13.3	4289 12.1	4349 13.2	6325 11.6	5797 15.2

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 2020 Feb 29. was 88.

There is seasonality to the quarterly results. Prior to the COVID-19 pandemic, 1Q (March – May) results were the strongest. This is due to the boost in demand for rental conference rooms for purposes such as new employee training and hiring of recent graduates. 2Q and 3Q are generally on the same level, while 4Q (December – February) results tend to be lower. However, in recent years, 4Q profitability has greatly improved. The company has identified operating and usage needs that have increased the 4Q use of its facilities. However, things have changed drastically last year.

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

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
2021.2 Sales	10447	10097	11688	
Operating income	-968	-1045	94	

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 2020, the novel coronavirus outbreak caused customers to curtail events and the Company revised its forecasts downward.

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

At the ordinary income level, the Company switched the bridge loan associated with the acquisition to a syndicated loan (25 billion yen) in 4Q, and the according increase in fees was recorded as a non-operating expense.

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.

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 13.2 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.

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 250 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.

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

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. On the other hand, the KPI for Regus is the occupancy rate of the space. The occupancy rate averages around 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		
		3Q	4Q	1Q	2Q	3Q
Rental conference rooms (TKP)	Sales per m2 (10,000yen/m2)	1.20	1.16	0.74	0.61	0.80
Rental offices (Regus Japan)	Occupancy rate (%)	74.4	74.5	74.0	69.2	67.4

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

Impact of the coronavirus shock

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)

		Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
TKP rental conference	2019年	2572	3007	2513	3057	2463	1739	2208	2706	3040
	2020年	996	852	483	1039	1352	1578	1668	2202	1757
Regus Japan rental offices	2020年	1511	1491	1453	1464	1466	1443	1441	1423	1429

Note: Actual is sales exclude cancellation fees

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

Performance in the red in the first nine months of the fiscal year ending February 2021

In the first nine months of the fiscal year ending February 2021, the Company posted sales were 32.2 billion yen (-18.8% YoY), EBITDA 2.4 billion yen (-69.1% YoY), operating income -1.9 billion yen (versus 4.8 billion yen in the previous year), ordinary income -2.1 billion yen (3.3 billion yen), and net income -2.9 billion yen (1.2 billion yen).

The Company also announced its full-year earnings forecast for the fiscal year ending February 2021. The forecast calls for sales of 42.2 to 43.7 billion yen, EBITDA of 2.3 to 3.5 billion yen, operating loss of 3.2 to 1.9 billion yen, ordinary loss of 3.1 to 1.9 billion yen, and net loss of 3.7 to 2.9 billion yen.

Results for Regus Japan

(Millions of yen)

		Sales	EBITDA	Operating income
Regus Japan	2020.2 2Q	4136	1078	356
	3Q	4334	503	-169
	4Q	4371	1227	296
	2021.2 1Q	4456	1034	271
	2Q	4375	941	165
	3Q	4294	802	36
Regus Taiwan	2020.2 4Q	305	124	-89
	2021.2 1Q	297	161	-68
	2Q	276	104	-135
	3Q	267	122	-135
TKP (excluding Regus Japan)	2020.2 2Q	9731	1396	1060
	3Q	11066	1914	1563
	4Q	9991	1504	1158
	2021.2 1Q	5693	-828	-1171
	2Q	5445	-683	-1076
	3Q	7226	590	194
TKP(consolidated)	2020.2 2Q	13867	2474	1476
	3Q	15401	2418	1395
	4Q	14668	2856	1365
	2021.2 1Q	10447	367	-968
	2Q	10097	362	-1045
	3Q	11688	1515	94

Note: 1Q: Mar-May 2Q: Jun-Aug 3Q: Sep-Nov 4Q: Dec-Feb

The Company posted a slight operating income in 3Q, but added some flexibility in the forecast range for 4Q due to the third wave of COVID-19. Although there may be some fluctuation, results

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

will likely come close to the upper end of the forecast range if current conditions continue.

Since the lifting of the nationwide emergency declaration on May 25 last year, the market has shown a gradual recovery, and sales of TKP rental conference rooms have been improving from June to October.

The need for rental conference rooms has increased to ensure proper social distance as they are being used as a part of webinar (online seminar) package plans that support remote work and as venues for exams and interviews.

By quarter, there was a substantial number of facility closings in the rental conference room business as the Company opened eight facilities in 1Q (+11,974 m²), two facilities in 2Q (+3,818 m²), and one facility in 3Q (+142 m²), while closing nine facilities in 1Q (-11,154 m²), 12 facilities in 2Q (-9,835 m²), and 15 facilities in 3Q (-9,871 m²).

Meanwhile, Regus Japan opened three new facilities in 1Q (+3,134 m²), five new facilities in 2Q (+4,532 m²), one new facility in 3Q (+2,526 m²) while closing one facility in 3Q (-248 m²). Regus Taiwan did not open any new facilities, with 13 facilities in operation at the end of November.

Expanding operations of Garden City Premium and Garden City, which serve food and beverage, will be difficult for the foreseeable future, and the Company plans to scale down operations while assessing the remaining duration of contracts.

TKP Group Consolidated Results Forecasts

(Millions of yen)

	2019.2	2020.2	2021.2(f)	2022.2(f)
Sales				
TKP	35523	41194	24900	31700
Regus Japan		12843	17500	20000
Regus Taiwan		305	1100	1300
Total	35523	54343	43500	53000
EBITDA				
TKP	5180	7198	-900	3200
Regus Japan		2809	3600	4500
Regus Taiwan		124	500	700
Total	5180	10132	3200	8400
Depreciation	813	1830	2700	2700
Amortization of goodwill	32	1896	2700	2700
Operating income	4289	6325	-2200	3000
Ordinary income	4053	4761	-2200	2500
Net income	1893	1743	-3100	900

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

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

Currently, results at the hotel business and food and beverage business are suffering. However, when looking at the rental conference room business, returning to profitability is not a major challenge as they can be used for a variety of purposes, and results have actually improved already. If the Company can manage to convert 20 to 50% of its rental conference rooms into Work X satellite offices, profitability will improve substantially.

Outlook - Business performance set to start improving

In cumulative 3Q, the Company opened 11 TKP facilities and nine Regus facilities. On the other hand, it closed 36 TKP facilities as lease contracts expired. The Company plans to continue opening Regus facilities going forward.

In the next fiscal year, the conversion to Work X satellite offices will begin in full swing. This will contribute to improving the occupancy rate of rental conference room space.

In rental conference rooms, there is a strong need for TKP's reasonably priced Conference Centers, Business Centers, and STAR rental conference rooms. Demand for satellite exam halls is increasing and is expected to grow further moving forward. The same number of test-takers require more exam halls space than before the pandemic. Meanwhile, high grade facilities comprising Garden City and Garden City PREMIUM require more momentum. These facilities have not yet resumed full-blown food & beverage sales accompanying regular use. The Company will curb new openings of Garden City and Garden City PREMIUM facilities going forward and concentrate on utilizing the banquet facilities of Escriit.

Among group companies, occupancy rates at APA Hotels, Ishinoya, and LecTore are an issue. Majors is doing well thanks to webinar orders.

Regus earnings are stable. Since the contract period for rental offices is one to one and a half years, monthly sales are stable. The occupancy rate appears to have dropped slightly, but this was due to the opening of new Regus locations. Regus is a global brand, and non-Japanese companies make up 40% of Regus Japan's customers. The occupancy rate should rise further when regular international travel resumes.

It depends on how many waves of the novel coronavirus, but: 1) both individuals and corporations have developed a clear understanding of the novel coronavirus risk management, and 2) based on this, economic activity has returned, with TKP orders showing some momentum. In particular, the need for exam halls for university entrance exams and other testing is likely to expand significantly due to greater needs for space to secure social distancing.

Based on the above, we expect the company to post an operating income of about 3.0 billion yen for the fiscal year ending February 2022.

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

5. Our Assessment: Creating the strongest foundation in the flexible workspace market

Key near-term strategies

As a key near-term strategy, President Kawano plans to focus on 1) increasing the operating rate of Regus, 2) utilizing TKP's conference rooms by branding them as Work X, and 3) scaling down food and beverage related businesses.

Amid the coronavirus shock, the Company has taken the next steps by preparing its satellite office brand and entering into a capital and business partnership with Escrit. It is pushing forward with bold selection and concentration, which will reduce costs considerably, 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: Accelerate growth through synergies with Regus Japan

It is still unclear when the coronavirus shock will end, but things are improving considerably. The Olympics are moving in the direction of being held. If the situation can be read by the end of summer, the Company will be able to expect recovery in the fiscal year ending February 2022, with earnings entering a phase of full-scale recovery.

The direction the Company aims for in the medium term has not changed. It will likely reinforce its strategy of pursuing new needs in the flexible workspace market. In the next five years, it should be able to overcome the coronavirus shock and follow a growth path.

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

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

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.

Granted Award for Excellence in Corporate Disclosure in 2019

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.

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.

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.)

Paying attention to turnaround

Currently the Company is listed on Mothers market, however it is in no hurry to move to the First Section (Prime market). 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. If the latest equity financing round proceeds smoothly, the Company will be able to make progress.

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 Company will strengthen its system for performance-linked compensation for the management staff who bear responsibility for managing the Company.

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

At the current (January 29) share price, PBR is 2.54, ROE is 2.6%, and PER is 97.9. 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.