Mitsui Fudosan Co., Ltd.
FY2017 and Mitsui Fudosan Group's Long-term Vision: VISION 2025
Analyst Meeting Q&A Summary

Q. Please explain why you have chosen to use ROA rather than ROE as a management metric for the Long-Term Vision: VISION 2025 (hereafter Long-Term Vision)

A. ROE can be raised by increasing leverage. However, given the relatively higher levels of interest-bearing debt typically carried by real estate developers, and recognizing the potential for higher interest rates in the future, we believe it is also necessary to bear in mind that we could also experience higher levels of business risk as a consequence of intentionally increasing leverage for the purpose of boosting ROE.

From this perspective, we believe it is important to manage ROE appropriately through stable profit growth and sustainable improvements in ROA; taking into account the nature of our business, we are targeting an ROA of around 5% as a management metric.

We note that assets owned by real estate developers incorporate profit-generating added value (unrealized gains). As well, asset ownership allows us to be deeply involved in creating neighborhoods, making it possible to further enhance added value over time. As such, we will continue to give serious consideration to our asset portfolio strategy.

Q. Your ROE for FY2017 was 7.4%. How do you view this level? Also, what is your assumption for the ROE level at the 5% ROA target set out in the Long-Term Vision?

A. Under the Long-Term Vision, we expect capex of around ¥3 trillion, which will push up the D/E ratio from the current 1.18x. We believe the appropriate D/E ratio is around 1.5x. Assuming an ROA of 5% and a D/E ratio of 1.5x implies an ROE level of around 7%. Given this, we believe that the current level is the appropriate level for Mitsui Fudosan as a developer.

Q. You targeted ¥30 billion in profits from the overseas business in the final year of the previous medium-term business plan, FY2017, but fell short of the target. Please explain why. Also, under the Long-Term Vision, you are aiming to increase the profit contribution from the overseas business to 30% of total profits. Could you tell us how much of this is already supported by projects in the pipeline?

A. The main reason for the shortfall is the pushout into FY2018 of handovers initially expected in FY2017. Given that we expect overseas business profits to exceed ¥30 billion in FY2018, we believe the foundations for consistently generating around the ¥30 billion level targeted in the medium-term business plan are in place.

In addition, we have been able to make solid progress in acquiring overseas business opportunities. If we include profit contributions from new additions to the pipeline, we are already relatively well-positioned to achieve the 30% target.

Q. Please discuss your investment policy for the retail facilities business going forward.

A. Currently, we are moving forward on multiple projects that have not been disclosed at this time. These projects should be completed and launched in 2 to 3 years' time. Looking out to 2025, we aim to continue our efforts to win superior domestic and international opportunities.

Q. With regard to the Long-Term Vision, please explain why you chose to move away from the framework of the medium-term business plans used to date, in favor of a longer-term perspective and a focus on your vision.

A. Many of the projects that we pursue strategically are relatively longer in nature. This is not just in the office and retail facilities business, but also in the residential business where we are seeing an increase in redevelopment projects. Given this, we felt it would be challenging to show clear growth for the group in a relatively shorter-term 3-year timeframe. However, in formulating a long-term plan, we did not feel it would be appropriate to set specific targets for a particular year, given the potential impact from social, economic or market changes, as well as the nature of our business, where project timelines can get extended by 1 to 2 years. As such, for the current plan, we chose to announce a Long-Term Vision in which we set out what we aim to achieve, using ranges for the timeframe and target metrics. We felt it was important to share the initiatives that we believe will allow us to achieve these goals.

Q. You indicated that you will be pursuing further localization of your international subsidiaries in order to dramatically grow the overseas business. How would you assess the progress you have made to date?

A. Mitsui Fudosan America's CEO is American; we believe we have made substantial progress on localization in the US. However, the local subsidiaries in the UK and Southeast Asia are at a relatively early stage of development. We will continue to move forward with localization at these entities.

Q. Of your longer-term goal of around ¥350 billion in consolidated operating income, if you assume the overseas businesses will contribute around 30%, this implies the contribution from the domestic business would only be around ¥250 billion. Given you are guiding for ¥250 billion in operating income for FY2018, it suggests you are not expecting much growth from the domestic business. How should we think about your forecasts for the domestic business going forward?

A. FY2018 operating income guidance includes a contribution of more than ¥30 billion from the overseas business, so it is not the case that we do not expect the domestic business to grow. At this point in time, while we are aiming to raise the profit contribution from the overseas business to 30% of the overall total, we believe we can grow our domestic businesses by executing on the initiatives we outlined in the Long-Term Vision, although we have factored in some risks to the domestic office and residential businesses. If, on top of this, we successfully raise the profit contribution from the overseas business to 30%, then we believe we could exceed the ¥350 billion level on a consolidated basis. That said, consolidated operating income could end up being around ¥350 billion, if we were to fall short on the overseas business. The expected profit contributions from our domestic and overseas businesses should be viewed as ranges.

Q. How should we think about the appropriate balance for Holding, Trading and Management?

A. We believe a stable balance is one in which we do not overly rely on the Property for Sale business. We believe the appropriate balance is 2:1:1 for Holding, Trading and Management. In our domestic business we have already largely established this model. However, for our overseas business, the proportion of profits we generate from Management is still low. Additionally, profit recognition for Trading, to a certain extent, is impacted by the presence or absence of projects in a given year. As a consequence, Holding will continue to account for the majority, although there is likely to be variance from year to year.

Q. Please discuss the background to why you have decided to buy back shares.

A. Our stated basic policy on shareholder returns is as follows:

Mitsui Fudosan reinvests its earnings to increase shareholder value over the medium to long term and directly returns profits to shareholders based on comprehensive consideration of such factors as the business environment and the Company's performance and finances.

This policy remains unchanged.

We will continue to proactively invest in attractive opportunities. We expect that the total domestic and overseas investments will be around ¥3 trillion. In formulating the Long-Term Vision, we were able to confirm that we could improve shareholder returns and still make necessary investments while maintaining our D/E ratio at a level of 1.5x or lower. This underpinned our decision to raise total shareholder returns to 35%. With regard to share repurchases, we will take a flexible approach, taking into account factors such as the share price level, the business environment and the impact on the market.

Q. Your targets under the Long-Term Vision could be viewed as conservative. How do you view these targets?

A. We do not believe that aiming to raise operating income from ¥250 billion to ¥350 billion is conservative; we view this as a relatively aggressive plan.

Q. With regard to your shareholder returns policy, what kind of changes to the operating environment would prompt you to change the policy?

A. The background to why we chose to improve our shareholder returns policy is as previously stated. Barring unforeseen circumstances, our basic intention is to maintain the current policy.

Q. You do not appear to be expecting much improvement in ROA. I would have thought that your ROA would improve a little more as your overseas business expands. Please explain how you plan to improve ROA levels for both the domestic and overseas businesses.

A. The hurdle rate for development returns on overseas projects where we retain the asset is set at a level relatively higher than for domestic projects. From that standpoint, growth in the scale of our overseas business would contribute to a higher ROA. However, increased investments to grow our overseas business would also likely lead to an increase in non-revenue generating assets, which is why we are not expecting a significant improvement to ROA.

Q. Is there a possibility you could undertake overseas M&A?
A. It is certainly possible that we could make acquisitions to either buy a package of assets or to acquire functionalities to grow our Management business.

Q. You indicated that necessary investments going forward would be around ¥3 trillion. I believe that you generate sufficient cash flow on an annual basis to cover the average implied annual investment amount. Please discuss the outlook for your D/E ratio going forward.
A. It is true that operating cash flow is at high levels but if we take into account cash needs to pay interest, corporate taxes or dividends, we will need to borrow to cover a portion of our investment needs. As a result, we expect the D/E ratio to rise.