Mitsui Fudosan Co., Ltd.

FY2021 Analyst Meeting Q&A Summary

Q. Please explain the background to the decision to raise the total shareholder return ratio from 35% to 45%, including a discussion of elements such as improvements to cash flow, maintaining a balance between growth investments and shareholder returns, and the impact on ROE.

A. One factor which prompted us to raise the total shareholder return ratio was the fact that if the ratio remained at 35%, the accumulation of capital over time could lead to financial leverage dropping below the lower end of the range we consider to be appropriate. The real estate industry is sensitive to the risk of rising interest rates and volatility in asset values because it actively utilizes interest-bearing debt and holds significant levels of assets. Mitsui Fudosan aims to ensure that leverage does not become too high: currently, our target range for the D/E ratio is between 1.2 - 1.5x. We took this into consideration in deciding to improve shareholder returns.

In addition, we were aware of investor expectations for improved shareholder returns from both the real estate industry and Mitsui Fudosan. In FY2019, Mitsui Fudosan recorded new record highs for operating income and net profit. At that time, we considered raising the total shareholder return ratio from 35% to around 40%. However, we were forced to shelve the discussion as a result of the global COVID-19 outbreak which started at the end of FY2019. Two years have since passed. With the gradual lifting of restrictions on economic activity related to the pandemic, signs of recovery also played a role in our decision.

Also, despite the pandemic, Mitsui Fudosan's cash flow-generating capability did not decline and looks likely to improve going forward. This was also a consideration. I did have concerns about cash flow initially when retail facilities' GMV and hotel occupancy rates declined. However, in the FY2022 earnings forecasts, we project new record highs in operating income and net profit, in spite of the lingering impact of COVID-19 on the hotel business.

We are aware of concerns that the decision to raise shareholder returns might limit investments for future growth but this will not be the case. We believe we can continue to reward shareholders while also investing for future growth.

In summary, we confirmed that we could continue to improve shareholder returns while also maintaining growth investments, supported by profit and cash flow growth. As well, we recognized that a continued accumulation of capital could depress the D/E ratio below the lower end of our expected range, which would have implications for ROE. Given these factors, we felt we should improve shareholder returns. This led us to the decision to raise the total shareholder return ratio to 45% at this time.

Q. In the previous fiscal year, Mitsui Fudosan sold office properties that had been re-categorized from tangible assets to real property for sale. Please discuss your property disposal strategy, including asset reclassifications.

A. Prior to the adoption of the current business models of holding & leasing, development & sales and management, we had no concept of selling office or other properties. As a result, we basically viewed investments in offices and other asset classes as investments in tangible assets.

Now, given our focus on balance sheet control, even properties classified as tangible assets, including offices, are not exempt from being considered for disposal. Properties are categorized as either assets to be held or not; assets that we plan to sell are re-classified as real property for sale to enhance asset turnover. Examples of properties that we should hold for the long-term would be those that will play a leading role in the creation of communities that get better with age through post-completion additional investments.

I believe it will continue to be important for Mitsui Fudosan to reassess the classification of its overall holdings into tangible assets and real property for sale. We will undertake disposals of assets as appropriate, reflecting a comprehensive assessment of the timing of sales and market conditions.

Q. Please talk about tenant response to your initiatives to improve soft services for offices and how Mitsui Fudosan differentiates itself from its peers.

A. Let's take the example of the underground co-generation system in place at Nihonbashi Muromachi Mitsui Tower in Tokyo. In an emergency where access to external power sources is cut off, we are able to stably provide heat and energy to the neighborhood. This has been highly rated by our tenants from a BCP standpoint.

At Tokyo Midtown Yaesu, located directly in front of Tokyo Station, which is slated to complete this year, we are preparing to supply tenants with green power, implement facial recognition for access control, install automated doors to address the risk of infections through physical contact, and offer open working space by constructing terrace space. Through the leasing process for this property we have seen a strong response from tenants, confirming our sense that we have been able to solidly differentiate ourselves by creating real office spaces which support new styles of working and incorporate pandemic measures, green power supply, BCP and cybersecurity measures.

Q. Please discuss new business areas which you expect to contribute to profits and when you expect to realize such profits.

A. We expect to see a gradual evolution in the office leasing model reflecting changing times. Rather than solely relying on leasing revenues from traditional fixed location offices, I believe that Mitsui Fudosan will be able to combine this with usage fees from shared offices as a new profit-generating opportunity. I expect the Mitsui Fudosan Group's shared office business, Work Styling, to move into the black from FY2022 and to contribute to profits.

Also, we have been involved in the Logistics business since 2012; it has already contributed meaningfully to profits. The expansion into business areas such as data centers and city center logistics facilities should become a key driver of profit growth going forward.

In addition, I have high expectations for Tokyo Dome in the sports and entertainment field. While there will be some lingering impact from COVID-19 in FY2022, I expect Tokyo Dome's profit contribution to increase in future, on the impact of the recently completed renovations and business tie-ups within the Mitsui Fudosan Group.

Q. Please discuss the growth outlook for the overseas business, such as increased contributions from New York's Hudson Yards and Property Sales to Investors, from the perspective of achieving the VISION2025 operating income target of 350 billion yen.

A. We aim to generate around 30% or 100 billion yen of the 350 billion yen target in the overseas business. The expected contribution from the overseas business in FY2022, relative to our overall operating income target of 300 billion yen is around 20% or slightly less than 60 billion yen. We are making solid progress on building up the pipeline toward the 100 billion yen target. Given New York's 50 Hudson Yards, which will complete in FY2022, and factoring the profit contribution from the pipeline of assets under development, I believe the target of 100 billion yen in profits from the overseas business is achievable.

Q. When we look at Mitsui Fudosan's position in the industry, we can point to your strength in selling condominiums priced at 100 million yen or more in the domestic residential business or, on a comprehensive basis, the fact that Mitsui Fudosan posts the industry's top operating income in value terms. Please comment on businesses where you have been able to improve your competitive capabilities or leverage strengths following the pandemic.

A. The first example I will highlight is the car park leasing Repark business. To date, Repark had prioritized growing the scale of its business. As a result, there were instances where we paid high rents on land in order to lock in locations, which consequently pushed up the breakeven point. In response to the pandemic, we have been disciplined in implementing structural reforms, such as exiting from expensive leases. While revenues have not recovered to pre-COVID-19 levels, profits have now grown beyond pre-pandemic levels. In this way, Repark is a good example of how we were able to elevate our competitiveness as a result of the pandemic.

Also, in the retail facilities leasing business, the pandemic was a catalyst in strengthening our relationships with tenants. In the early stages of the outbreak, we temporarily closed down our retail facilities for just under 2 months in response to government requests. Our decision to offer rent relief to retail facilities' tenants has significantly improved our

relationships with tenants. Currently, GMV for the retail facilities is recovering. The ability of many high quality tenants to continue operating contributes to enhancing the competitiveness of our retail facilities, in my view.

In the hotel and resorts business, the pandemic proved to be a catalyst for re-thinking the business model. To date, our business relied heavily on the rising trend of the underlying market and traffic from OTAs (online travel agents). What we have learned from this experience is that there is a need to shift to a model where we are able to win business through our own sales efforts. We have already started implementing initiatives to tap into new latent demand, such as collaborations between hotels and the shared office business or hotel subscription plans. In addition, like Repark, we have implemented structural reforms such as reviewing unprofitable locations and conversions to other formats, as well as the rationalization of operations. Through these measures we are making progress on improving the profit structure. After the 2 years of the pandemic, the impact on the hotel industry, including our peers, has been significant: competitive capabilities have declined across the board. Against this backdrop, even now Mitsui Fudosan's hotel and resorts business has been able to maintain its business scale of 13,000 rooms, supported by core businesses such as the office and residential businesses. When the market recovers, we believe that we will be able to raise our relative presence. It is still a work in progress but we must seize the opportunity presented by the pandemic to strengthen our competitive capabilities within the industry and further improve our differentiation.

Q. Can we view the ROE target of 8% as a target that you are aiming to achieve by around 2025? Also, is there a possibility that you could aim for a level higher than 8% in the future?

A. Our ROE target of 8% is one of our key management metrics. It is based on certain assumptions for the various factors that developers must be aware of, such as financial leverage, the ratio of assets under development and central urban assets, and the assumed profit contribution from each of holding & leasing, development & sales and management. Given its importance, we would like to position this as a target to be achieved by around 2025. With regard to our ROE target after 2025, I would like to aim for an even higher level.

Q. You have described your assumption of a profit breakdown of 40:40:20 from each of holding & leasing, development & sales and management around 2025 as a backdrop to setting the ROE target of 8%. Could you aim for an even higher ROE level by focusing on developing neighborhoods that get better with age by tapping into third-party capital and reducing the profit contribution from holding & leasing to less than 40%?

A. I believe that we can aim to achieve an ROE above the 8% level over time.

From the perspective of stability of cash flow or profit growth, I believe that it will be necessary to maintain a certain level of profit contribution from rental assets going forward. However, if we can persuade a third-party to provide the funds for the additional investments we have been making to improve our neighborhoods with age or to conduct the field trials we undertake as a part of neighborhood creation to address social issues, I believe that we can lower the ratio of profit contribution from holding & leasing slightly.

Also, while the feasibility at this stage is still unclear, I would like to explore ideas to further improve ROE, such as finding a third-party investor to hold assets under development on our behalf.

Q. Is there a possibility that rising construction costs could impact the investment decision-making process going forward?

A. I believe that rising construction costs will have an impact on future investment decision-making. As an example, the Tokyo metropolitan area condominium market used to supply 80,000 units a year. Recently, in comparison, the annual supply is now at around 35,000 units. I believe this is an example of one impact of rising construction costs. The decline in annual condominium supply volume relative to past market trends is not a reflection of weak demand for condominiums. Instead, I believe it is the result of rising construction costs and difficulties in locking in land at a level where the development can cover the cost of the land. If construction costs rise further from here, I believe it will further exacerbate the degree of difficulty in acquiring for the land bank.

In addition, higher materials prices could lead to tougher cost negotiations between developers and general contractors. As such, we are increasingly wary of higher construction costs.

Q. How do you expect to absorb the increase in construction costs as a result of using materials that contribute to reducing carbon emissions?

A. I feel that the issue of how to absorb higher construction costs associated with the use of materials that lower carbon emissions will be a serious issue for both developers and the construction industry.

Ultimately, I believe that society as a whole will have to bear the cost of aiming to achieve carbon neutral. In my view, we are likely to see a trend where a portion of the higher costs should be borne by not only the general contractors but developers as well, with customers also bearing some of the costs in the form of higher selling prices. This is likely to be a global trend.

Q. Is cost push inflation likely to have a positive or negative impact on Mitsui Fudosan? Based on this, what types of corporate actions are you assuming?

A. If we think about construction expenses from the perspective of cost push inflation, the key point will be finding ways to ensure that it does not result in a negative impact, in my view. In other words, through negotiations with the general contractors we will need to be disciplined about cost control, focusing on materials procurements, a review of the overall construction process, or promoting value engineering with a focus on efficient design. In some instances, we may also need to consider passing along some of the increases to customers. For example, in Property Sales to Investors, I do think that it is possible to pass along the incremental costs to the customer, given than real estate assets can be viewed as inflation hedges. However, for residential properties targeted at individuals, as this is a market that is driven by mortgages that are supported by low interest rates and double-income households, it may not be possible to raise selling prices further to reflect higher construction costs. In such instances, a more rigorous approach to cost controls is likely to be necessary, such as adjustments to not only construction expenses but acquisition prices for the land bank as well.

Q. How long are you assuming the total shareholder return ratio target of 45% will remain in place? In future, could you consider further raising shareholder return levels?

A. We are assuming the 45% total shareholder return ratio will be maintained up to around 2025. In terms of the future beyond that point, I believe we will need to make a decision based on the then-current financial environment, the level of financial leverage and a number of other factors.

Q. Please discuss the impact of foreign exchange rate moves and rising interest rates on your overseas business.

A. With regard to foreign exchange rate moves, in principle, we raise funds in local currency so we have a natural hedge.

With regard to rising interest rates, we have been focused on extending maturities and locking in fixed rates in raising funds for both the domestic and overseas business. As such, we believe we are resilient to the risk of rising interest rates. We note that we have reflected a special one-off impact in our earnings forecasts for FY2022 given the expected completion of a large-scale property in the US in 2022. As such, we expect our net interest burden for the US will increase. However, inflation in the US will also push up rents for offices and rental residential properties: we believe that we can expect an increase in leasing revenues that should be sufficient to cover rising interest rates going forward.