3479 TKP

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

December 7, 2017 TSE Mothers

Points

- President Kawano has positioned the TKP growth stages as follows. Phase 1 involves independent growth with the rental conference room business at the core. After launching the rental conference room business, the Company has raised its grades and is now operating hotel banquets, as well as the Garden City and Garden City PREMIUM grades using newly constructed and relatively new office buildings. The Company will continue on this path as its high value-add strategy in the future.

- Phase 2 involves increasing added value through business collaborations and acquisitions in order to bring in-house areas of peripheral businesses that previously relied on outside providers, while operating rental conference rooms at the core of the business. With the acquisition of the boxed lunch Company Tokiwaken, as well as renovation of leisure facilities, lodges, and hotels, the Company aims to produce the synergy of regeneration in all areas of its business. The APA Hotel FC is part of this business area. The current 3-year business plan includes this phase, and its achievement is nearly certain.

- Phase 3 is based on the theme of “From Space Regeneration to Business Regeneration” and is composed of 2 sides. The first is working from a base of synergy with the primary core business and using M&A and business collaborations to increase the regeneration weight among the businesses which TKP acquires. While increasing added value in the main business, this regeneration is expected to result in higher corporate value for the group. In the second side of this phase, although business to this point has been based on B to B, the Company will strengthen its B to C operations as it sets its sights on regeneration of retail business as defined in an increasingly broad way.

- One starting point is a collaboration with the interior Company Otsuka Kagu. This capital and business alliance is loose at present, and the 1.05 billion yen in allocation of shares to a third party has limited the TKP holding ratio to 6.65%. The actual business under consideration includes (1) Sales of Otsuka Kagu products to TKP facilities, (2) Use of Otsuka Kagu shop spaces by TKP, (3) Bilateral introduction of customers, and (4) Creation of new shops by joint investment from both parties.

- Based on its space business, TKP is operating a sharing economy that is shifting from the value of

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ownership to the value of use. Through space regeneration that other companies are unable to imitate, the Company is carrying out a business model in which higher operating rates generate high profits. Through this creation of added value, the Company is aiming to achieve 40 billion in sales and 6 billion in operating income in the fiscal year ending February 29, 2020. Performance at present continues to be strong, and it is continuing to set new records for peak income. The Company is currently in the early growth phase, and further Phase 3 growth can be expected in the future. The current level is PBR of 9.3× = ROE 21.0% × PER 44.2×, and the Company is working to further increase this evaluation together with future income growth

Contents

1. Characteristics: Operating a sharing economy that is shifting from the value of ownership to the value of use.
2. Strengths: Increases in operating rates generate high profits with a regeneration business that others cannot imitate.
3. Medium Term Business Plan: The 3-year plan aims easily achieve targets for creation of high added value.
4. Near Term Earnings: Remain strong, and are continuing to set new records for peak income.
5. Company Evaluation: Currently still in the early growth stage as the Company works towards Phase 3.

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Corporate rating: A

Share price (Dec. 7, 2017): 2,331 yen

Market capitalization: 77.2 billion yen (33.11 million shares)

PBR: 9.33× ROE: 21.0% PER: 44.2× Dividend yield: 0.0%

(Million yen, yen)

Fiscal year	Sales	Operating income	Ordinary income	Net income	EPS	Dividend
2013.2	8102	1129	1222	615	20.6	0
2014.2	10877	1060	1241	198	6.6	0
2015.2	14162	878	701	339	11.3	0
2016.2	17941	2004	1848	935	31.3	0
2017.2	21978	2694	2552	1352	45.2	0
2018.2 (forecast)	27000	3300	3050	1720	52.7	0
2019.2 (forecast)	32000	4000	3600	2050	62.9	0

(as of Aug. 2017 base)

Total assets: 27,878 million yen Net assets: 8,185 million yen Capital adequacy ratio: 29.2%

BPS: 249.6 yen

Notes: ROE, PER, and dividend yield are based on forecasts for the current fiscal year. Beginning from the 2015.2 fiscal year, the figures are consolidated statements. Prior to that year, they are unconsolidated.

A 1:100 stock split was conducted in January 2017, and a 1:7 stock split was conducted in September 2017. The EPS in prior years uses a corrected base.

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 and sustainability of business, (3) Potential for downward earning revisions. The rating utilizes the following 4 grades. A: Favorable, B: Some improvement needed, C: Significant improvement needed, D: Extremely difficult conditions.

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

Full-scale approach to a sharing economy

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

Total Kukan Produce

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

What is "space regeneration & distribution"?

"Space regeneration & distribution" refers to a retail distribution business which acquires unused space, regenerates it to create conference rooms, and retails it for use as temporary office space. Alternatively, it involves acquiring hotel banquet halls with low operating rates and utilizing the TKP network to regenerate them as spaces for meetings, banquets, and events, and also distributing them to other TKP facilities as catering centers.

President Kawano and history of the Company founding

President and CEO Takateru Kawano (age 45) 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

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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 first facility where he leased conference rooms, he began leasing conference rooms on weekends and created 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, and the Company began running a monthly loss of 100 million yen. This triggered the restrictive financial covenant on loans and it became necessary to repay the borrowed money.

Although the Company had been preparing to be listed in 2009, the situation suddenly changed. The properties had been leased long-term, and the rent for them was high. Somehow the Company managed to lower the rent by half and reduced conference room prices by around 30%. This allowed the Company to break even and survive the crisis. Even at this time, there were no layoffs of personnel, and even in this difficult year the Company secured a profit.

The second challenge was at the time of the Great East Japan Earthquake in 2011. All events were canceled and the rental conference rooms were deserted. By various means, the Company managed to get through this period as well without running a loss.

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 grew rapidly, exceeding 200 in 2007, 500 in 2009, and 1,000 in 2012. At present the Company operates more than 1,800 rental conference rooms including those overseas, and is expecting to reach 2,000 in 2018.

Numbers of rental conference rooms by region

(No. of rooms, %)

	2017.2		2017.8	
Hokkaido	85	5.0	93	5.3
Tohoku	105	6.1	105	5.9
Kanto	851	49.8	859	48.6
Hokuriku	45	2.6	39	2.2
Tokai	137	8.0	140	7.9
Kansai	298	17.4	349	19.8
Chugoku/Shikoku	50	2.9	50	2.8
Kyushu	139	8.1	132	7.5
Japan total	1710	100.0	1767	100.0
Overseas	42	2.4	46	2.5

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

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.

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

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

Expanding overseas

The Company also expanded 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, however this business has 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. The Company is continuing on a trial and error basis at the present time.

Five business areas

The Company is at present operating in five business areas. These are (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.

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

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food/beverage and other catering.

Breakdown of sales by service

(Millions yen, %)

	2016.2		2017.2		2018.2 (first half)	
Rental conference room services	10304	57.4	12659	57.6	7632	54.6
Optional services	1682	9.4	2135	9.7	1308	9.4
Food & beverage services	4004	22.3	4657	21.2	2946	21.0
Accommodation services	594	3.3	1093	5.0	1195	8.5
Other services	1356	7.6	1433	6.5	900	6.4
Total	17941	100.0	21978	100.0	13983	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.

Corporate governance

Corporate governance is solid. 3 of the 5 directors are outside directors, and all 3 auditors are from outside the company. Haruo Tsuji, former president of Sharp, serves as an outside director. He is an opinionated outside director with knowledge and judgment that helped him to lead Sharp during its growth period. The outside directors are an important presence for an owner-manager and president Kawano is fully aware of this

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

No. 1 in the rental conference room industry

The Company controls approximately 60% of the market for rental conference rooms. There is no other company in the industry which provides the same services as TKP does based on rental conference rooms. When it comes to management of hotel banquet facilities, other companies do not have sufficient hotel management strength and do not have a network of conference rooms.

Original business model: Founded by an innovator

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

Strength of asset light management

The TKP strength is its operations that do not involve ownership. It abandons the rights of ownership

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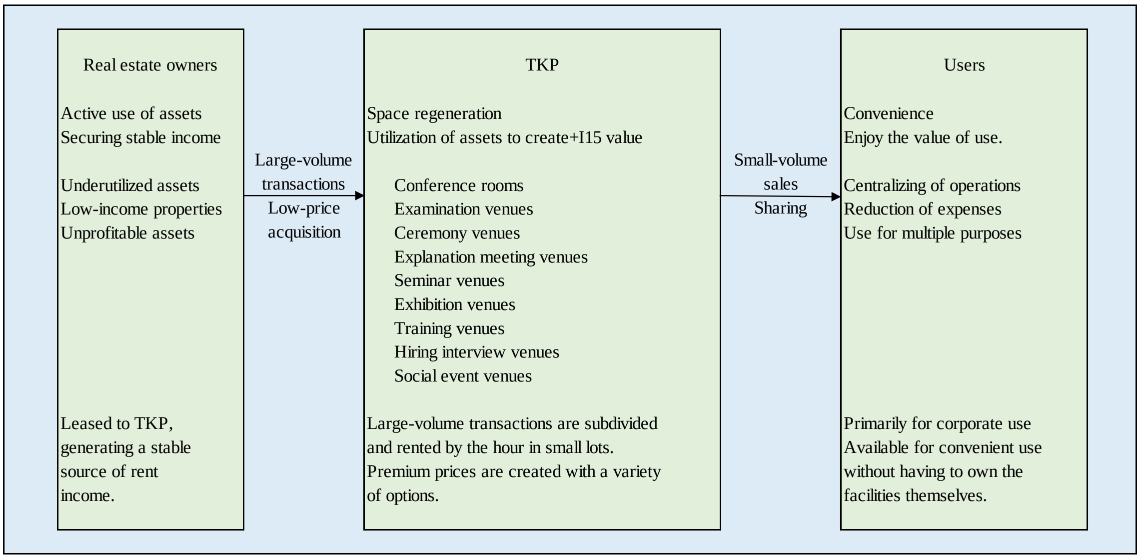
and competes with the rights of use. This is the concept behind growing the business with limited funds.

If the first rental conference room Internet business in Japan was the first step, then the second step after rental conference rooms was creating rental conference rooms at hotel banquet facilities. The third step was then to combine meetings and training with accommodation and begin operating hybrid-type hotels.

Will this model work globally? Overseas, few middle-class hotels have banquet facilities. Even if the need exists, having a banquet facility would not be feasible in terms of efficiency. The same as in Japan, there is room here to make use of TKP innovation.

One theme is creating middle-class hotels that include conference rooms and/or banquet facilities. The Company is operating a business model for successful implementation of this theme in Japan.

TKP Business Model
<Sharing economy for space regeneration>



Entering the full-scale hotel banquet facility business

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

The first facility was TKP Garden Hills Shinagawa. There, it began shifting the food & beverage business to an internal operation. Originally, the facility was operated by Tokyu as the Hotel Pacific Tokyo, however the banquet facility division was a heavy burden on the hotel. As part of the redevelopment of that area, the Company took over the rental conference room and food & beverage

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services. Shinagawa Goos – a multi-purpose commercial complex centered on a large-size business hotel (Tokyu EX Inn) – opened in 2011.

Why is the company profitable?

TKP Garden Hills Shinagawa became a major earner, overturning the conventional wisdom of the time that hotel banquet facilities were not profitable.

The reasons why this business is profitable include the following. (1) When banquets are not scheduled, the facility is used as ordinary conference rooms, increasing the operating rate. (2) The Company has a base of 20,000 corporate clients, and among them are companies with needs for conferences at hotels. (3) The company hired sales staff and conducted strong sales operations. (4) There are multiple TKP conference rooms around Shinagawa, making it possible to capture the demand for catering and food & beverages at these facilities. This increased the operating rate and increased the value-add.

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

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

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

Tokiwaken also received contracts for in-flight boxed lunches from a major airline, and for boxed lunches at meetings in high-grade hotels. It became the subsidiary Tokiwaken Foods and the Company became able to purchase boxed lunches from within its own group. At present, although Tokiwaken Foods also sells outside the company, 60% of its lunches are for use within the Company.

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

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

The Company entered the hotel & resort business in 2013 with the opening of the first LecTore resort seminar hotel. This business makes use of leisure facilities that are owned by large corporations.

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These corporate leisure facilities are a poor fit for modern needs, and in many cases the operating rates are low. Another owner buys the leisure facility from the corporation and the Company then leases the facility.

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

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

Renovations for large improvements in profitability

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

Accommodation facilities for rental conference room users

Facility name	Characteristics		No. of facilities	
			2017.8	2020.2 (planned)
LecTore	Suburbs	Resort-type seminar hotels within 1 hour of CBD Inexpensive to acquire and regenerate	5	5
Ishinoya	Suburbs	High-grade resort-type seminar ryokan (traditional inn) Inexpensive to acquire and regenerate	1	1
Azur Takeshiba	City	Resort-style training city hotel in central Tokyo Accommodation needs for rental conference rooms, means of customer referral	1	1
APA Hotel	City	Business hotels with conference rooms Carefully selected investment within FC range	3	8
First Cabin	City	Compact hotels with conference room Carefully selected investment within FC range	1	2

A talent for renovation: Renovation of Ishinoya

Ishinoya was purchased by a different owner of Sekitei after performance at that company slumped. The Company then leased and began managing the facility. It is essentially a higher grade version of LecTore. Each room is large, at 35 – 105 m^2 in size, and there are rooms that include private outdoor baths. The facility is used for training (15,000 yen per person) on weekdays, and is used as a resort for

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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.

APA Hotel FC (franchisee)

The Company has also begun constructing its own hotels. In December 2016, it opened the APA Hotel TKP Nippori Ekimae in Nippori, Tokyo.

For this project, the Company purchased land and invested 3.0 billion yen to create a facility with 278 rooms. The average room price is 9,000 yen and the operating rate is nearly 100%. Japanese guests account for 80% and overseas guests for 20%, and guests stay on weekends as well. The operation is efficiently run, and operating profit on sales of close to 40% can be expected.

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

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

Including the 2 in Sapporo, TKP is currently operating 3 APA Hotels. These are hybrid hotels that include conference room facilities. Hotels in around 10 locations are planned, including hotels in Nishi Kasai (December), Kawasaki (spring 2018), Sendai (autumn 2018), and Osaka (autumn 2018).

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

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over operations in April 2017.

This facility is a general health services facility for members of the Mutual Benefit Association for Tokyo Metropolitan Government Employees, and therefore consideration must be given to the member services. The rent for lease of the facility by the Company was also increased, and the challenge is finding a way to make the facility profitable. TKP Garden City Hamamatsucho will be constructed within this facility as a banquet facility for improved efficiency.

The next step is renovations. Because this will require time, it is expected that full effects will be produced in or around the fiscal year ending February 29, 2020.

Future expansion of overseas business

The Company expanded into New York in 2013, converting a building warehouse into rental conference rooms. In 2016, it leased the banquet facility of the Crowne Plaza Hotel near Newark Airport in New Jersey. The owner is of Taiwanese heritage, and we worked together with him. This project is proceeding well.

The Company also expanded into Singapore in 2013, leasing floors of office buildings and operating rental conference rooms in 2 locations. In the same way as in Hong Kong, at present no growth has been seen.

3. Medium Term Business Plan: The 3-year plan aims easily achieve targets for creation of high added value.

Size of related markets

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

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The rental conference room market

How much demand is there for rental conference rooms? It is necessary to closely examine the demand matching in each area, however in Tokyo there is still ample demand. There is large room for growth in major cities across Japan.

5 grades

At present, TKP conference rooms are composed of 5 grades: (1) STAR rental conference rooms (local community-based), (2) Business Centers (network primarily of meeting 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).

At the time when the Company was started, the conference rooms were all on the STAR level. The Company then expanded to the Business Center and Conference Center classes. At present, the Company is not actively expanding the bottom 2 classes. These can be imitated and competition will intensify, resulting in a price war. The Company does not seek this kind of competition. These classes generally do not generate food & beverage sales, and the added value is not high.

5 rental conference room grades

Name	Format	Facilities	Rooms	Business objective
Garden City PREMIUM	High-grade office banquets Creative spaces	11 12	113 119	Main target High added value ↕ Expansion of base Focus on efficiency
Garden City	Hotel banquets Large-size multipurpose office banquets	32 33	372 395	
Conference Center	Office banquets for meetings Centered on meeting seminars	67 70	796 814	
Business Center	Collection of conference rooms Centered on company internal meetings	53 56	351 370	
STAR rental conference rooms	Local community-based conference rooms For small-scale and individual use	41 38	91 76	

Notes: Upper figures are for the end of February 2017. Lower figures are for the end of August 2017.

Attacking with Garden City and Garden City PREMIUM

At present, the Company is focusing its efforts on Garden City and Garden City PREMIUM. When the hourly rental fees per-person of these 5 classes are compared, although not firm figures, the rates are generally 100 yen/hour/person 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 specifications are those of a hotel banquet facility, while the specifications of Garden City PREMIUM are those of a high-grade office complete with full-service banquet functions.

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Breakdown of sales by grade

(Millions yen, %)

	2016.2		2017.2		2018.2 (first half)	
Garden City PREMIUM	317	1.8	1355	6.2	1094	7.8
Garden City	6341	35.3	7523	34.2	4365	31.2
Conference Center	6846	38.2	8023	36.6	4782	34.2
Business Center	1657	9.2	1782	8.1	1049	7.5
STAR rental conference rooms	250	1.4	179	0.8	91	0.7
Accommodations, training	711	4.0	1284	5.8	1056	7.6
Other services	1816	10.1	1819	8.3	1543	11.0
Total	17941	100.0	21978	100.0	13983	100.0

Note: Figure at right is percentage of total.

Less expensive that top grade hotels

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

Future growth: Further expansion of the sharing economy

The TKP business is a typical example of a sharing economy. A conference room that is only used occasionally is not something which a company needs. There is strong demand for comfortable spaces at reasonable prices that combine conference rooms and banquet facilities. Even at prices that are reasonable to the customer, the profitability of the Company increases significantly as a result of the higher operating rate.

At present, the Company operates 1,800 rooms with 140,000 seats, and has a customer base of 1.4 million users every 10 days. It is expanding in the direction of a shift from [B to B] to [B to B to C].

Using instead of owning, however there is the possibility of large-scale investment.

In general, the Company does not own real estate. Instead of ownership, it leases and uses the properties, and buys and owns the equipment within the properties. This results in a low investment burden.

However there are some cases when it is clearly less expensive for a company to buy real estate. In those cases, the Company plans to own the property itself. If the Company determines that it is strategically important to own a hotel facility in Tokyo, then large-scale investment is possible. Because the Company currently has approximately 20 billion yen in cash, savings, and borrowings, it intends to consider how best to use those funds.

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Mid-term 3 year plan

Theme

Create quality "places", "spaces" and "time", by making use of and adding value to underutilized properties and land and by regenerating spaces, and aim for growth as a space regeneration and distribution company.

6 basic policies

1. Asset light management
2. High value-add, high efficiency
3. Further utilization of existing space
4. Continue active opening of facilities.
5. Expand into ancillary businesses (accommodation etc.) and bring these businesses in-house.
6. Enter new business areas (including through M&A).

Results targets

Sales of 38.5 billion yen and operating income of 5.8 billion yen in the year ending Feb. 29, 2020
Contribution from planned hotels (Kawasaki, Nishi Kasai, Sendai, Osaka, Sotokanda)

(Millions yen)

	2015.2	2016.2	2017.2	2018.2 (planned)	2019.2 (planned)	2020.2 (planned)
Sales	14162	17941	21978	26839	31602	38543
Operating income	878	2004	2684	3271	3934	5813
Ordinary income	701	1848	2552	3021	3589	5459
Net income	339	935	1352	1705	2044	3221

Current mid-term plan

The Company has announced and implemented a mid-term 3 year plan, however the plan is quite cautious and should be fully achievable. This mid-term plan was created at the time when the Company became listed, and is therefore based on existing business. Because the Company has started a hotel business in addition to the rental conference room and banquet facility businesses, the planned business elements have been added to the mid-term plan.

Although the lead time for hotels is long, the projects that are now in progress will be fully contributing to the business in the year ending February 29, 2020. All of them have high profit margins, and the impact on results should increase.

The policy for the mid-term plan is to add to it each year in order to make it a rolling plan.

6 basic policies

The mid-term plan is based on 6 basic policies that are aimed at creating a foundation which will lead to future growth.

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 12 years, and its track record is visible. Top management says that he understands the resalable risk and safe line.

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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.

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.

Balance sheet trends

(Millions yen, %)

	2016.2	2017.2	2017.8
Current assets	8048	8489	11634
Cash and savings	5749	5494	8051
Fixed assets	8563	15650	12701
Tangible fixed assets	4689	10822	10836
Buildings and structures	1743	4035	4619
Land	2577	6507	3941
Investments and others	3819	4763	5280
Lease and guarantee deposits	3518	4021	4532
Total assets	16612	24140	27878
Current liabilities	4919	5284	6991
Current portion of long-term loans	1326	1903	2158
Fixed liabilities	8592	14385	12701
Bonds	2492	3571	4116
Long-term loans payable	5693	10363	8136
Net assets	3100	4470	8155
Interest-bearing liabilities	10253	16607	15250
Ratio of interest-bearing liabilities to total assets	61.7	68.8	54.7
Capital adequacy ratio	18.6	18.3	29.2

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3) More effective utilization of existing spaces

The operating rate of the rental conference rooms is not 100%. On average it is 30%, with 70% 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 a slow season and there is almost no demand. To remedy this, a variety of improvements will be applied to operations, such as use of the facilities for English conversation classes and tutoring schools, and their use as examination venues for 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 new buildings are created and tenants enter, the operating rate of shared spaces declines and there is also an effect on rent. Therefore, consideration is given to efficiency by both tenants and owners. This expands the available area for the Company to lease and manage facilities, and management of the shared spaces in offices is a potential business area. When new buildings are completed, the operating rate of older building also drops. The use of these buildings is where TKP comes in.

5) Starting and internalizing peripheral businesses including accommodation

Where conferences or training are held, demand for accommodations naturally occurs. Groups staying at nearby accommodation facilities are considered as a "travel" to users and also generate travel business. The sizes are highly varied, ranging from a handful of individuals to large groups.

A closer look at sales shows that the weight of the conference room rental rate is declining and the weight of the accommodations and food & beverage sales is rising. At present, conference room sales account for just fewer than 60%, and are expected eventually to drop below 50%. Because the Company strives to avoid owning facilities whenever possible, the gross margin ratio is high. Similar gross margin ratios are achieved in both the food & beverage and accommodations businesses.

6) Development of new business areas (including M&A)

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.

Expansion of Garden City

TKP Garden City Sakae Ekimae in Nagoya is scheduled to open in January 2018. The Company

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has leased the entire 6th floor of Nagoya Hirokoji Place, creating 8 rooms with a capacity of 1,020. The largest 6F banquet hall can accommodate 318 persons. Because the building is not new, it is different from Garden City PREMIUM.

Attacking with Garden City PREMIUM

TKP Garden City PREMIUM Nagoya Lucent Tower is an office banquet facility that connects directly to the Nagoya subway and is scheduled to open in January 2018. The facility consists of 15 rooms (for 12 to 311 persons) on the 16th floor of Lucent Tower, with a total capacity of 864. This is a new building 1 year after completion, however because the banquet facility was inadequately managed, the decision was made to lease it to the Company.

"Office banquet facility" refers to offices that have specifications similar to hotel banquet halls.

TKP Garden City PREMIUM Kyobashi opened in September. This facility leases the 22nd floor of Kyobashi Edogrand and provides 6 rooms (for 36 to 252 persons), with a total capacity of 840. This building is linked directly to Kyobashi Station on the Ginza Line. These are office building conference rooms that incorporate banquet functions through catering.

This is the 4th Garden City PREMIUM facility in the Tokyo Metropolitan Area, after those in Jimbocho, Akihabara, and the Yokohama Landmark Tower. Due to its good location, the rent at Kyobashi is high, however the rents of the offices are also high. The operating rate is expected to rise, thereby further increasing profitability. The Company is approaching its existing corporate customers to promote use of this facility.

Direct management of restaurants

The directly managed restaurant Kizuna opened in Sapporo's Susukino district in August. Kizuna SusukinoS4 is a restaurant with 72 seats that prepares foods using local Hokkaido ingredients. It is linked with the 7 TKP conference room and accommodations facilities in the Sapporo area, and can be used as a venue for social events. Because customers are numerous, efficiency is high.

At present, the Company has 5 restaurants throughout Japan, and the branch managers, head cooks, and other core personnel who manage overall operations in the food and beverages department are all employees of the Company. The food & beverage business will continue to grow in the future.

Entry into the co-working space business: Joint operation with fabbit

After the apparel department store (Rapport) in the Asty Hiroshima Kyobashi Building closed in February, the Company in October signed a long-term lease and opened floors 3 – 6 as TKP Garden City Hiroshima Ekimae Ohashi. It contains 16 rooms (for 18 to 276 persons), with a total capacity of 1,608, and can be used as conference rooms and for banquets.

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In cooperation with APAman Shop Holdings, the co-working space “fabbit Hiroshima Ekimae” is operating as a joint venture with fabbit (a wholly-owned subsidiary of APAman Shop Holdings) on floors 1 and 2.

Co-working is an area that the Company wants to expand into, and it decided to team with fabbit, which has been operating in this field for some time. This space can be used to meet demand for a broad range of events, seminars, and consultation meetings held by start-up companies and individual proprietors.

Fabbit operates co-working spaces in Tokyo, Osaka, and Fukuoka, and already has 2,000 corporation members. As centers for open innovation, the Company is interested in these facilities not just rental offices, but also in the roles of collaborations and facilitators. The Company intends to engage in a wide range of collaboration with fabbit and others in the future.

In fact, the company “3L entrance” that was recently acquired by TKP operates a co-working space and rental office business. The brand name is TRIEL, and the business operates in Nihonbashi.

Expansion of APA Hotels

The APA Hotel TKP Sapporo Ekikita EXCELLENT was remodeled in September, expanding from 96 rooms to 105. This facility was an old hotel that was rebranded and reopened by APA. The 1st floor back yard was renovated to increase the number of rooms. There was a large increase in the profitability of this hotel after it was rebranded by APA and the number of rooms was increased. The hotel operating rate is nearly 100%.

The APA Hotel TKP Kawasaki is scheduled to open in April 2018 close to Keikyu Kawasaki Station. It will be operated based on a FC (franchise) contract with APA Hotels. It contains 143 guest rooms, and the 1st floor includes a hybrid banquet facility that can be used as a conference room or as a venue for social events or breakfast space. In Kawasaki, the Company leased the land and constructed the building on it. Catering will also be linked with Tokiwaken.

APA Hotel TKP Sendai Ekikita is scheduled to open in October 2018 close to Sendai Station. It has 13 floors with 305 rooms. Floors 3 – 13 will operate as the hotel. The 1st floor contains a restaurant and kitchen that also serve as the breakfast space, and the 2nd floor contains a large banquet facility with a capacity of 300 persons and a medium banquet facility for up to 50 persons. These will operate as TKP Garden City Sendai, and will be used for banquets in the Sendai area. It is planned that this kitchen will function as a central kitchen to meet food & beverage needs linked with the 7 conference room facilities and 54 conference rooms in Sendai City.

One strength of APA Hotels is its extremely efficient use of space. In extreme terms, they are able to create large numbers of rooms in a small space, and the level of user satisfaction is high. One objective of the Company is to operate around 10 APA Hotel FC.

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Achieving future profits at Azur Takeshiba

Azur Takeshiba opened in April and is still operating at a loss. This year sales are expected to be around 1.0 billion yen, resulting in some degree of loss. However because the operating rate is high, the Company intends to carry out renovations next year. In addition to the hotel and training facilities, the Company is also getting involved with wedding services. Renovations will also increase the number of rooms, and significantly improved performance is expected after 2 years.

Investment Profitability

The hotel operating profit margin is expected to be 30 – 35%. This is the same level as Garden City PREMIUM. A full study of investment productivity is conducted for all business, and the Company operates with a venture spirit that encourages giving new business a try when the probability of success reaches around 50%.

Entry into the weddings business

The Company once got involved in the weddings business, but at the time its expertise in B to C was insufficient and it withdrew. The necessary facilities are now in place, and the Company has decided to make a new entry.

Turning medical facilities into hotels

The Company will open its 3rd hotel in the Tokyo Metropolitan Area in front of Nishi Kasai Station in December. The location is 15 minutes by car from Tokyo Disneyland. The hotel has been converted from a former medical facility, and expectations are for annual sales of 300 million yen, ordinary income of 50 million yen, and a profit margin of 17%. Approximately 600 million yen is being invested in the renovations.

Capsule hotels: First Cabin FC

The Ichigaya Building which contains the head office also contains the TKP Ichigaya Conference Center. The Company has decided to convert a portion of this building and an annex to create a First Cabin compact hotel. Opening is scheduled for April 2018, following investment of 600 million yen to create 165 rooms.

2 months after opening, the First Cabin in Nagoya achieved an operating rate of more than 80%. Its targets are accommodation as an extension of training and also individual accommodation. These are capsule hotels modeled after first class airline seats, and a high operating rate is expected.

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Continuing LecTore renovations

LecTore Yugawara opened in May. It is a training center for a major corporation that has been converted to a hotel. It is a suburban type seminar hotel that contains 108 guest rooms and 10 conference rooms (the largest with a capacity of 165).

This makes for a total of 6 regenerated health care facilities and lodges (5 LecTore facilities and Ishinoya). Annual sales of 1.0 billion yen are expected. LecTore Atami Momoyama and LecTore Hakone Gora reopened after renovations in August, and LecTore Atami Karashi reopened in November. These serve as suburban type training centers located within 90 minutes from central Tokyo and Osaka, and further renovations to improve the utilization of such facilities will likely continue in the future.

Launch of "Cloud Space"

In order to promote the effectively utilization of underutilized small and individually-owned spaces, the Company has launched a space matching service. "Cloud Space" launched in April and uses a smartphone app to connect persons who want to use underutilized spaces with those who want to rent them out. The platform for this service is "Cloud Space".

At present, more than 2,000 spaces have been registered, including conference rooms, karaoke boxes, private rooms at restaurants, and studios. This service is provided as a function, and although it does not add significant value, it aims to promote efficiency and expand the business.

Acquisition of subsidiary Majors: Strengthening of event productions

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

It has 40 employees, and its president Hiroyuki Yamamoto is responsible for management. It has produced events for major foreign IT companies, and its business area is one where TKP was not directly involved before. At the same time, it has been a customer of the Company through its use of TKP spaces.

For Majors, securing spaces for events has always been a struggle. In addition, the corporate customers of TKP can be a powerful market. By entering into the TKP umbrella, it aims to expand its business.

For TKP, the acquisition of Majors opens up the new business area of event production, and will allow the market to be expanded. President Kawano expects this acquisition to add 1.0 billion yen to operating income after 3 years.

Becoming a subsidiary of TKP has several large advantages for Majors. (1) Use of the Company's

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customer base will be a large boost to the creation of high added value. (2) It can secure a stable supply of event spaces. (3) It can rapidly expand in scale.

Eventual full entry into overseas business

Business overseas cannot operate in the same way as in Japan. Resources are insufficient, and studies are necessary to determine how to team with local corporations. There are questions of how to link meetings, banquets, and accommodations in order to generate new added value. Further refinements to the Japan business model will be necessary.

How to approach major cities in the United States and other overseas markets? Rather than conference rooms, a chain operation that includes banquet facilities is necessary. The combination of conference rooms + banquet facility + accommodation is the business area of the existing hotel business. The Company's strategy is to create a TKP model based on the banquet facilities at hotels, without being constrained by the existing hotel business.

In Japan, it has created the TKP model by connecting office buildings. Overseas, it will likely aim to create a value chain by connecting together hotel banquet facilities.

4. Near Term Earnings: Remain strong, and are continuing to set new records for peak income.

Group companies and seasonality of results

Results were calculated on an unconsolidated basis up to the year ended February 28, 2014, and the Company began calculating consolidated results from the year ended February 28, 2015. In the year ended February 28, 2017, the Company had 764 employees and its main strength was its operations staff stationed at 200 locations across Japan. In the year ended February 28, 2017, it had 17 consolidated subsidiaries, and this year it acquired Majors and 3L entrance. The Company conducted a 1:100 stock split in January 2017, and a 1:7 split in August 2017, in order to increase the liquidity of the shares.

There is seasonality to the quarterly results. The 1Q (March – May) results are best. This is due to the boost in demand for rental conference rooms resulting from new employee training, hiring of recent graduates, and other purposes. 2Q and 3Q are generally on the same level, while 4Q (December – February) results tend to be lower. The Company is expected to take steps to smooth out this unevenness in results in the future.

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Seasonality of quarterly business results

(Millions yen)

		1Q (Mar. - May)	2Q (June - Aug.)	3Q (Sept. - Nov.)	4Q (Dec. - Feb.)
2016.2	Sales	4447	4669	4511	4314
	Operating income	804	739	520	-60
2017.2	Sales	5756	5414	5339	5468
	Operating income	1226	915	458	94
2018.2	Sales	7253	6731		
	Operating income	1415	884		

Comparison of unconsolidated and consolidated results

In the unconsolidated results, the profit and loss statements show that land rent is large among the main cost items. This is because the Company leases land long-term in order to operate its facilities. 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.

A comparison of consolidated and unconsolidated results shows that nearly all domestic subsidiaries are around the break-even point, while overseas subsidiaries are in the red. In the United states, the total accumulated loss was around 1.0 billion yen. It is difficult to conduct business overseas centered just on conference rooms. When combined with food & beverages, this becomes the business area of hotels. Determining how to differentiate itself is an issue for the future, and at present the Company is experimenting.

Comparison of consolidated and nonconsolidated profit and loss statements

(Millions yen, %)

	2016.2				2017.2			
	Consolidated		Unconsolidated		Consolidated		Unconsolidated	
Sales	17941		16761		21978		20806	
Cost of sales	11376	63.4	10519	62.8	13707	62.4	12845	61.7
Materials			1704				2059	
Personnel			576				653	
Operation related fee			904				1117	
Land rent			4487				5537	
Lease fees			649				806	
Gross profit	6565	36.6	6242	37.2	8271	37.6	7960	38.3
SG&A	4561	25.4	4188	25.0	5576	25.4	5128	24.6
Personnel			2567				2834	
Operating income	2004	11.1	2053	12.2	2694	12.3	2833	13.6

Note: Figures at right are percentages of sales.

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Results for the year ended February 28, 2017 were extremely good.

Results for the year ended February 28, 2017 were extremely good. Sales were 21,978 million yen (+22.5% from the previous fiscal year), operating income was 2,694 million yen (+34.4%), ordinary income was 2,552 million yen (+38.1%), and net income was 1,352 million yen (+44.5%).

Reasons for the strong performance included the following: (1) An increase in the number of directly operated conference rooms as a result of opening new facilities, (2) Expansion of the Garden City PREMIUM high added-value class, (3) Development of new applications such as demand for examination venues as measures to offset the slow season, and (4) Contribution from good operating rates at recently opened hotels.

The number of rental conference room facilities in Japan increased by +14.4% to reach 215, and the number of rooms increased by +14.1% to 1,752. The Garden City PREMIUM facilities Osaka Ekimae, Nagoya Ekimae, and Nagoyaeki Nishiguchi were opened. Garden City facilities were opened in Obihiro and Kagoshima Chuo. The Sapporoeki Kitaguchi and Nippori Ekimae APA Hotels were opened as business hotels with attached conference rooms.

Changes in conference rooms included the addition of 150 new leased rooms and withdrawal from 50 rooms on a base of around 1,800 rooms. Although facilities are leased for a fixed period, there have been cases when facilities are returned due to reasons originating from the owner. At present a net annual increase of 100 rooms is the current trend.

Results forecast

(Millions yen, %)

	2016.2		2017.2		2018.2 (forecast)		2019.2 (forecast)		2020.2 (forecast)	
Sales	17941		21978		27000		32000		40000	
Garden City PREMIUM	317		1355		2000		3000		4000	
Garden City	6341		7523		8500		10000		11000	
Conference Center	6846		8034		9000		10000		11000	
Business Center	1657		1782		1800		2000		2000	
STAR conference rooms	250		179		170		200		200	
Accommodation facilities	711		1284		2600		3300		7800	
Others	1816		1819		2930		3500		4000	
Gross profit	6565	36.6	8271	37.6	10200	37.8	12200	38.1	16000	40.0
SG&A	4561	25.4	5576	25.4	6900	25.6	8200	25.6	10000	25.0
Operating income	2004	11.1	2694	12.3	3300	12.2	4000	12.5	6000	15.0
Ordinary income	1848		2552		3050		3600		5500	
Net income	935		1352		1720		2050		3250	

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

Steady growth is expected in and after the year ending February 28, 2018.

The cumulative 2Q (first half year) results for the year ending February 28, 2018 were sales of 13,983 million yen (+25.3% year-on-year), operating income of 2,298 million yen (+7.3%), ordinary

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income of 2,116 million yen (+1.7%), and net income of 1,554 million yen (+39.7%).

Both sales and operating income reached their highest levels ever. The Company is engaging in advance investment for future growth, and as a result the growth rate for operating income was small, however there are no problems in terms of the contents. The results by grade show that the numbers of facilities in the top 3 grades are expanding. The number of rental conference rooms increased by +3.5% from the end of the previous fiscal year to reach 1,813.

Renovations were completed at LecTore Atami Momoyama and LecTore Hakone Gora and these facilities opened in August. The directly operated restaurant Kizuna Susukino S4 also newly opened in Sapporo in August.

In terms of SG&A, there was an increase in expenses because the Company began increasing its recruiting in advance of the initial schedule. Although the Company initially planned to hire 200 persons, this number has already been reached during the first half of the year. As the Company is operating with a system of 1,000 employees, annual personnel expenses including recruiting related are 200 million yen and training expenses are 100 million yen.

In terms of non-operating expenses, there was a 7.0 billion yen expense for syndicated loans. The company was listed on Mothers in March, therefore, this expense was incurred outside operations.

The company-wide plan for the year ending February 28, 2018 calls for sales of 26,839 million yen (+22.1% from the previous fiscal year), operating income of 3,271 million yen (+21.4%), ordinary income of 3,201 million yen (+18.4%), and net income of 1,705 million yen (+26.1%). These targets should be fully achievable. For the next and following fiscal years as well, the Company aims for results growth that exceeds the level of the company mid-term plan.

Trends in cash flows

(Millions yen, %)

	2016.2	2017.2	2018.2 (first half)
Cash flows from operating activities	2618	1096	1288
Net income before income taxes	1993	1058	1978
Depreciation	407	440	268
Sale of fixed assets	0	0	-487
Impairment loss	98	191	0
Sales credits and trade payables	-154	-615	24
Cash flows from investing activities	-2729	-7705	511
Tangible fixed assets	-1943	-6769	1050
Lease and guarantee deposits	-894	-776	-563
Free cash flow	-111	-6609	1799
Cash flows from financing activities	2886	6310	766
Long-term loans payable	1320	5237	-1971
Bonds	1597	1073	598
Sale of treasury stock	0	0	2153
Cash and cash equivalents	5799	5494	8051

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Preparing future investment funds

On the balance sheet, because accounts receivable can be collected within 1 – 2 months, there is almost no problem with working capital. Accounts payable include food & beverage supplies, and are paid within 1 – 2 months.

Fixed assets depend on the amount of land and buildings that the Company chooses to own. In general, the Company engages in asset light management, and leases facilities for operation. When facilities are leased, a deposit is paid. Ordinarily this is an amount equivalent to 6 – 12 months of rent. Capital investment is on the level of 3.0 billion yen, and has remained on that level in both the previous and current fiscal years.

The Company has concluded contracts for 7.0 billion yen in syndicated loans. This has been acquired as the framework for 2 years of capital investment. The Company intends to acquire a rating at some point.

5. Company Evaluation: Currently still in the early growth stage as the Company works towards Phase 3.

TKP growth stages

President Kawano positions the TKP growth stages as follows. Phase 1 involves independent growth with the rental conference room business at the core. After launching the rental conference room business, the Company has raised its grades and is now operating hotel banquets, as well as Garden City and Garden City PREMIUM grades using newly constructed and relatively new office buildings. The Company will continue on this path as its high value-add strategy in the future.

Phase 2 involves increasing added value through business collaborations and acquisitions in order to bring in-house areas of peripheral businesses that previously relied on outside providers, while still operating rental conference rooms at the core of the business. With the acquisition of the boxed lunch Company Tokiwaken, as well as renovation of leisure facilities, lodges, and hotels, the Company aims to produce the synergy of regeneration in all areas of its business. The APA Hotel FC is part of this business area. The current 3-year business plan includes this phase, and its achievement is nearly certain.

Phase 3 is still in the future, however it is composed of 2 sides. The first is working from a base of synergy with the primary core business and using M&A and business collaborations to increase the regeneration weight among the businesses which TKP acquires. While increasing added value in the main business, this regeneration is will be applied to increase the corporate value of the group.

In the second side of Phase 3, although business to this point has been based on B to B, the Company

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will increase its B to C operations as it sets its sights on regeneration of retail business as defined in an increasingly broad way.

From space regeneration to business regeneration: Collaboration with Otsuka Kagu

The starting point for Phase 3 begins from a collaboration with Otsuka Kagu. This capital and business alliance is loose at present, and the 1.05 billion yen in allocation of shares to a third party has limited the TKP holding ratio to 6.65%. The actual business under consideration includes (1) Sales of Otsuka Kagu products to TKP facilities, (2) Use of Otsuka Kagu shop spaces by TKP, (3) Bilateral introduction of customers, and (4) Creation of new shops by joint investment from both parties.

This is the starting point, and further measures will be necessary in order to fully regenerate Otsuka Kagu. TKP intends to commit itself further to this regeneration. The key is thought to be a relationship of trust between the top management of the 2 companies.

Phase 3 projects are expected to increase in the future. At this time, it will be necessary for the Company as an investor to continually examine the business conditions from 3 perspectives. (1) Consider the synergy with the core business. (2) However because the fundamental objective is business regeneration, identify the management and financial strengths which are necessary in order to rebuild the business. (3) Because there is continually a gap between the risks identified by management and the risks perceived by investors, sufficient engagement to fill that gap in recognition is necessary.

The Company is working to expand the space regeneration of President Kawano to include business regeneration. The president’s business ambition is indeed a driver of innovation, and he enthusiastically described his dream of becoming a 100 billion yen company in the future.

Utilizing both Internet and real-world means

The Company 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.

New York business soon to achieve profitability

Although overseas business is still running a loss at present, this does not concern the president at all. The Company is currently at the stage of searching for business possibilities in leading city areas,

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and because the current stage is for R&D and testing, the Company considers that it has not yet reached the level for advance investment. It is examining the local conditions related to rental conference rooms on an individual market basis. The stage which launches full-scale investment has not yet been reached in any market. Studies at the current stage will continue in the future. The sizes of Asia cities are small, and are similar to Japan.

In New York, the budget in this fiscal year will break even, and the business is expected to turn profitable next year. New York and London are under consideration as locations for engaging in full-scale business. One idea is to aim for conference room plus banquet services that are on the same level as middle-class U.S. hotels, and a future issue will be deciding how to construct a network.

Always flexible

One of the distinctive characteristics of TKP is its aim to “help people who are in distress” through space regeneration. There are a variety of types of regeneration ranging from top to bottom. These include (1) Trading, (2) Also pursuing stock business, (3) Also putting efforts into flow business, and (4) Capturing a wide range of customer groups from upper class to Internet class. In this way, the Company does not identify fixed target segments. Because President Kawano spent his younger years in stock, bond, and currency trading at a trading company, he is flexible towards his own position.

Making use of acquisition strength and customer attraction strength

So what are the TKP strengths? In response to this, President Kawano names two. One is its acquisition strength. It has acquired both properties and people from the perspective of utilizing real estate and other space.

The other strength is its customer attraction. It has both strong abilities to attract customers using the internet and to attract customers through face to face marketing. Through IT, the Company does business with 90,000 companies annually, and sales to 500 of the most powerful companies account for 50% of all sales. We handle large institutional customers with a certain number of sales force to cover general affairs divisions and personnel divisions just like special sales force that department stores organize.

In terms of business areas, the Company is expanding into retail services as broadly defined. For the finance business, while it may consider non-banking business, the Company does not intend to enter the strictly regulated traditional banking and securities sectors. Because President Kawano previously was involved with Internet securities and internet banking, he understands how strict the rules are. From the perspective of management freedom, these sectors are not very appealing.

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Service industry on a global standard

Unlike the manufacturing industry, the service industry does not maintain an inventory and cannot sell it all at once. The value of services changes over time, and service prices also fluctuate with demand. President Kawano is running the Company based on the assumption that the rules which apply to global markets are also basic preconditions in Japan. For example, it is natural that hotel reservations fluctuate over time with changes in demand, and whether the final prices is 10 times the starting price or one-tenth the starting price, the company must start by accepting such changes as the rules of business.

Opportunities following the Olympics

With the 2020 Tokyo Olympics, demand at hotels and other accommodation facilities will be tight. This is an opportunity for profits. Does that mean there will be a recession following the games? President Kawano does not think so. The Olympic boom will result in a limited period of excess profits; however it will also be an opportunity to further increase the numbers of visiting tourists. Therefore the Company is not concerned about a backlash to the boom, and is instead aiming to continue expanding its business after the boom ends.

Future image

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.

The future image of the Company aims for innovation, and is based on a fusion of new retail business by First Retailing and business investment by Softbank. This is the image created by the founder, and determining how to work this image into specific concepts will be an issue for the future.

In consideration for the management abilities of top management, the growth strength utilizing an original business model, and profit-earning capability based on a stable customer base, TKP receives a corporate rating of A. (For the definitions of corporate ratings, refer to page 2.)

Still in the early growth stage: Future growth can be expected

In utilizing the balance sheet, the Company always approaches finance with resistance operations. Although in principle the Company manages facilities without owning them, it has gained physical strength and should own a certain level of assets. The use of syndicated loans for long-term borrowing also indicates that the Company considers that situations may arise in which it uses the money to acquire a certain level of assets all at once.

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

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basic approach is high ROE management. The Company will strengthen its system for performance-linked compensation for the management staff who bear responsibility for managing the Company.

Share ownership by the owner family is currently 72%. In order for the Company to move from the Tokyo Stock Exchange Mothers market to the First Section, it will be necessary to lower this ratio to 65% or less. The Company is expected to proceed in that direction through secondary offerings or other means.

At the current share price (as of December 7), PBR is 9.33×, ROE is 21.0%, and PER is 44.2×. Although the current results are reflected in the share price, the mid-term growth strength of the company will increase in the future. As new opportunities for future business growth become visible, profits can be expected to increase. It is forecast that as these expectations become incorporated in the share price, the price will rise to match the growth in profits. Because PER also goes up when ROE rises, future developments deserve attention.

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