# **HEIWA REAL ESTATE GROUP**

# Medium-Term Management Plan, "WAY 2040 Stage 1"

**Updated on February 14, 2025** 

**Our Purpose** 

Enriching everyone's future with Bazukuri that draws people in



# **Group Philosophy**

**Heiwa Real Estate Group Corporate Philosophy** 

Our Purpose

Enriching everyone's future With *Bazukiri* that draws people in

Long-term Vision "WAY 2040"

Pursue perpetual dynamic growth to become the "Bazukuri Company"

It outlines the journey toward realizing Our Purpose and declares the kind of presence we aspire to embody.

This is the Group's raison d'être. It articulates

the fundamental purpose and guiding

This represents the Group's vision.

principles of our existence within society.

Our Values

Trust Forward thinking Co-creation

**Basic Policy** 

Code of Conduct /
Heiwa Real Estate Group Credo /
Standards for Behavior

These are the shared values of the Group, indicating what we hold dear and how we conduct our business.

This forms the guideline for each officer and employee of the Group to fulfill their social responsibility with a high ethical standard.

# Group Purpose

**Heiwa Real Estate Group Purpose** 

# Enriching everyone's future with Bazukuri that draws people in

Our aim is to enrich the future of all stakeholders. This includes both material and spiritual prosperity. We are committed to continuously creating spaces where everyone involved can enjoy this abundance.

Through continuous *Bazukuri*, we have infused vibrancy into districts. The fundamental value shared across the Group's work is drawing people in through diverse *Bazukuri* endeavors. As a Group, we will embark on initiatives to create captivating living environments.

**HEIWA REAL ESTATE GROUP** 

**Long-term Vision "WAY 2040"** 

# Pursue perpetual dynamic growth to become the "Bazukuri Company"

### **Assessment of External Environment**

Amid significant changes in the business environment, establishing a long-term vision enables us to enhance corporate value.

**Changes to Urban Environment and Lifestyles Changes to Society and Global Environment** Heiwa Real **Diversification and qualitative Expectations for improved Estate Group** shifts in workstyles capital efficiency **Long-term Vision** "WAY 2040" Population decline, and a dwindling **Advancement of sustainability** birthrate and an aging society management **Establishment** of long-term vision **Expanded demand from Progress in digital technology** inbound tourism Intensified competition between Threat of natural disasters cities and between regions

### **Growth Strategy**

Through four growth strategies, we aim to enhance corporate value and achieve our vision for 2040.

Long-term Vision "WAY 2040"

# Pursue perpetual dynamic growth to become the "Bazukuri Company"

corporate value through

synergies

### **Four Growth Strategies**

1. Expand redevelopment business

Deploy *Bazukuri* endeavors that draw people in throughout Japan

3. Boost social value

Promote sustainability initiatives

2. Cultivate profit growth while enhancing capital efficiency

reinvestment by realizing gains from property sales, and enter new business areas

4. Strengthen business foundations

Maximize human capital for accelerated growth

### **Quantitative Targets**

Consolidated operating profit of at least ¥25 billion in 2040\*1

Sustainable ROE exceeding cost of shareholders' equity

Net-zero greenhouse gas (GHG) emissions by 2050\*2

<sup>\*1.</sup> Achieve around double the consolidated operating profit level in FY2023.

<sup>\*2.</sup> The ROE target is set for each medium-term management plan.

### Positioning of the Plan

# Our medium-term management plan, WAY 2040 Stage 1, marks the period of our initial sprint toward dynamic growth.

This initial sprint toward dynamic growth is dedicated to establishing the Nihonbashi Kabutocho and Kayabacho district brand, undertaking our largest-ever redevelopment projects, located in Sapporo, and venturing into new business domains to realize our vision. This signals the beginning of our efforts to "Pursue perpetual dynamic growth to become the 'Bazukuri Company,'" the key goal of our Long-term Vision, Way 2040.

### Heiwa Real Estate Group Long-term Vision "WAY 2040"

Stage 1
Initial sprint toward dynamic growth
(FY2024–FY2026)

Stage 2
Further evolution into the Bazukuri
Company

Becoming the Bazukuri Company capable of dynamic growth

### The introduction of new features through the opening of Caption by Hyatt Kabutocho Tokyo will generate synergies **Establish the Nihonbashi** among different aspects and services within the city, Kabutocho and Kayabacho enhancing overall urban functionality. • We will expand FinGATE and attract and operate unique district brand commercial establishments that bring vibrancy both on weekdays and weekends. We will steadily advance toward the completion in 2028 of our Advance our largest-ever largest-ever redevelopment projects in the Odori Nishi district redevelopment projects, and at the intersection of Kita-5-jo Teine Dori and Sapporo located in Sapporo Eki-mae Dori avenues. To achieve the dynamic growth emphasized in our Long-term Venture into new business Vision, we will strengthen our hotel business and explore domains to realize our vision opportunities for expansion into new business domains, primarily through M&A.

**FY2026 Quantitative Targets Forecast Consolidated operating** profit At least ¥14 billion **Earnings per share Earnings per share** (EPS) (EPS) At least ¥270 At least ¥300 **Return on equity Return on equity At least 7%** (FY2024) (FY2024-FY2026) At least 7% At least 8% (FY2025-FY2026) Growth strategy (1) Expand redevelopment business: Deploy *Bazukuri* endeavors that draw people in throughout Japan

# Establish the Nihonbashi Kabutocho and Kayabacho district brand



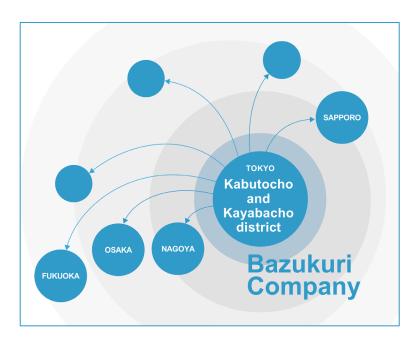
Introducing new features through Caption by Hyatt Kabutocho Tokyo, the first in Tokyo, will generate synergies among different city services. By expanding FinGATE, attracting and operating unique commercial establishments that add vibrancy all week, and applying innovative urban sustainability initiatives, we will create diverse spaces that draw people in and entrench our Nihonbashi Kabutocho and Kayabacho district brand.

# Advance our largest-ever redevelopment projects, located in Sapporo



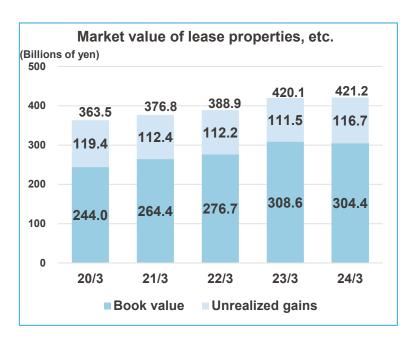
We will steadily advance toward the completion in 2028 of our largest-ever redevelopment projects—the Odori-nishi 4 South, Type 1 District Redevelopment Project and the Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project (provisional names)—as part of our *Bazukuri* endeavors in Sapporo that draw people in..

# **Expand redevelopment projects** nationwide



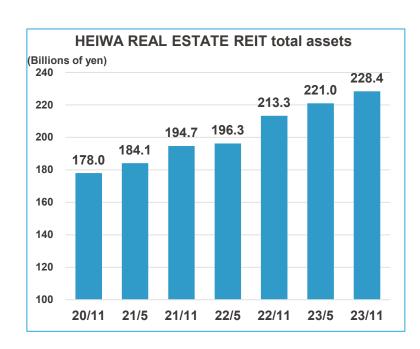
To enhance our presence as a Bazukuri Company, we will drive the implementation of redevelopment projects centered around our assets in major cities throughout Japan. Growth strategy (2) Cultivate profit growth while enhancing capital efficiency: Expand leasing business, promote reinvestment by realizing gains from property sales, and diversify into new business areas

# Develop a business model for creating added value in the Building Business



We will realize gains from property sales by renewing our portfolio and sustainably develop our business model focused on creating added value.

# **Expand revenue in the Asset Management Business**



We will strive to increase asset management fees by supporting the growth of HEIWA REAL ESTATE REIT, Inc. and to enhance Group earnings with high capital efficiency through stable growth in brokerage business.

# Venture into new business domains to realize our vision



To achieve the dynamic growth emphasized in our Long-term Vision, we will explore opportunities for expansion into new business domains by strengthening our hotel business and implementing M&A.

### **Growth Strategy (3) Boost Social Value**

# Implement sustainability management



We, as a Bazukuri Company, will contribute to realizing a sustainable society by addressing environmental and social issues, including achieving net-zero greenhouse gas (GHG) emissions, while encouraging interactive communication with all stakeholders.

### **Promote the creation of sustainable districts**

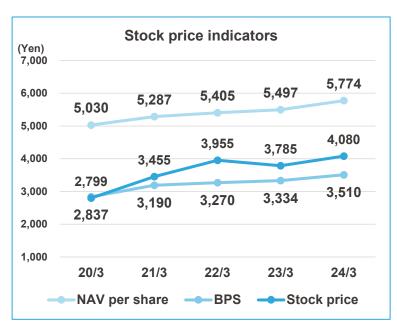




We will enhance the competitiveness of our asset portfolio by addressing social issues such as environmental friendliness and boosting disaster preparedness. This will be achieved through building development and operation as well as facility investment, and continuing efforts to reduce GHG emissions, among other initiatives.

### Growth strategy (4) Strengthen business foundations: Maximize human capital for accelerated growth

# Implement management with an awareness of the cost of shareholders' equity and stock price



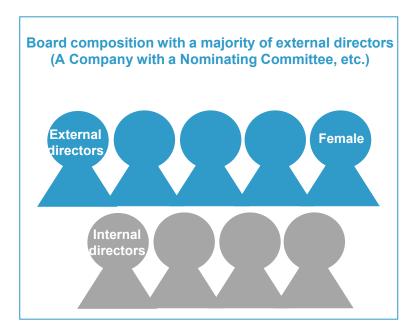
We set an ROE target for FY2024 to FY2026 of at least 7%, exceeding the cost of shareholders' equity. For shareholder returns from FY2024 to FY2026, we aim to maintain a consolidated dividend payout ratio of 50% in consideration of the cost of shareholders' equity, capital efficiency, and other factors. We will also flexibly implement share buybacks, taking into account aspects such as stock price, investment plans, and financial condition.

# Maximize human capital

# Develop Human Resources Capable of Realizing Our Purpose Create an Organization That Promotes and Maximizes Diversity Foster a Comfortable Work Environment

As part of our Long-term Vision, we will promote human capital management to drive dynamic growth. This involves cultivating human resources capable of realizing our Purpose through career development, as well as individuals proficient in digital transformation (DX). Additionally, we will create an organization that promotes and maximizes diversity, while fostering comfortable and vibrant workplaces through health and productivity management, among other measures.

## Further strengthen corporate governance



We will bolster corporate governance by enhancing the functions of the Board of Directors and reducing cross-shareholdings.

Financial and non-financial key performance indicators (KPIs)

### **Financial KPIs**

### At least ¥270 (FY2026) Earnings per share (EPS) Forecast: At least ¥300 At least ¥14 billion\* (FY2026) **Profit** targets Consolidated \* Breakdown of consolidated operating profit operating **Building Business: ¥13.8 billion** profit **Asset Management Business: ¥2.4 billion** Corporate and elimination: -\(\frac{4}{2}\).2 billion At least 7% (FY2024–FY2026) Capital Return on Forecast: efficiency equity At least 7% (FY2024) At least 8% (FY2025-FY2026) We aim to maintain a consolidated dividend payout ratio of approximately 50% (FY2024-FY2026) and will flexibly implement share buybacks, taking into account factors such as stock price, investment plans, and financial condition. Consolidated **Shareholde Annual dividends per share forecast:** dividend r returns FY2024: ¥170 (Ordinary dividend: ¥140, Special dividend: ¥30) payout ratio FY2025: At least ¥170 (Ordinary dividend: At least ¥140, Special dividend: ¥30) FY2026: At least ¥180 (Ordinary dividend: At least ¥150, Special dividend: ¥30)

### Non-financial KPIs

Environmen tal	GHG emissions	Reduce by 80% compared to FY2018 by FY2025 (Scope 1 and 2) Achieve net-zero emissions by FY2050 (Scope 1, 2, and 3)
	Water usage	Reduce in each application year on year
	Waste emissions	Reduce in each application year on year
Social	Ratio of new graduate female hires: At least 30% (five-year average) Ratio of female managers: At least 20% by FY2030 Ratio of mid-career workers in management positions: At least 40% by FY2030 Annual health check uptake: 100% Uptake of cancer screenings (every two years): 100% of employees aged 35 or above Annual stress check uptake: 100% Annual paid holiday uptake: At least 70% Male childcare leave uptake: 100% by FY2030 First aid training qualification: All of our officers and employees	
Governance	Ratio of cross-shareholdings to consolidated net assets: 10% or less by FY2026	
	Forecast: The Company will accelerate efforts to reduce its cross- shareholdings, aiming to cut the approximately ¥17.5 billion balance as of December 31, 2024, by at least half.	

Disclaimer: The above forecast for profit, KPIs, and planned annual dividends per share is based on certain assumptions and forecasts derived from information available as of January 31, 2025. These figures may fluctuate due to factors such as changes in regulations governing dividend distributions, other legal restrictions, or shifts in the business environment. For details, please refer to the announcement made on January 31, 2025, titled "Initiatives to Further Advance Management Conscious of the Cost of Capital and the Company's Stock Price."

### **Capital allocation**

# Capital allocation (FY2024–FY2026)

## FY2024

Cash balance at beginning of period: Approx. ¥28 billion

Generated through business and other sources: Approx. ¥70 billion

Incl. revenue from sales of properties:
Approx. ¥37 billion

Proceeds from interest-bearing liabilities:
Approx. ¥40 billion

# Redevelopment investment: Approx. ¥60 billion

(Breakdown)
Nihonbashi Kabutocho and
Kayabacho district:
Approx. ¥16 billion
Sapporo: Approx. ¥40 billion
Other: Approx. ¥4 billion

Investment in property acquisition:
Approx. ¥23 billion

CAPEX: Approx. ¥17 billion

Shareholder returns: Approx. ¥18 billion

FY2026
Cash balance at end of period:
Approx. ¥20 billion

- Notes: 1. Currently, the estimated total investment for the provisionally named Odori-nishi 4 South, Type 1 District Redevelopment Project, scheduled for completion in 2028, and Sapporo Station South Exit North 4 West 3, Type 1 District Redevelopment Project, scheduled for completion in FY2028, is approximately ¥120 billion.
  - 2. Reference indicator (financial soundness): Net debt-toequity (D/E) ratio of approximately 2.0

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