Action to Implement Management that is Conscious of Cost of Capital and Stock Price

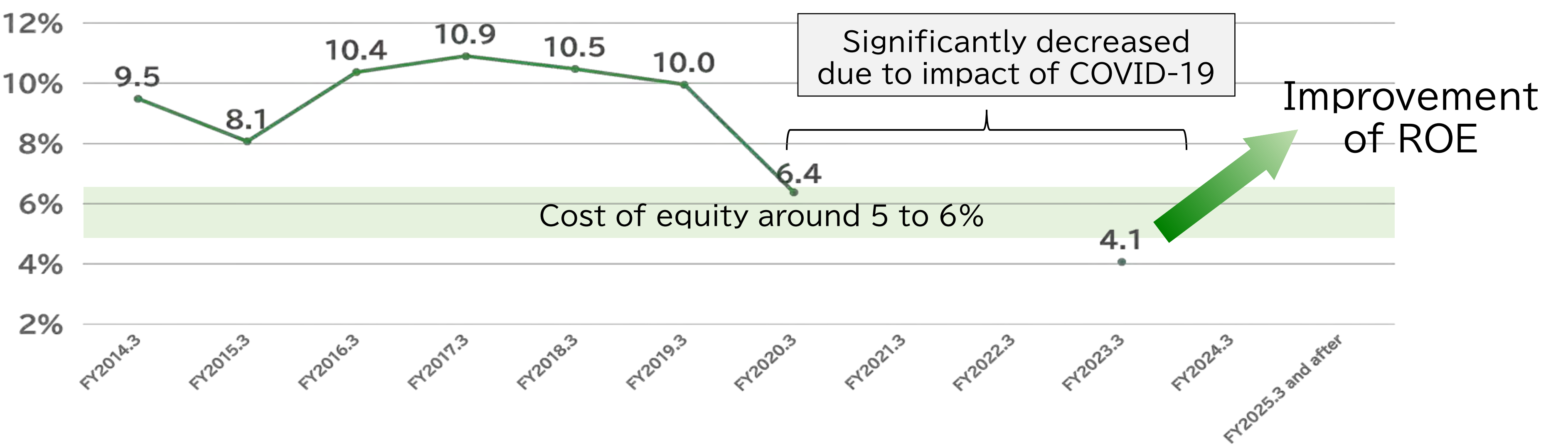
March 21, 2024

East Japan Railway Company

Current recognition of cost of capital and return on equity

- We recognize cost of equity to be around 5 to 6%. Although ROE significantly decreased due to the impact of COVID-19, we aim to realize ROE exceeding cost of equity as soon as possible. At the same time, while taking into account future increases in cost of equity, we aim to further improve ROE to consistently exceed cost of equity.

■ Movements in ROE and cost of equity



■ Our approach to cost of equity and levels for the last 10 years

Cost of equity is calculated using CAPM

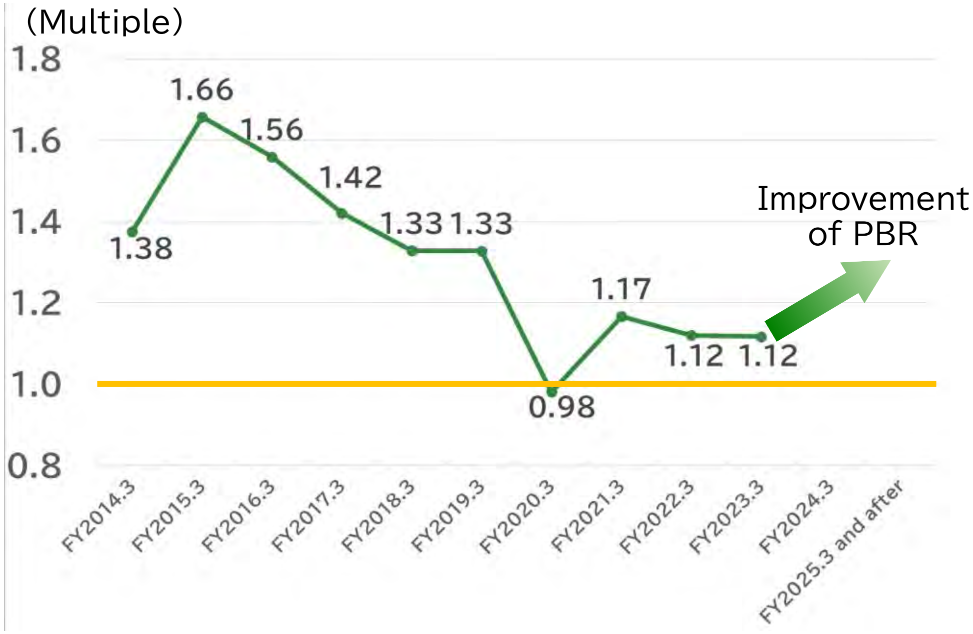
① Risk-free rate around 0.5%	+	② Beta (β) sensitivity 0.8 to 0.9	×	③ Market risk premium 6%	=	Cost of equity around 5 to 6%

① Risk-free rate: Yield of 10-year government bonds
② Beta (β): Sensitivity of the Company's share price to volatility of TOPIX for the last 5 years
③ Market risk premium: Historical stock market yield minus risk-free rate

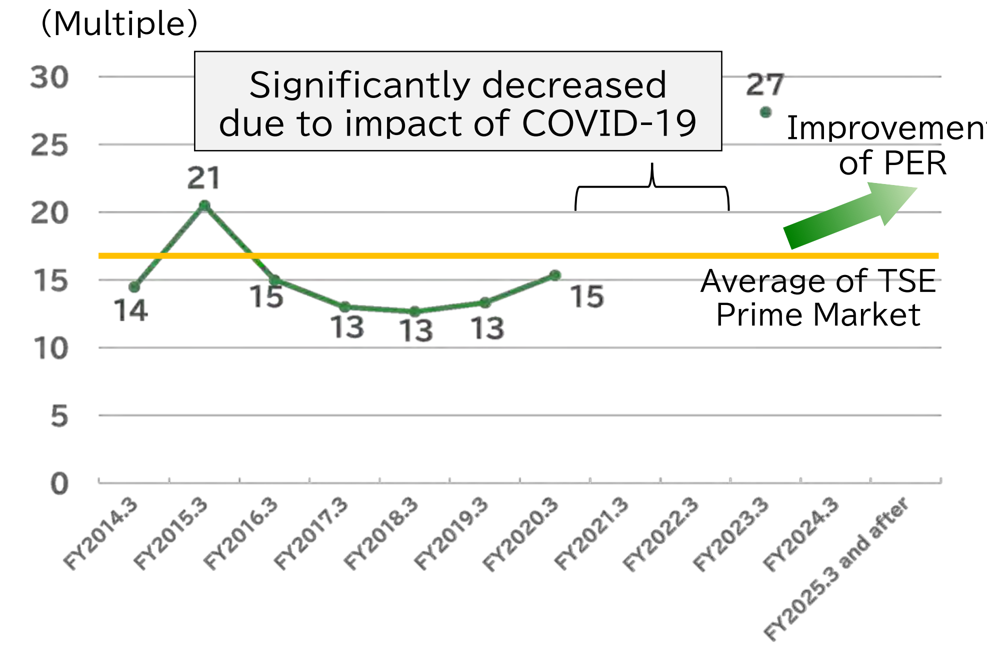
Current recognition of evaluation from the market

- PBR has been decreasing. Aiming to exceed 1.0 and increase consistently.
- As PBR is the product of ROE(i.e., rate of return) multiplied by PER (i.e., expectation for growth), PBR needs to be increased by both improving rate of return and increasing expectation for growth.

■ Movements in PBR



■ Movements in PER



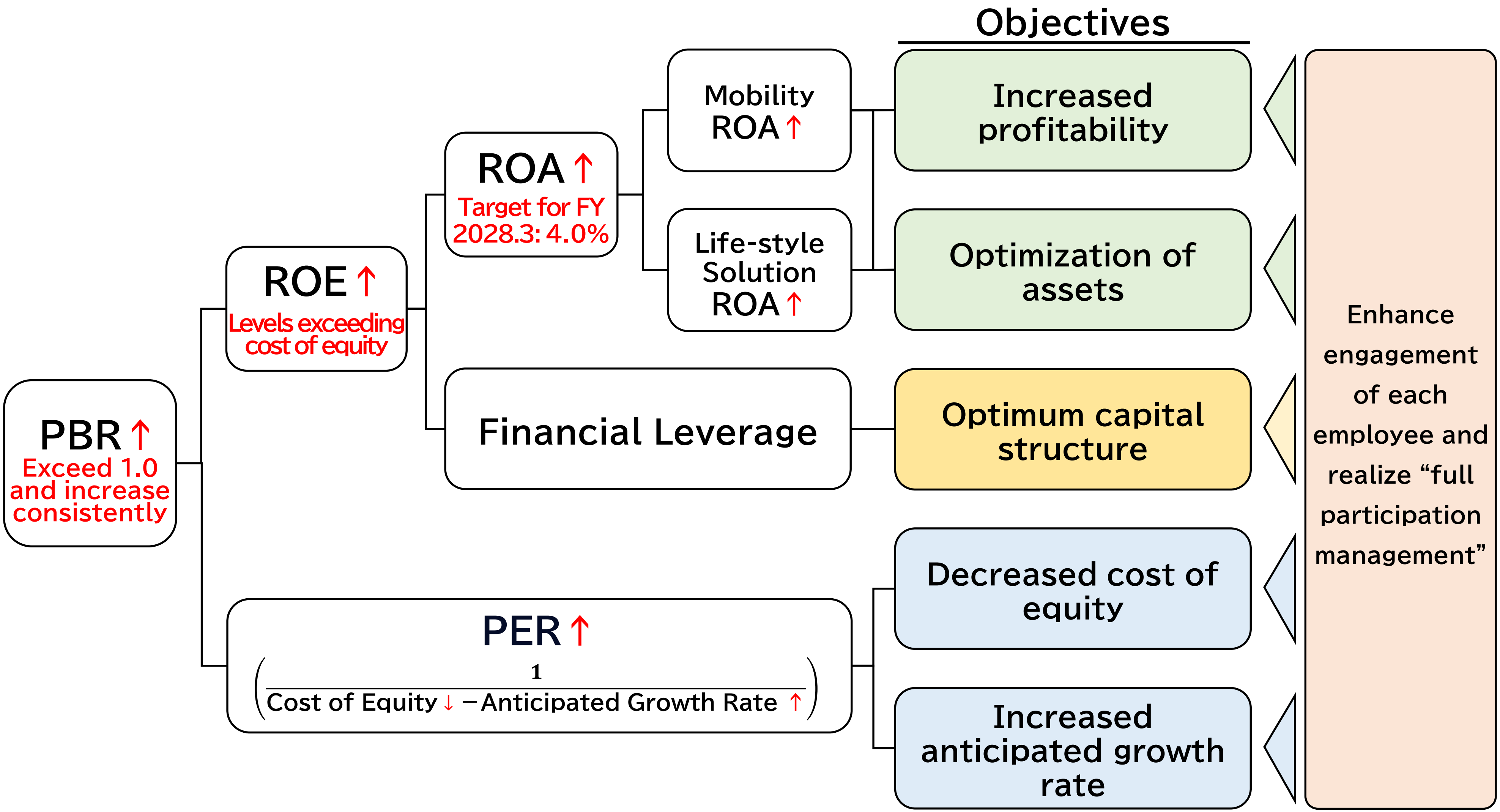
■ Breakdown of PBR

$$\boxed{\text{PBR (Price-Book Value Ratio)}} = \boxed{\text{ROE (Return on Equity)}} \times \boxed{\text{PER (Price-Earnings Ratio)}}$$

$$= \boxed{\text{ROA}} \times \boxed{\text{Financial Leverage}} \times \frac{1}{\boxed{\text{Cost of Equity}} - \boxed{\text{Anticipated Growth Rate}}}$$

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

- Framework of Action to Implement Management that is Conscious of Cost of Capital and Stock Price
- In light of our Group being in a capital intensive industry as well as our Group's characteristic of engaging in the business of holding assets of a highly public nature, and therefore difficult to dispose, aim to improve ROE and PBR through improvement of ROA.



Specific Action to Implement Management that is Conscious of Cost of Capital and Stock Price ①

Objectives	Specific Action
Increased profitability	**◆ Maximize cash flows** ・On a Group-wide level, recognize and optimally allocate resources necessary for our business strategy on a per business-unit basis, efficiently utilize human capital and improve mid-to-long-term productivity on a consolidated basis. **◆ Appropriate price pass-through** ・In order to reflect the increasing cost on railway fares appropriately, file for approval of revision of fares if possible based on guidelines on calculation of revenue and cost to be amended. **◆ Portfolio strategy** ・Acknowledge strengths and weaknesses in each business and clarify priority areas, areas requiring a revamp and areas that need to be the subject of discussion as a matter of principle. Realize optimal business composition with an eye to external collaboration and M&A. ・Shift from business focused on holding assets to rotational and management business, aiming at "accelerating business speed" and "acquiring new type of revenues".
Optimization of assets	**◆ Efficient use of assets** ・Break up ROA into numerical targets such as income, cost, capital investment, turnover ratio of fixed assets relating to railway business, and link them to the targets of each headquarter, branch office and business site, aiming at improvement of profitability and asset efficiency. **◆ Decrease assets** ・Continuously decrease cross-shareholding as a whole, while maintaining cross-shareholding that contributes to the improvement of our corporate value, aiming at maintenance and enhancement of stable business relationships as well as close collaboration from a mid-to-long-term perspective.

Specific Action to Implement Management that is Conscious of Cost of Capital and Stock Price ②

Objectives	Specific Action
Optimum capital structure	**◆ Level of interest-bearing debt based on business characteristics** ・Real Estate and Hotels is positioned as a "growth business" which must adapt to changes with speed, and actively utilize interest-bearing debt. Consider potentially setting targets of interest-bearing debt for Real Estate and Hotels separately from other businesses. ・Mobility is positioned as a "sustainable business" which requires stability and growth, and emphasize net interest-bearing debt/EBITDA ratio.
Decreased cost of equity	**◆ Thoughtful dialogue with capital markets** ・Actively implement dialogue between the management and shareholders and investors. ・Disclose planned value of EBITDA to increase foreseeability of cash flows. ・Enhance reliability through flexible revisions of business forecast. **◆ Enhancement of disclosures** ・Enhance disclosure of business information and ESG information through renewal of IR materials including financial results presentation materials and fact sheet.
Increased anticipated growth rate	**◆ Strengthening of publicity on growth strategy** ・Publicize mid-to-long-term goals by business segments and strategy to achieve goals per business