

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

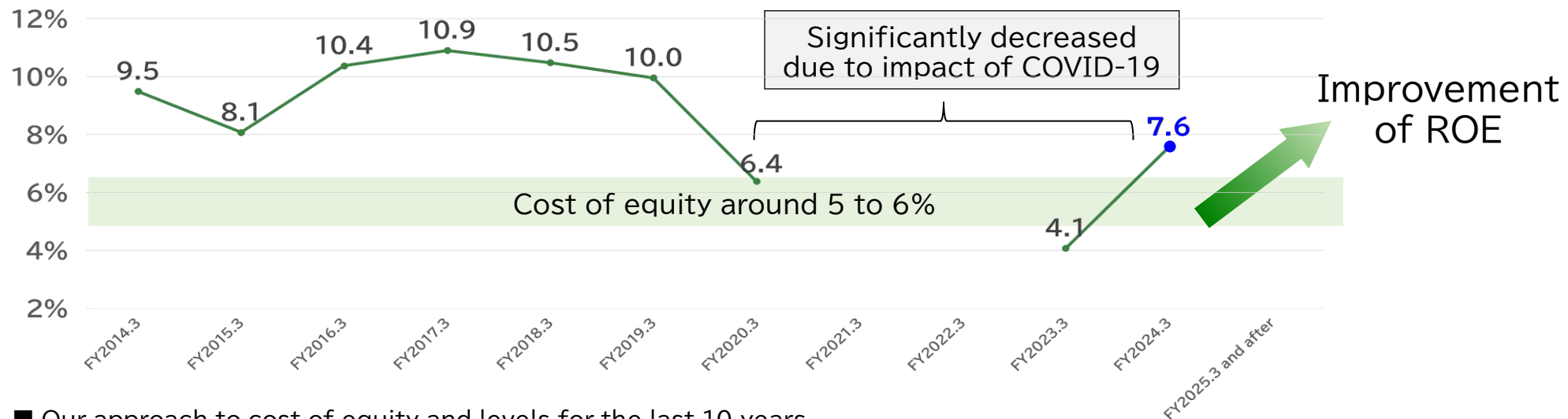
November 20, 2024  
East Japan Railway Company

\*Underlined: Major updates since previous disclosure

## Current recognition of cost of capital and return on equity

- According to CAPM, cost of equity is calculated to be around 5 to 6%. On the other hand, we recognize through discussions with shareholders and investors that there is a gap between such costs and the expected return in the market and that we also have to take into account future increases in cost of equity.
- We aim to further improve ROE, lower cost of equity through enriching discussion with shareholders and investors, and expand the equity-spread.

### ■ 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

$$\begin{array}{|c|} \hline \text{① Risk-free rate} \\ \hline \text{around 0.5\%} \\ \hline \end{array} + \begin{array}{|c|} \hline \text{② Beta } (\beta) \text{ sensitivity} \\ \hline \text{0.8 to 0.9} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{③ Market risk premium} \\ \hline \text{6\%} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Cost of equity} \\ \hline \text{around 5 to 6\%} \\ \hline \end{array}$$

① Risk-free rate: Yield of 10-year government bonds

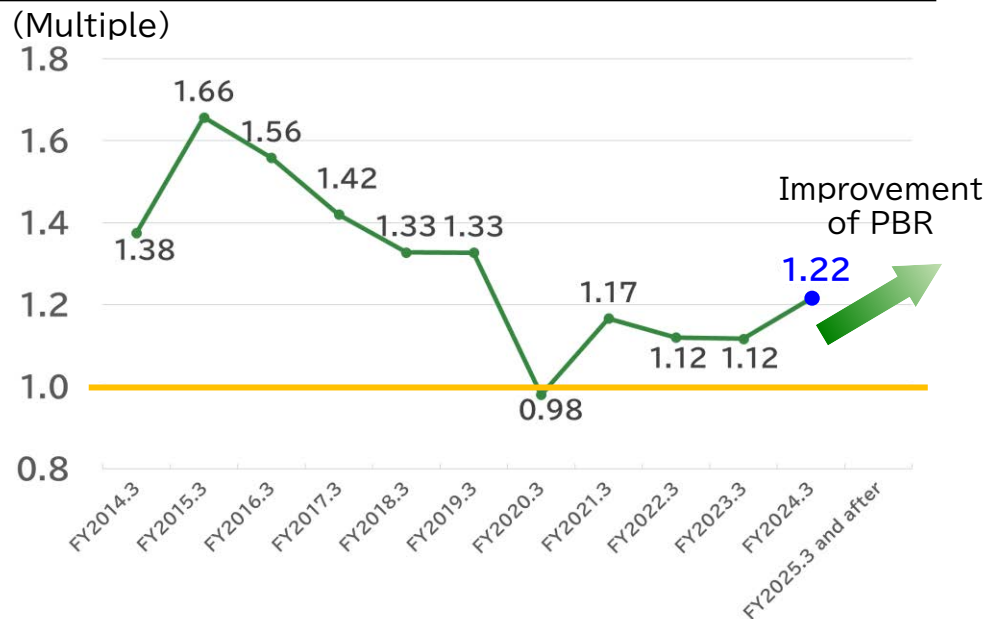
② Beta ( $\beta$ ): Sensitivity of the Company's share price to volatility of TOPIX for the last 5 years

③ Market risk premium: Historical stock market yield minus risk-free rate

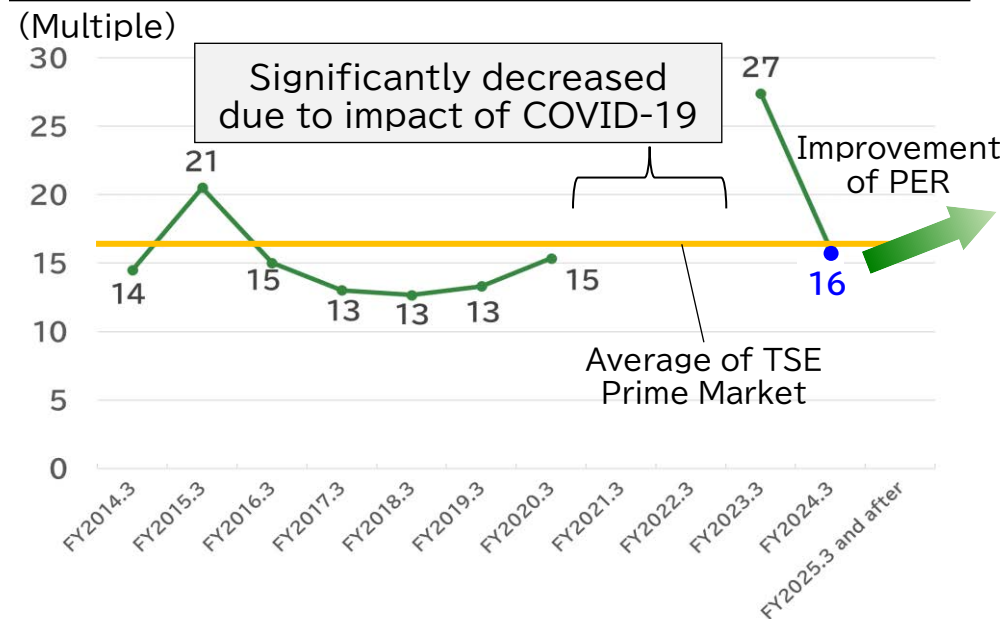
# Current recognition of evaluation from the market

- 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

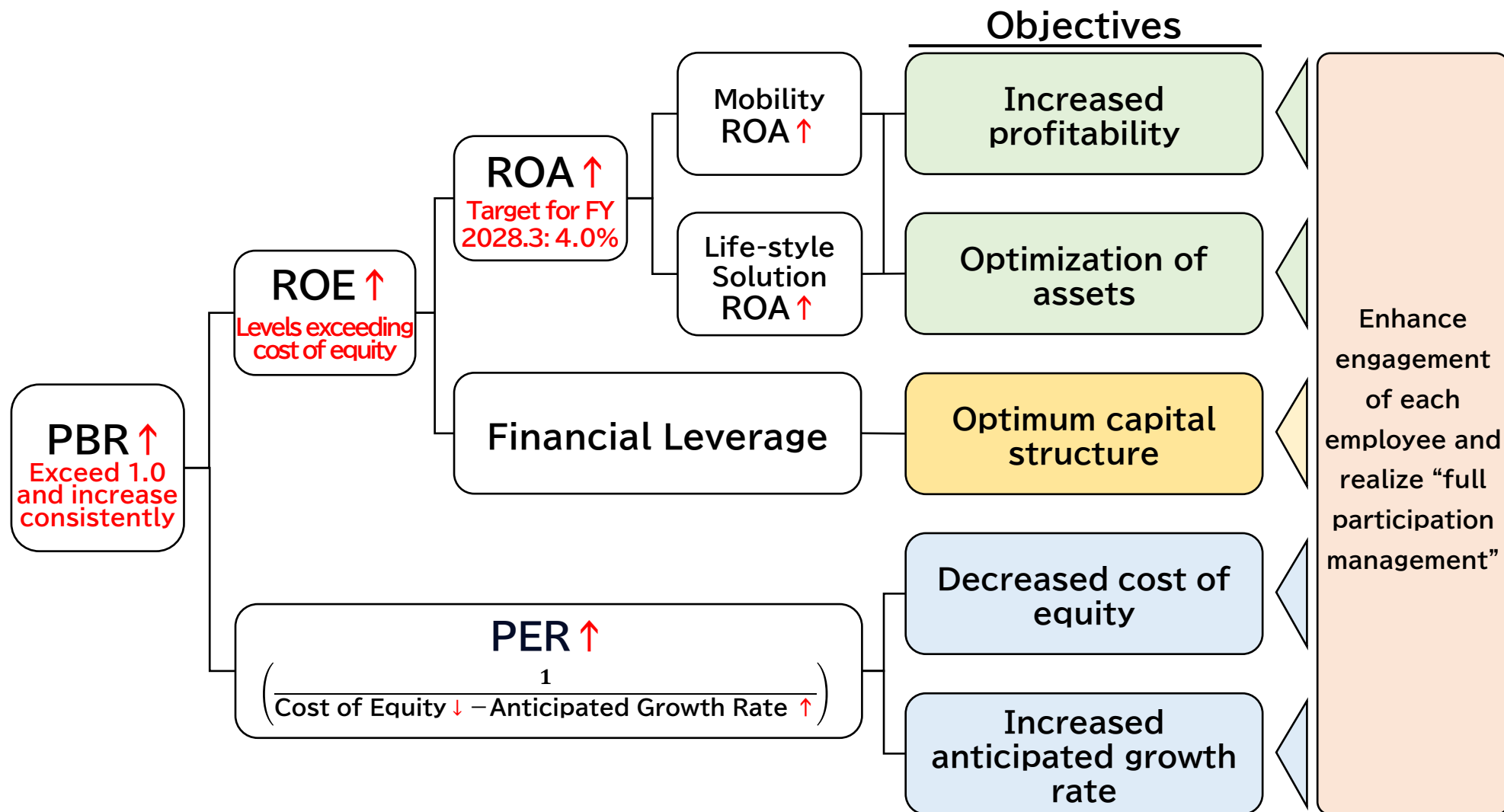


## ■ Breakdown of PBR

$$\begin{aligned}
 &\boxed{\text{PBR (Price-Book Value Ratio)}} = \boxed{\text{ROE (Return on Equity)}} \times \boxed{\text{PER (Price-Earnings Ratio)}} \\
 &= \boxed{\text{ROA}} \times \boxed{\text{Financial Leverage}} \times \frac{1}{\boxed{\text{Cost of Equity}} - \boxed{\text{Anticipated Growth Rate}}}
 \end{aligned}$$

## 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.**



Objectives	Specific Action
Increased profitability	<ul style="list-style-type: none"><li>◆ <b>Maximize cash flows</b><ul style="list-style-type: none"><li>• From FY2025.3, <u>establish strategy and KPI for each of the 14 business units</u>. On a Group-wide level, optimally allocate resources necessary for our business strategy, <u>efficiently utilize human capital and improve mid-to-long-term productivity on a consolidated basis</u>.</li></ul></li><li>◆ <b>Appropriate price pass-through and price strategy</b><ul style="list-style-type: none"><li>• In order to reflect the increasing cost on railway fares appropriately, <u>steadily prepare filing for approval of fare revision</u>.</li><li>• <u>Continue to request the government to implement a simple and flexible system, such as notification of express charges for Shinkansen and introduction of a system that can respond to inflation in a timely manner, and to review the total cost method itself</u>.</li><li>• Review charges including for high value-added railcars (Green Car, GranClass, etc.) and <u>accelerate price strategy implementable by notification</u>.</li></ul></li><li>◆ <b>Portfolio strategy</b><ul style="list-style-type: none"><li>• In order to promote two-axis management of Mobility and Life-style solution, acknowledge strengths and weaknesses in each business and <u>clarify priority areas, areas requiring a revamp and areas that need to be the subject of discussion as a matter of principle</u>. Realize optimal business composition which demonstrates the Group's synergy to the maximum with an eye to external collaboration and M&amp;A.</li><li>• In the real estate business, <u>establish value chains and realize the growth of the Group through expansion of business areas</u> by JR East Real Estate Co., Ltd. (reinforcing development of land owned by the Company and acquisition and development of external properties) and <u>acceleration of rotational business</u>.</li></ul></li><li>◆ <b>Efficient use of assets</b><ul style="list-style-type: none"><li>• Break up ROA into numerical targets such as income, cost, capital investment, turnover ratio of fixed assets relating to railway business, and <u>link them to the targets of each headquarter, branch office and business site</u>, aiming at improvement of profitability and asset efficiency.</li></ul></li><li>◆ <b>Decrease assets</b><ul style="list-style-type: none"><li>• <u>Continuously decrease cross-shareholding as a whole</u>, 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.</li></ul></li></ul>
Optimization of assets	

Objectives	Specific Action
Optimum capital structure	<ul style="list-style-type: none"> <li>◆ <b>Level of interest-bearing debt based on business characteristics</b> <ul style="list-style-type: none"> <li>• Real Estate and Hotels is positioned as a “growth business” which must adapt to changes with speed, and <b>actively utilize interest-bearing debt</b>. Consider potentially setting <b>targets of interest-bearing debt for Real Estate and Hotels</b> separately from other businesses.</li> <li>• Mobility is positioned as a “sustainable business” which requires stability and growth, and <b>emphasize net interest-bearing debt/EBITDA ratio</b>.</li> </ul> </li> </ul>
Decreased cost of equity	<ul style="list-style-type: none"> <li>◆ <b>Thoughtful dialogue with capital markets</b> <ul style="list-style-type: none"> <li>• <u>Presentation at financial results briefings is made by President and CEO for year-end and 2<sup>nd</sup> quarter and by Director-General of Corporate Strategies Headquarters for 1<sup>st</sup> and 3<sup>rd</sup> quarter.</u> Continue to actively implement <b>dialogue between the management</b> and shareholders and investors.</li> <li>• Enhance reliability through <b>flexible revisions of business forecast</b>.</li> </ul> </li> <li>◆ <b>Enhancement of disclosures</b> <ul style="list-style-type: none"> <li>• <b>Publicize renewed FACT BOOK</b> dedicated to historical facts and data (July 8, 2024). <u>Continue to review positioning of each disclosure material and <b>enhance disclosure of business information and ESG information</b>.</u></li> </ul> </li> </ul>
Increased anticipated growth rate	<ul style="list-style-type: none"> <li>◆ <b>Strengthening of publicity on growth strategy</b> <ul style="list-style-type: none"> <li>• Publicize mid-to-long-term goals by business segments and <b>strategy to achieve goals per business</b></li> <li>• <u>Enhance <b>efforts to encourage deeper understanding of the prospects of each business</b> of our Group at IR DAY, etc.</u></li> </ul> </li> </ul>