(Translation)

November 1, 2023

West Japan Railway Company

FY 3/24 2Q Financial Results Briefing, Summary of Question and Answer Session

Earnings Forecasts and Future Outlook

Q1

Did revenue and profit meet your expectations in the first half? How was this progress reflected in revisions to full-year guidance? I get the impression that JR-West's forecasts for the second half have not changed since the start of the fiscal year.

A1

We expected basic Shinkansen usage to gradually recover to 90% of the pre-pandemic level by the end of the fiscal year. As of the first half, however, basic usage had recovered to a level close to this target, earlier than we had anticipated. On a consolidated basis, profit was generated in all businesses as they benefitted from a brisk recovery in demand and benefits from structural reforms. While our forecasts for the second half might seem conservative, it is important to remember that costs in the railway business tend to be higher in the second half, and we have taken into account dynamic factors as well. For instance, we need to invest more in human capital than before. This is just one example, but factors like this have been reflected into our guidance for the second half.

Q2

The revised full-year operating income forecast of ¥140 billion is close to the medium-term management plan target of ¥150 billion. Is this due to a faster-than-expected recovery, or are there profits on special demand, like in the solutions business? Please share your outlook on profits.

A2

Positive factors have become visible in the mobility sector, but it is crucial to assess whether the basic usage of the Shinkansen will recover to 90% of pre-pandemic levels. Moreover, there are risk factors, such as higher construction costs due to rising material prices. Additionally, in the life design field, a key pillar alongside mobility, we need to assess whether solid results can be produced in the context of the medium-term management plan. Factors like this will inform our decision on whether to revise the medium-term management plan.

Q3

Regarding your remarks about potential upside in revenue and profit this fiscal year, which businesses or sectors does this pertain to?

A3

We cannot provide any more information other than our earnings forecasts, but we have taken a somewhat conservative view of inbound tourism. JR-West has significantly advanced structural reforms in each business, lowering the breakeven point.

On the other hand, there are also risk factors. It is unclear if basic usage will actually recover to 90% of the pre-pandemic level. Our earnings forecasts take such risks into account, as usage of conventional express lines has not fully recovered. Additionally, there is the risk of inflation, the need for investment in human capital, and potential cost increases that depend on negotiations involving local lines.

Q4

Looking at monthly trends, what is your take on the recovery of passengers? The number of passengers was higher than initially expected in the first half, but now the recovery does not seem to be much stronger, and the final number might end up around initial expectations.

A4

Usage has been strong each month since October. However, October and November are peak tourism seasons, and when viewed separately by weekdays and holidays, there is about a 10-point difference with holidays being higher, indicating a strong boost from tourism demand. We need to monitor usage after the autumn leisure season ends.

Q5

Revenue from inbound tourism was ¥17 billion in the first half, and JR-West’s full-year forecast is ¥33 billion. Given the October price increase for the Japan Rail Pass, is this a conservative forecast?

A5

We have taken a somewhat conservative view of inbound tourism for the second half, in light of the international situation.

Fares and Fees

Q6

What are your thoughts on the possibility of fare hikes, as indicated in the draft released by the Ministry of Land, Infrastructure, Transport and Tourism in June? In the medium-term management plan, the focus seems to be on reducing costs, giving the impression that fares will not be increased.

A6

The draft proposal is leaning towards incorporating future investment-related depreciation expenses into the calculation of total costs. As JR-West is planning significant investments in disaster response and seismic reinforcements, we will calculate and monitor the determination of how much of these investments can be included in the total cost. On the other hand, there is less room for fare increases as a result of our cost structure reforms. In our forecasts for each year, we will consider the scope of possible fare increases in light of the new cost calculation method, examine the best fare structure while referring to the competitive landscape of alternative transportation modes.

Q7

On slide 14 about transportation fares, it says "monitoring the competitive landscape." Does this mean JR-West will continue to lean towards dynamic pricing? I understand that discussions are currently focused on cost calculation methods, and dynamic pricing seems a future topic of discussion. Could you elaborate on your stance?

A7

In the subcommittee discussions at the national level, the focus of discussions has been on revising the cost calculation method, centering on the total cost. For JR-West, more deregulation would be ideal, like removing unreserved seat fares on the Shinkansen from the scope of regulation, allowing us the same flexibility that airlines have in setting seat fares. Our present views are outlined on slide 14.

Shareholder Returns

Q8

Regarding shareholder returns, during the pandemic, JR-West did not make statements about having a dividend payout ratio of over 35% or a flexible capital policy, if I recall correctly. In the latest briefing materials, JR-West mentions EPS. Should we interpret this as an increased focus on shareholder returns compared to before?

A8

Our policy on shareholder returns remains unchanged from the medium-term management plan announced in April. The reference to the cost of capital in the briefing materials is merely a clarification of what we have previously stated. Regarding EPS, given our capital increase, we recognize the need for management to be more aware of EPS.

Financial Strategy and Cost of Capital

Q9

You discussed the cost of capital in the context of financial strategy, but could you also explain the relationship to changes in the business portfolio and future growth strategies? Management has not disclosed ROA for each business. Will JR-West compare ROA and WACC in the future? Also, will management offer more detailed explanations in this regard?

A9

We said that we aim to maintain a WACC of 3.0-3.9% in total. Internally, we manage investments by reflecting a risk premium for each business. In the current medium-term management plan, we place importance on creating synergies among businesses and spreading these synergies to other businesses through strategies like point programs. Also, returns on investments in community development will be shared with the railway business and other businesses. Comparisons of segment-level ROIC and WACC alone may not convey the full picture of our operations, and might even cause misunderstandings. Keeping this in mind, we will continue to manage these metrics internally while presenting a holistic view. We will endeavor to improve our explanations based on your feedback.

Human Resources

Q10

Regarding investments in human capital, including digital investments, which I believe are recorded as expenses on the income statement, how does JR-West plan to monitor the effectiveness of these investments? With the advancement of DX, we should expect financial returns from greater operational efficiencies and boosts to marketing. Does management plan to analyze the returns on these upfront investments?

A10

Investing in human capital is essential for work styles that create new value. While short-term output is not the primary goal, we recognize that human resources are the foundation of everything, and we intend to continue these investments. Monitoring is challenging, though we are aware of other companies that have explained that R&D spending leads to higher revenue 10 years later. Currently, our focus is on acquiring the digital talent necessary for advancing digital strategies in Group marketing and the payment business, for example. Human resources paired with digital technology, centered on the railway business, is also instrumental to reducing costs and for ongoing business transformation in a changing environment. In this context, JR-West is committed to thoroughly investing in human capital.