May 21, 2025
West Japan Railway Company

Main Q&A at Small Meeting in May 2025

1. Overview of the Meeting

(1) Date:	Wednesday, May 21, 2025	
(2) Participants:	President, Representative Director, and Executive Officer	Kazuaki Hasegawa
	Vice President, Representative Director, and Executive Officer	Shoji Kurasaka
	Director and Managing Executive Officer Senior General Manager of Corporate Strategy Headquarters	Eiji Tsubone
(3) Content	Q&A	

2. Main Q&A (Summary)

[Medium- to Long-term Profit Growth and Restructuring of Portfolio]

Q Is the medium- to long-term operating income of the mobility segment on a trend of profit decline, even taking the promotion of further measures to generate demand, cost reduction, and fare revision into account? As for the plan in FY26.3, factors for cost increases such as personnel costs is understandable, but if only decrease in profit can be expected without the effect of the Expo despite profits in the real estate segment and other segments increasing, it seems challenging to achieve increase in profit in the next fiscal year and beyond as well as operating income of 195 billion in FY28.3.

A We expect a revenue of approximately 20 billion yen due to the effect of the Expo this fiscal year. We will strengthen campaigns and promotional activities from this autumn and beyond to avoid the trend of being temporary and continue to attract visitors to West Japan. Currently, basic demand has recovered, and transportation revenue is strong, but it is necessary to expand demand and control costs as fare revisions remain difficult. However, the impact of cost-push is significant, especially the increase of personnel costs affecting the outsourcing costs. We are expecting an increase of 12.5 billion yen and an increase of approximately 16 billion yen in depreciation and amortization costs due to investment, making the 195 billion yen target for FY28.3 a quite difficult task.

The best the railway segment can do is to maintain revenue under the declining population and the constraints on the fare system, requiring it to transition to a structure that can ensure a certain level of profits by conducting repeated fare revisions in the future. Under such circumstances, we have entered a new management stage by complementing and adding on to the railway segment through promoting the shift of business portfolio by expanding the life design field. We need to strongly recognize wage increase, inflation, population decline, and other structural issues, and engage in management with a sense of speed.

Q It would make restructuring of the portfolio faster through M&As and partnerships, focusing on the real estate and hotel segments. Why are they not reflected in the decision-making?

A M&A is a method for supplementing time and organizational strength and is an important option for growth. As such, our policy is to use cash to fill in our missing pieces. Details cannot be disclosed at the moment as it is sensitive information, but it will be shared when they become concrete. Furthermore, in addition to the reorganization of the M&A system last June to enable speedy implementation in new fields, we plan to further strengthen it in June this year. This time, it will be M&A that considers reallocating investment resources to other segments.

As for the hotel segment, it is a highly volatile business and there are both aspects to be addressed actively and carefully. We will enter partnerships with there are merits, similar to the opening of the Osaka Station Hotel in partnership with Marriott.

Q Is the delay in new businesses contributing to profit due to misjudgment or a simple delay? How is it regarded?

A In addition to the J-WEST Card and ICOCA, we have launched Wesmo! to increase synergistic effect within the Group with the aim of expanding the number of members and active users by experiencing the benefits of WESTER points. Although there is a delay in effects manifesting, a certain level of effects is showing. Going forward, we will strengthen marketing activities through policies that utilize real-time recommendations.
For the comprehensive infrastructure management business, we feel a sense of trust from local governments, but there are difficulties in receiving public work orders, and contribution to the revenue is currently limited. While we are promoting initiatives toward innovating the structure of the infrastructure industry and considering system enhancements, by making investments such as M&As.

Q The Life Design field primarily consists of asset-light businesses, so it is understood that through increasing revenue and profits in this field, we aim to enhance efficiency further, while also pursuing growth that complements the railway business, correct?

A If the railway segment enters a stable phase by repeated fare revisions in the medium to long term, the railway business will only be able to secure operating income of about 80 billion yen with the current Total cost method. Considering the characteristics of railway assets, which the majority of our assets consist of, asset efficiency may fall below the current state unless the business portfolio shifts to the life design field and does not progress. As such, maintaining and improving efficiency are important management issues.

[Fare Revision and Improvement of Sustainability of Railways]

Q The long-term sustainability of the railway segment is difficult under the current fare system, indicating that there is a fundamental issue in the system itself. What are the specific measures taken to change the system to an ideal one? Will President Hasegawa take the lead in negotiating for the system revision?

A We would like to request to fully revise the Total cost method, but that would be difficult to realize. As such, we will first request the building of a fare system that would be able to respond to the new management environment of progressing inflation. Revenue has been secured through initiatives so far, but we are strongly appealing that the current business model of railways and fare system is limited in terms of sustainability and is approaching the Ministry of Land, Infrastructure, Transport and Tourism, as well as involved members of the Diet. Negotiations are mainly handled by the Senior General Manager of Corporate Strategy Headquarters.

Q Is there a possibility that the speed of negotiation on local lines will somewhat accelerate while the rise in commodity prices continues? Furthermore, the revised content of the Act on Revitalization and Rehabilitation of Local Public Transportation Systems seems flawed if railway lines cannot be discontinued without the approval of the local governments, even after negotiating for three years?

A Local lines are difficult to maintain the status quo from the perspectives of sustainability of management and securing a labor force, more than due to the impact of the rise in commodity prices. We believe it is inevitable for society as a whole to shift to new transport modes, including through innovations. However, we do not intend to actively discontinue railway lines and regard dialogue with local communities as important. While it is required by the national system to present a certain level of results within the three years, it is important to urge the involved parties to enter into negotiations. We will advance matters, including the Geibi Line courteously with a premise of reaching an agreement.
As for the enforcement of the Act on Revitalization and Rehabilitation of Local Public Transportation Systems, it sets a clear timeframe for negotiations, which did not exist before, as well as allowing the use of government subsidies when shifting to new transport modes. Similar to the Johana and Himi lines, local governments that are proactive about public transport are taking the lead in the discussions. In addition, ways to enter negotiations have increased with the new Act, which allows railway operators to initiate negotiations and engage in negotiations with the national government acting as an intermediary.

[Cash Allocation, ROE Target, Cost of Capital (Dialogue with Capital Market), and Financial Discipline]

Q Is there a possibility for cash allocation to change in the next Mid-term Management Plan? As the Osaka and Hiroshima projects have been completed and finances and performance have improved in the short term, can an increase in shareholder returns be expected?

A Cash allocation is a core theme for the next Mid-term Management Plan, and its approach will be discussed going forward. Osaka and Hiroshima projects were opened in the previous fiscal year, but there are other projects that are under negotiation with government agencies and are promoting initiatives in anticipation of the next generation, regardless of their size. In addition, as investments in the railway segment are required for labor-saving, improving efficiency, and disaster response measures, our current understanding is that there is no room for considering the distribution of surplus cash. Meanwhile, financial discipline of net interest-bearing debt/EBITDA at 4x requires reevaluation of the appropriate level in preparation for the transition of the business portfolio while ensuring stability of the railway segment. Our policy is to determine how much and where investments go, when and how much results are achieved, and how they will be returned to the shareholders by considering the entire story. Details regarding this will be disclosed at a later date.

Q Regarding the financial state, is it possible to use a little more leverage, considering that the equity ratio is about 30% and net interest-bearing debt/EBITDA is about 4x? Can you provide more explanation about the policy on financial discipline going forward?

A Financial state has improved to the target level due to increased capital and recovery from the COVID-19 pandemic, but a multi-faceted approach that considers the future will be required when formulating the next Mid-term Management Plan. We also need to consider options for increasing leverage as well as balancing with the long-term stability of the railway segment. We will also discuss whether to maintain the current credit rating or to reevaluate the appropriate level considering the expansion of businesses other than railways, and explore suitable financial discipline that matches the new state of management.

Q In regard to management, I assume that the mobility segment will temporarily enter a transition period to ensure a certain level of profit. While investments related to structural reforms for future precede, a higher ratio of life design field will, in the medium to longer term, and ultimately, lead to a higher level of ROE?

A Discussions on the next Mid-term Management Plan will enter into full swing on a later date, but there are concerns that the worsening of labor shortage will hinder the operations of the railway segment in the future, despite the current efforts to ensure profit in railways focusing on inbound demand. In response, we are considering investments to improve labor productivity through mechanization, eliminating the need for maintenance, and other measures, as well as investments in anticipation of the renewal of aging rolling stocks, earthquake resistance reinforcements for Shinkansen lines, and other measures for increasing safety and efficiency. As investments for supporting the sustainability of the railway business are expected to increase in the future, we are considering active investments and M&As to accelerate the growth of the life design field before relying on a fare revision. Investment in human resources is indispensable to expanding this field. We have entered a new stage of management for achieving sustainability of the JR West to address the structural issues of the railway segment and the surrounding environment, as well as address the capital demand for transitioning to a sustainable portfolio. In that regard, ROE may temporarily stagnate, but we will nevertheless aim for 10% or more in the medium to long term.

Q What are the KPIs investors should especially focus on in the next Mid-term Management Plan and beyond for stability, growth potential, profitability, and efficiency?

A It is difficult to estimate drastic changes in the indices, as our management scale is large, we will set appropriate KPIs by considering specific dates for targets and levels to achieve by focusing on increasing the profit in the life design field as well as increasing its ratio. We consider the expectations of the various stakeholders and clarify and disclose our policy at a later date.

Q It has been pointed out that responding to management forecast with only "management environment is difficult" is just communicating to the investors that the cost of equity will increase. This has been improving through enhancements to IR activities and improvement of disclosure materials, but what are the Company's thoughts on ways to change the communication with the investors?

If it is genuinely difficult to put it into practice, but it would be a shame if the plan caused the reputation to deteriorate. As a stance to tackle challenges is also necessary, even if things become temporarily stagnant, it would be meaningful if a vision beyond that is clearly provided.

A We have recognized the necessity of management that tackles challenges and is proactive and have been engaging in digital strategies and new businesses since receiving the feedback last year, but we feel we have issues in presenting the results. We have disclosed ROIC of each segment in the full-year results, but going forward, we will consider disclosing WACC by segment and other information with an awareness of their target levels and the amount of changes. As initiatives for expanding the ROIC-WACC spread are an important theme in the next Mid-term Management Plan and how much the management policy and targets should be challenging, the time frame to achieve them, and ways to present them are issues that need to be addressed, we will continue discussing these matters.

[Human Resources]

Q In light of the JR East's recent announcement on their new personnel and wage systems, is the Company's treatment and standards enough in comparison with other companies? Can you provide details about where they stand relatively? Furthermore, is the Company considering revising its personnel and wage systems similar to those of JR East? Is there an increase in personnel costs beyond the usual wage increases?

A Measures by the JR East include measures we are currently working on or are being discussed, but we have not determined whether we would implement the same measures. In regard to wages, we have increased the basic wage, which is higher than the national average last year and this year. In April 2025, we improved the wages by more than 6%, including a regular wage increase, to promote appropriate allocation to human capital. We are also interested in system revisions and consider creating an environment that enables flexible work style for the employees as well as supporting their challenges as an important issue. As such, we are aiming to build a system that enables the employees and the Company to grow together through designing a system that suits the various business fields by revising the current railway-centric wage system.

Q Considering that business risks and returns will significantly change amidst the expansion of the life design field and placing leverage as management, is the Company going to build an internal system that reflect business leverages on remunerations promotion systems for the human resources that thrive in such an environment?

A Employees are the source of all business continuity and development, and it is imperative to nurture human resources that tackle new challenges while enabling various work styles. Of note, fields other than railways require a personnel system that compensates the employees who garner results. As such, we have revised the performance-based remunerations in addition to the basic wage increase during the spring wage negotiations this year. Whether the wage structure based on the railway business is appropriate for all businesses is something to consider. For the IT human resources, we are securing and utilizing them under a different system. We will continue discussions on remunerations, including remuneration systems for managers and general staff, that suit the business characteristics. We will support the challenges of the employees and continue to pursue a human resources development system that leads to their growth.

Q Railway companies have established new subsidiaries and built a wage structure that is different from the head company, but in regard to the utilization of human resources, I believe that the flow of human resources from the subsidiaries to the head company is an important aspect. Is it appropriate to make minor changes to the system and remunerations for each business field and subsidiary, or should the personnel and remunerations systems be revised from the ground up for the entire Group?

A We do not have a clear answer at the moment, but we have historically built a remuneration system similar to one country, two systems approach. We will continue exploring a system that is suitable for promoting our businesses. Of note, we have been exploring an optimum system for career-track employees that move between the Company and group companies through building a remunerations system that is not focused on the railway business to offer an environment that is easy for them to work.

[Others]

Q I understand that the Company has been aiming to recover its EPS to the pre-COVID-19 level since the capital increase and is expected to recover to about 250 yen in FY26.3, and that seems that the share buybacks will be temporarily terminated. How will the shareholder return policy change under the new president?

A It is important for listed companies to meet shareholder expectations, and we have continued to conduct management with a strong awareness of the EPS and ROE while striving for continued growth to fulfill our responsibility for raising capital. Going forward, we will continue to be aware of the EPS and ROE while considering the cash trends and acknowledging that there is a delay between investment and profit to manifest. There is a possibility that it would not always be on an upward trend, but we hope to meet the shareholders' expectations.

Q Regarding ROIC by segment, the Company has laid numerous seeds across multiple business segments, such as initiatives to coexist with the local communities, innovation, and digital strategy. How have these and non-financial initiatives been contributing to the entire Group? As the current policy and awareness of issues in enriching the business portfolio management have been presented, I hope discussions on reducing capital costs and other matters with a grasp on these figures will progress in the Company.

A Our basic strategy is to shift toward increasing the unit price and repeated use of railway and non-railway customers as well as promote customers to use businesses beyond the railway business within the JR West economic zone. We will make necessary investments, including M&A, to achieve this. Furthermore, we will look into how we should set KPIs, the method of evaluation and disclosure, and non-financial initiatives. These will be considered from the ground up, as we are at a junction point where the management stage is changing.

Q While other companies are accelerating their pace of change, the Company seems to be slow in making decisions. Is the Company aware of the issues with the speed of its management?

A We have been actively innovating the organization, such as establishing the Digital Solutions Headquarters during the COVID-19 pandemic from an early stage to promote building a digital foundation. As city development around major stations requires coordination with government agencies, they are required to progress in line with the city planning, and negotiations take time. This makes it difficult to announce the progress on our own. We cannot provide specific details at the moment, but we are making progress on projects that will follow the three major projects in cooperation with government agencies. Details on them will be announced at an appropriate time.