

Financial Results for the  
Six Months Ended June 30, 2017

August 8, 2017  
FUJITA KANKO INC.  
(Code number: 9722)

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# I. Financial Results for the Six Months Ended June 30, 2017

# Statements of Income for the First Half

**Operating Income and Ordinary Income Both Increased.  
Achieved Profitability in the First Half for the First Time in 9 Years**

	(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
Net sales		<b>33.81</b>	32.22	1.59	33.50	0.31
Operating income		<b>0.15</b>	(0.43)	0.59	(0.40)	0.55
Operating income before depreciation		<b>2.92</b>	2.32	0.60	2.40	0.52
Ordinary income		<b>0.25</b>	(0.43)	0.68	(0.40)	0.65
Profit attributable to owners of parent		<b>(0.59)</b>	0.19	(0.79)	(1.10)	0.50

■ **Extraordinary income 0.38 billion yen**

(Main items: Gain on sales of shares of subsidiaries and associates 0.19 billion yen, gain on sales of investment securities 0.16 billion yen)

■ **Extraordinary losses 1.12 billion yen**

(Main items: Impairment loss on non-current assets of 1.11 billion yen due to the decision to close the business of Hakone Hotel Kowakien)

# Balance Sheets and Statements of Cash Flows for the First Half

## Continued Capital Investment in New Businesses, etc.

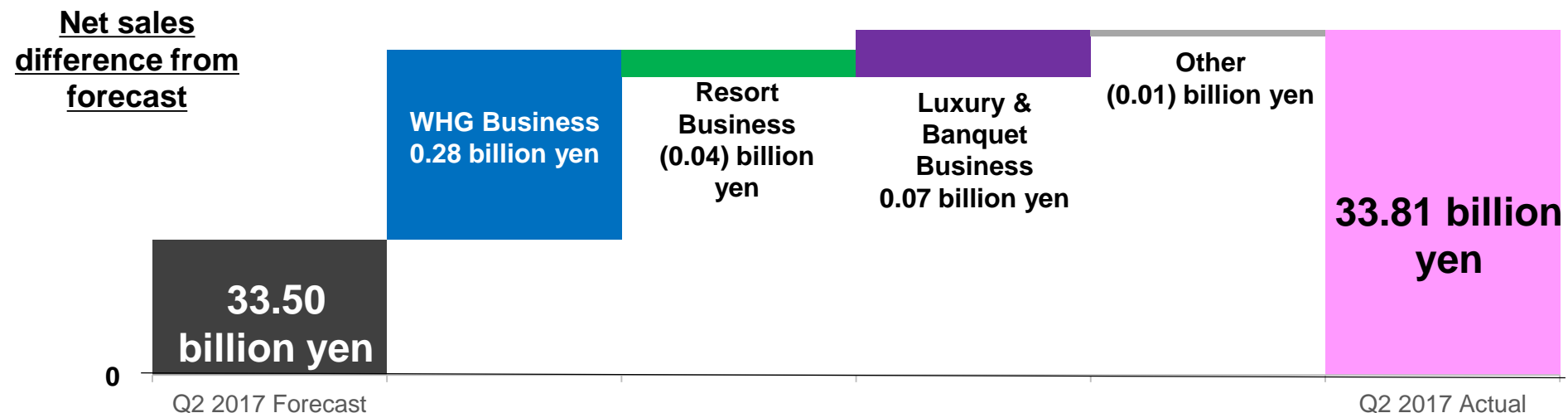
(Billion yen, %)	Q2 2017 Actual	2016 Actual	Difference from Dec. 31, 2016
Total assets	<b>106.69</b>	105.83	0.85
Net assets	<b>24.62</b>	26.52	(1.90)
Interest-bearing debt	<b>51.53</b>	45.75	5.77
Equity ratio	<b>22.9%</b>	24.9%	(2.0)%

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY
Cash flows from operating activities	<b>0.87</b>	0.62	0.24
Cash flows from investing activities	<b>(6.51)</b>	(0.15)	(6.36)
Capital investment (Cash-based)	<b>6.56</b>	3.70	2.85

# Net Sales by Segment for the First Half

Performance was Led by WHG Business, in which Shinjuku WH, HG Naha, and HG Kyoto Sanjo North were in Operation Throughout the Year

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
<b>WHG Business</b>	<b>17.08</b>	15.15	1.92	16.80	0.28
<b>Resort Business</b>	<b>3.05</b>	2.99	0.06	3.10	(0.04)
<b>Luxury &amp; Banquet Business</b>	<b>12.37</b>	12.62	(0.24)	12.30	0.07
<b>Other</b>	<b>1.29</b>	1.45	(0.15)	1.30	(0.01)
<b>Total net sales</b>	<b>33.81</b>	32.22	1.59	33.50	0.31

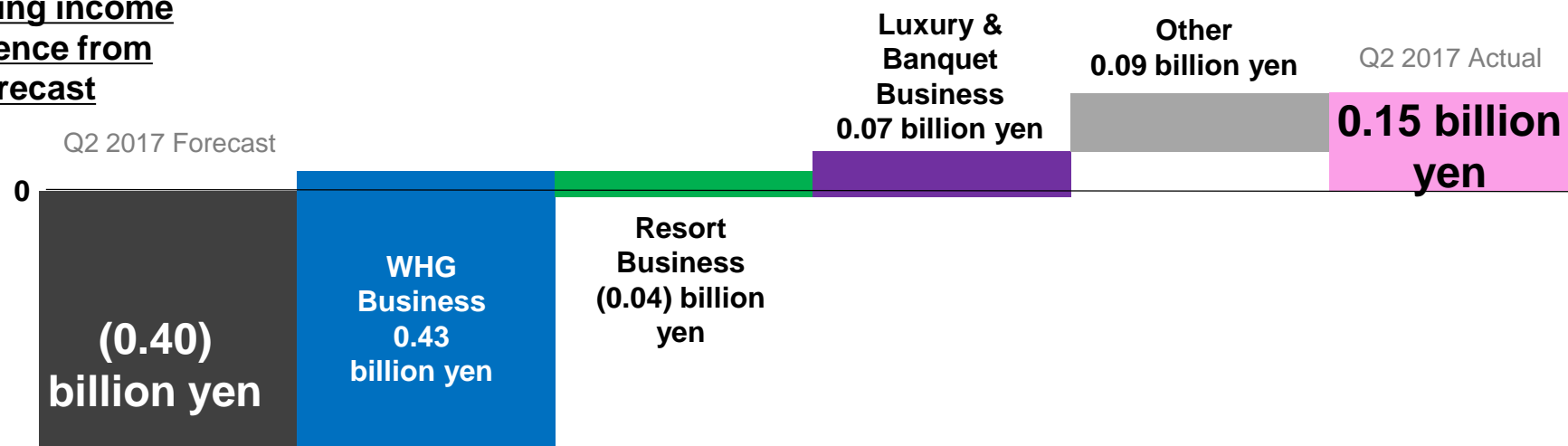


# Operating Income by Segment for the First Half

## Income Increased Above the Forecast in WHG Business and Luxury & Banquet Business

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
<b>WHG Business</b>	<b>1.03</b>	0.19	0.84	0.60	0.43
<b>Resort Business</b>	<b>(0.74)</b>	(0.51)	(0.22)	(0.70)	(0.04)
<b>Luxury &amp; Banquet Business</b>	<b>0.17</b>	0.29	(0.11)	0.10	0.07
<b>Other</b>	<b>(0.30)</b>	(0.40)	0.09	(0.40)	0.09
<b>Total operating income</b>	<b>0.15</b>	(0.43)	0.59	(0.40)	0.55

### Operating income difference from forecast



## II. Operating Conditions for the First Half by Segment

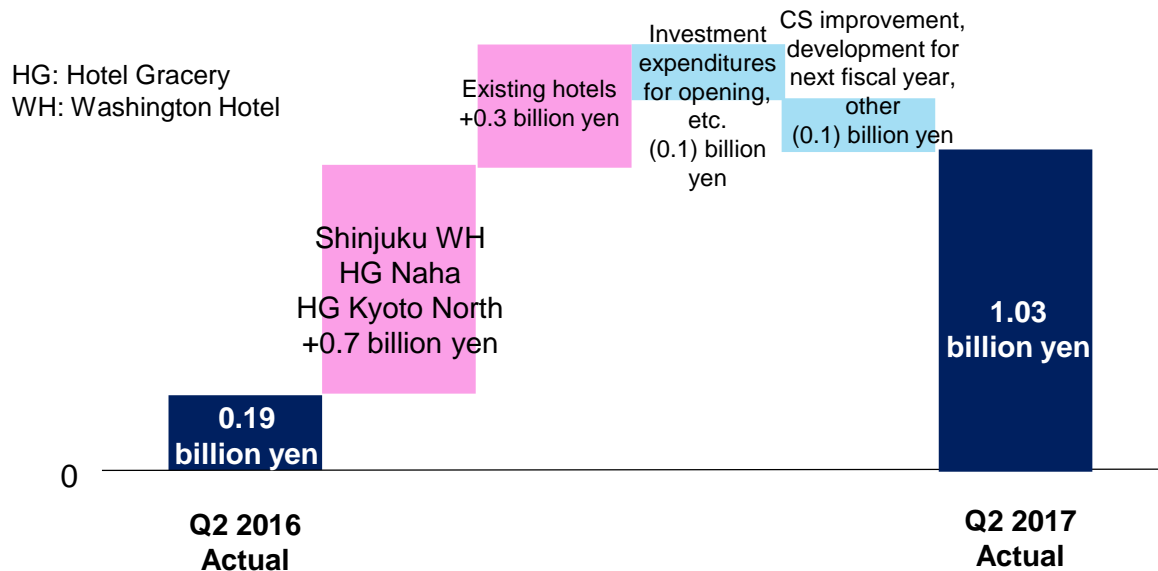


# Operating Conditions by Segment (WHG Business)

**Increase in Revenue and Income Due to Year-Round Operation of Shinjuku WH, HG Naha, and HG Kyoto Sanjo North and Increase in Sales per Room**

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
	Net sales	17.08	15.15	1.92	16.80
Operating income	1.03	0.19	0.84	0.60	0.43

## ◆ Operating income YoY difference factors ◆



## ◆ YoY change (%) of occupancy rate and sales per room ◆

YoY change	Tokyo metropolitan area	Regional hotels	Total
Occupancy rate	+1%	+1%	+1%
Sales per room	+2%	+8%	+4%

### [Hotel Gracery Kyoto Sanjo South Opened]

- South was opened on May 1, following the opening of North last year
- The two buildings together have a capacity of 225 rooms, contributing to attracting individual guests (FITs)



# Operating Conditions by Segment (Resort Business ①)

**Decrease in Income Due to Increased Preparation Costs, Despite Increase in Revenue from Opening of Hakone Kowakien Ten-yu**

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
	Net sales	3.05	2.99	0.06	3.10
Operating income	(0.74)	(0.51)	(0.22)	(0.70)	(0.04)

## ◆ Status of Hakone Kowaki-en ◆

[Hakone Hotel Kowakien]

Sales per room		Occupancy rate	
YoY	Difference from forecast	YoY	Difference from forecast
+4.8%	+11.3%	(0.9)%	+4.6%

- Sales per room increased due to strengthened efforts to attract individual guests
- Decided to close the business as of January 10, 2018. The announcement led to increased reservations, and occupancy rate remained stronger than expected

[Hakone Kowakien Yunessun]

Visitors		Sales per person	
YoY	Difference from forecast	YoY	Difference from forecast
+0.1%	(7.5)%	(4.5)%	(2.5)%



New look-out pool built at the end of April

- Carried out renovation of facilities including a newly-built pool, and staff training in order to raise attractiveness of the facility, which had decreased due to reduced area
- Continued partnership with neighboring facilities and attract inbound group guests

# Operating Conditions by Segment (Resort Business ②)

## Hakone Kowakien Ten-yu Opened on April 20

### ◆ Overview of Hakone Kowakien Ten-yu ◆

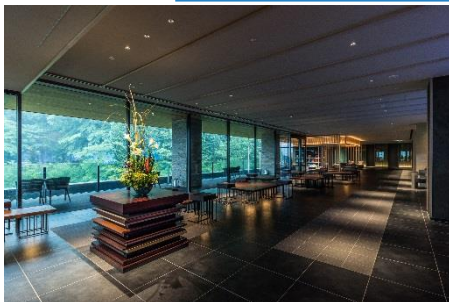
- Opened: April 20, 2017
- Hotel area: 16,440.67 m<sup>2</sup>
- On-site facilities: Restaurants, bar lounge, large public bath (2 locations), spa, shop
- Guest rooms: 150 rooms

Room type	No. of rooms
Japanese Superior room with open-air onsen bath (45 m <sup>2</sup> )	120
Japanese Deluxe room on the top floor with open-air bath (45 m <sup>2</sup> )	24
Japanese Suite with open-air bath (50 m <sup>2</sup> )	1
Japanese Executive Suite with open-air bath (70 m <sup>2</sup> )	5

### ◆ Status of Hakone Kowakien Ten-yu ◆

Hakone Kowakien Ten-yu	2017 plan
Occupancy rate	70% level
Sales per person	28,000 yen level

- Occupancy rate reduced for the first 3 months after opening as priority was given to establishing operations
- Sales per person have performed favorably since opening
- Ratio of inbound guests is approximately 18%, continuing to attract guests



Lobby where guests can enjoy the nature of Hakone, with a library lounge further inside



Open-air hot spring baths are installed in all 150 rooms



Guests can enjoy luxurious meals in 6 special guest rooms



The large public bath "UKIGUMO" gives a magnificent view of the mountains of Hakone



Activities are offered for guests to enjoy the nature around Hakone and attract long-stay guests

# Operating Conditions by Segment (Luxury & Banquet Business)

## Decrease in Revenue and Income YoY Due to Termination of Contract with Azur Takeshiba

(Billion yen)	Q2 2017 Actual	Q2 2016 Actual	YoY	Q2 2017 Forecast	Difference from forecast
Net sales	<b>12.37</b>	12.62	(0.24)	12.30	0.07
Operating income	<b>0.17</b>	0.29	(0.11)	0.10	0.07

### [Luxury & Banquet Business: Sales per business] (Billion yen)

Business	Q2 2017 Actual	YoY [YoY change excluding Azur Takeshiba]
Accommodation	1.13	(0.11) [0.00]
Wedding	5.39	0.00 [0.12]
Banquet	2.77	(0.15) [0.00]
Restaurant	2.08	0.00 [0.07]
Other	0.97	0.02 [0.03]
<b>Total</b>	<b>12.37</b>	<b>(0.24) [0.23]</b>

- Although revenue and income declined due to termination of the management contract with Hotel Azur Takeshiba, MICE demand was strong at both Hotel Chinzanso Tokyo and Taiko-en

### [Hotel Chinzanso Tokyo]

- Strengthened the accommodation and banquet businesses with the aim of converting the sales structure
- MICE accompanying accommodation contributed to the improved profitability of the hotel as a whole

	Occupancy rate	Sales per room	Wedding users	Banquet users
YoY	(1.3)%	+3.8%	(3.2)%	(0.2)%

### [Taiko-en]

- The wedding business performed strong due to the effect of the shrine for wedding ceremony, and we continued to enhance acquisition of MICE

	Wedding users	Banquet users
YoY	+4.3%	(1.8)%

### [Expansion of the wedding business field]

- Developed the wedding business for the first time in Kyushu in May, utilizing know-how of the wedding production business in Hiroshima

### III. Full-Year Business Results Forecast

# Full-Year Forecast (Consolidated)

	2016 Actual	Q2 2017 Actual	<b>2017 Forecast</b>	Initial forecast announced Feb.14
(Billion yen)				
Net sales	68.78	33.81	<b>72.00</b>	72.00
Operating income	1.71	0.15	<b>2.30</b>	2.30
Operating income before depreciation	7.21	2.92	<b>8.30</b>	8.30
Ordinary income	1.69	0.25	<b>2.30</b>	2.30
Profit attributable to owners of parent	0.85	(0.59)	<b>1.10</b>	1.10
Capital investment (cash-based)	9.50	6.56	<b>10.18</b>	11.14
Depreciation	4.46	2.28	<b>4.78</b>	4.81

# Full-Year Forecast (by Segment)

	2016 Actual	Q2 2017 Actual	2017 Forecast	Initial forecast announced Feb.14
(Billion yen)				
<b>WHG Business</b>				
Net sales	32.95	17.08	<b>36.00</b>	35.50
Operating income	2.04	1.03	<b>2.90</b>	2.50
<b>Resort Business</b>				
Net sales	6.75	3.05	<b>7.90</b>	8.10
Operating income	(0.39)	(0.74)	<b>(0.50)</b>	(0.10)
<b>Luxury &amp; Banquet Business</b>				
Net sales	26.21	12.37	<b>25.10</b>	25.70
Operating income	0.91	0.17	<b>0.60</b>	0.70
<b>Other and adjustments</b>				
Net sales	2.86	1.29	<b>3.00</b>	2.70
Operating income	(0.85)	(0.30)	<b>(0.70)</b>	(0.80)
<b>Total</b>				
Net sales	68.78	33.81	<b>72.00</b>	72.00
Operating income	1.71	0.15	<b>2.30</b>	2.30

## IV. Measures for the Second Half by Segment and Current Status



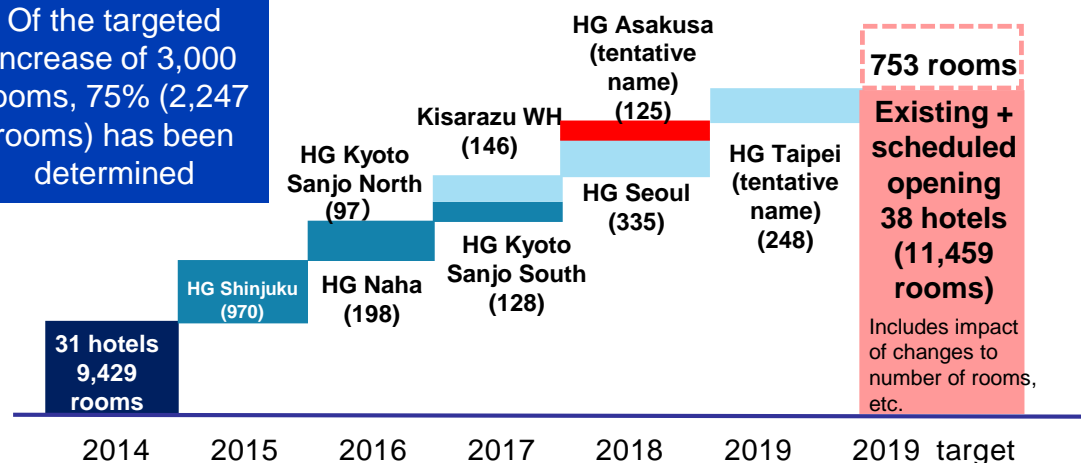
# Measures for the Second Half by Segment (WHG Business)

(Billion yen)	Q2 2017 Actual	2017 Second Half Forecast		2017 Forecast	
			YoY		YoY
Net sales	17.08	18.91	1.11	36.00	3.04
Operating income	1.03	1.86	0.01	2.90	0.85

## Accelerate New Openings

- Open “Kisarazu Washington Hotel” on October 28, 2017 [146 rooms]
- Decided to open “Hotel Gracery Asakusa (tentative name)” in fall 2018 [125 rooms]

Of the targeted increase of 3,000 rooms, 75% (2,247 rooms) has been determined



## Enhance Competitiveness

- Membership organization for cardholders including inbound guests has been expanded favorably, and we plan to further strengthen the repeat customer promotion campaign
- Pursue improved convenience and operation efficiency by enhancing the function of the smartphone app and introducing an inquiry system utilizing artificial intelligence
- Improve added value of WHG Hotels
  - Implement employee training to improve CS
  - Continue renovation of guest rooms (Start renovating all rooms of the Kansai Airport Washington Hotel)
  - Strengthen our concierge function

# Measures for the Second Half by Segment (Resort Business)

(Billion yen)	Q2 2017 Actual	2017 Second Half Forecast		2017 Forecast	
			YoY		YoY
Net sales	3.05	4.84	1.07	7.90	1.14
Operating income	(0.74)	0.24	0.11	(0.50)	(0.10)

## Hakone Kowakien

### [Hakone Kowakien Ten-yu]

- With priority given to attracting guests over the medium to long term, we will work to provide high quality service rather than to secure high occupancy rate
- Occupancy rate fell below the plan, but sales per person have performed favorably
- Continue to improve sales per room through high value-added products and enhancement of activities utilizing KIHINKAN, GEIHINKAN, etc.
- Strengthen capturing of FITs by PR activities at overseas bases, enhancing information on the official website, and using overseas travel websites

### [Hakone Hotel Kowakien]

- Upon launch of Ten-yu, change the plan for operation with reduced occupancy, in order to respond to growing demand
- Shift targets from group guests to individual guests and attract customers to Ten-yu
- Plan a farewell campaign, etc. toward the closing of the business on January 10 next year



# Measures for the Second Half by Segment (Luxury & Banquet Business)

(Billion yen)	Q2 2017 Actual	2017 Second Half Forecast		2017 Forecast	
			YoY		YoY
Net sales	12.37	12.72	(0.87)	25.10	(1.11)
Operating income	0.17	0.42	(0.19)	0.60	(0.31)

## Strengthen Brand Power of Hotel Chinzanso Tokyo

[Measures to expand inbound guests and increase sales per room]

- Ratio of inbound guests in the first half of 2017 was approximately 32%. We will continue to differentiate the hotel by fully promoting Japanese hospitality and interactive experiences
- Joined “Preferred Hotels & Resorts,” the world’s largest network of independent hotel brands at the end of July, with the aim of expanding sales channels and further improving brand awareness
- Aim to maintain and improve Michelin Guide and Forbes Travel Guide ratings by continuing personnel training
- Room renovation has been conducted since 2014 for 5 years  
4th phase (end of June to early September): 30 rooms



## Promote Measures to Acquire MICE

Acquisition of MICE has a high ripple effect in other businesses such as accommodation and restaurant, and we will continue to proactively engage in sales activities and renovate facilities to enhance acquisitions

[Hotel Chinzanso Tokyo]

- Renovation of the largest ballroom “ORION” (July to September)
- Exhibit at showcase events held by “Preferred Hotels & Resorts” and utilize sales and marketing offices deployed in 40 cities around the world

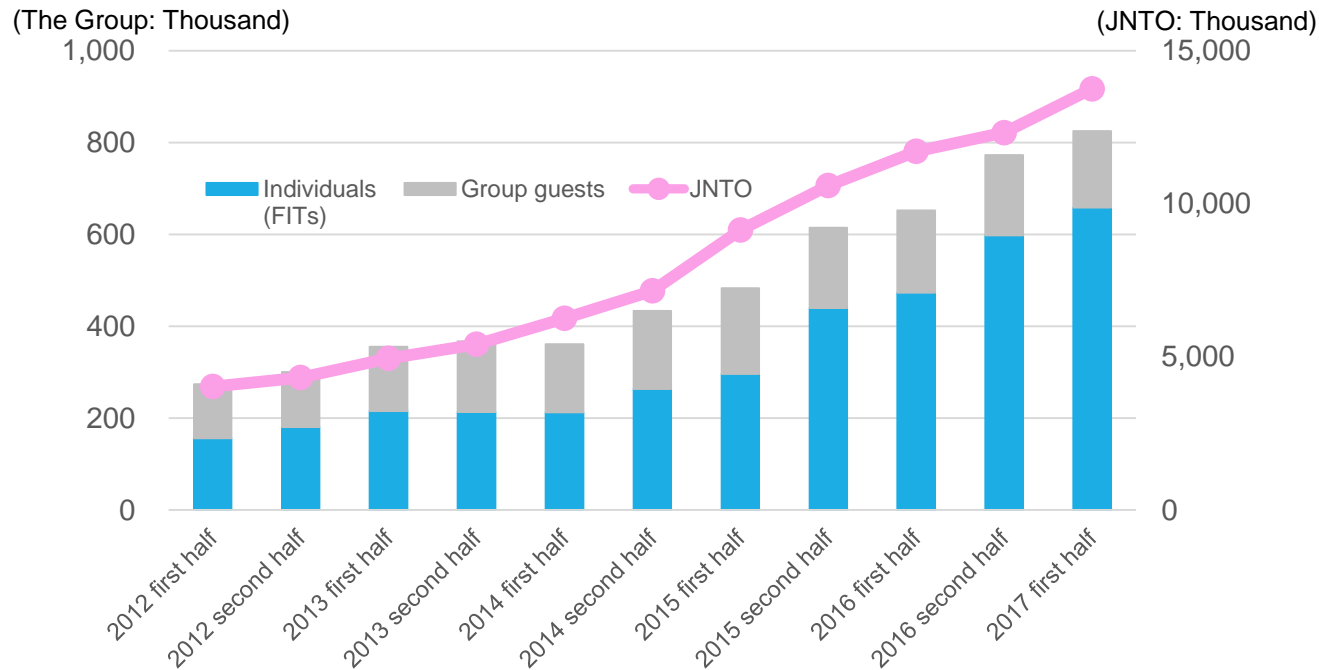
[Taiko-en]

- Strengthen sales by the new inbound sales team and showcase in exhibitions

# Status of Inbound Guests and Measures

## Status of the Group

### ◆ Trends in total inbound guests of the Group ◆



- Strengthened measures to attract FITs from 2014
- A 26.5% increase YoY in the first half of 2017 with approximately 820,000 guests, and the ratio of inbound guests was approximately 40% of the entire Group. They were mainly from East Asia, and those from Southeast Asia, Europe, the U.S. and Australia are growing as well

## Measures to Attract Wealthy Customers and FITs

- Activities in Europe, the U.S., Australia, and Asian bases (Shanghai, Seoul, Taipei, Bangkok, Jakarta, Yangon)
  - Participation in various business meetings and PR events
  - PR activities planned for a wealthy class in China in December
- Measures to attain repeat FIT guests
  - Enhance native language support by hiring more foreign employees
  - Promote membership with inbound members' card registration
  - Hotel Chinzanso Tokyo joined "Preferred Hotels & Resorts"
  - Hakone Kowakien Ten-yu will appear at business meetings in Asia, Europe and the U.S.



# Return to Shareholders

## Dividend Policy

The Company's basic policy is to pay dividends according to business results, taking into account the amount of return to its shareholders, further reinforcement of the corporate structure and the accumulation of internal reserves to be utilized for further development of business operations.

## Dividends paid and forecast

<b>Fiscal</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b> (Forecast)
Dividend	4 yen	4 yen	4 yen	4 yen	<b>40 yen</b> (*)

\* Change in share unit and share consolidation became effective on July 1, 2017