

Financial Results for the
Fiscal Year Ended December 31, 2017

February 13, 2018
FUJITA KANKO INC.
(Code number: 9722)

Agenda for Today's Presentation (Table of Contents)

I.	Financial Results for the Fiscal Year Ended December 31, 2017	P1	III.	Review of Medium-Term Management Plan	P11
	1. Statements of Income	P2		1. Revised Numerical Targets	P12
	2. Balance Sheets and Statements of Cash Flows	P3		2. WHG Business	P13
	3. Net Sales by Segment	P4		3. Resort Business	P14
	4. Operating Profit by Segment	P5		4. Luxury & Banquet Business	P15
II.	Operating Conditions by Segment	P6		5. New Business Initiatives	P16
	1. Operating Conditions by Segment (WHG Business)	P7		6. Numerical Targets by Segment	P17
	2. Operating Conditions by Segment (Resort Business)	P8		7. Return to Shareholders	P18
	3. Operating Conditions by Segment (Luxury & Banquet Business)	P9			
	4. Status of Inbound Guests and Measures	P10			

I. Financial Results for the Fiscal Year Ended December 31, 2017

Statements of Income

Revenue and Profit Both Increased YoY Due to Year-Round Operation of New Facilities

(Billion yen)	2017 Actual	2016 Actual	YoY	2017 Forecast (As of Aug. 8)	Difference from forecast
Net sales	70.62	68.78	1.83	72.00	(1.37)
Operating profit	1.99	1.71	0.28	2.30	(0.30)
Operating profit before depreciation	7.68	7.21	0.45	8.30	(0.62)
Ordinary profit	2.04	1.69	0.34	2.30	(0.25)
Profit attributable to owners of parent	1.67	0.85	0.81	1.10	0.57

■ **Extraordinary income 2.53 billion yen**

(Main items: Gain on sales of non-current assets 1.81 billion yen, Compensation income 0.31 billion yen)

■ **Extraordinary losses 1.40 billion yen**

(Main items: Impairment loss on non-current assets of 1.37 billion yen primarily due to the decision to close certain business)

Balance Sheets and Statements of Cash Flows

Increase in Non-Current Assets Due to Aggressive Investment

(Billion yen, %)	2017	2016	YoY
	Actual	Actual	
Total assets	107.36	105.83	1.52
Net assets	27.63	26.52	1.11
Interest-bearing debt	46.69	45.75	0.94
Equity ratio	25.5%	24.9%	0.7%
Cash flows from operating activities	5.53	6.24	(0.70)
Cash flows from investing activities	(6.66)	(6.00)	(0.66)
Capital investment (Cash-based)	8.58	9.50	(0.91)

■ **Increase in interest-bearing debt due to financing for investment**

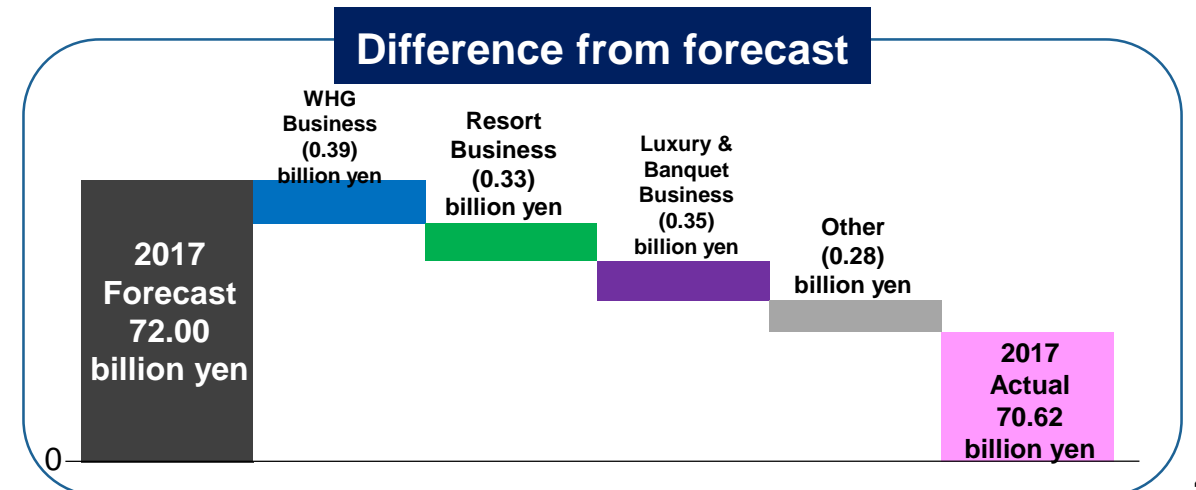
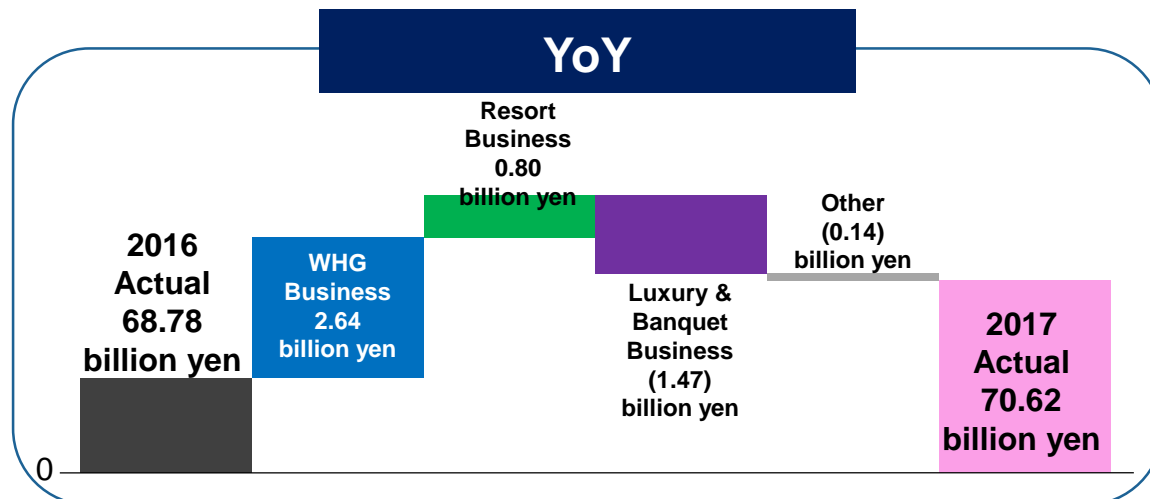
(A maximum of 50.0 billion yen is planned during the period of the medium-term management plan)

■ **Aggressive investment including Hakone Kowakien Ten-Yu, Hotel Gracery Kyoto Sanjo South, etc.**

Net Sales by Segment

WHG Business Drove YoY Increase in Revenue

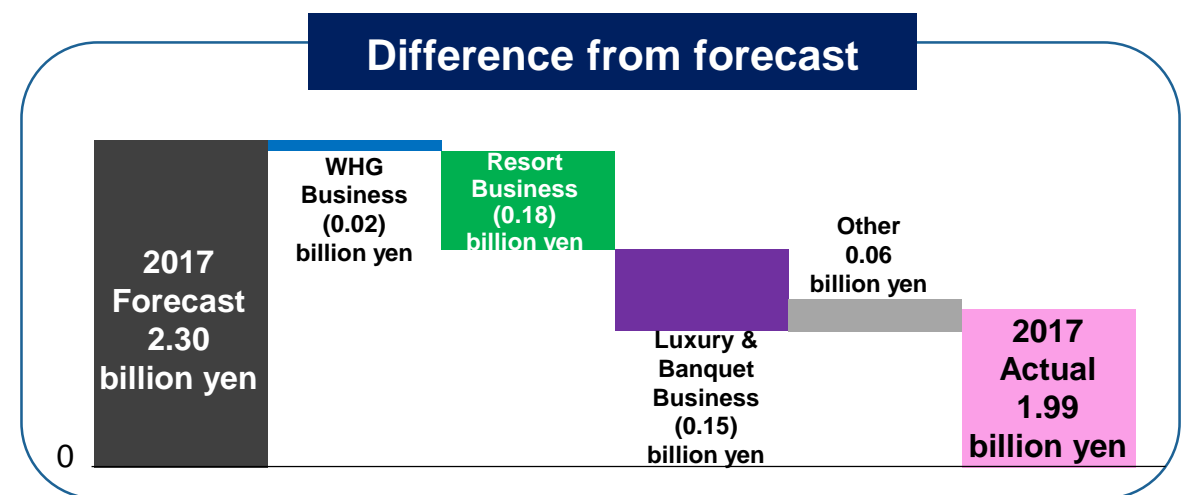
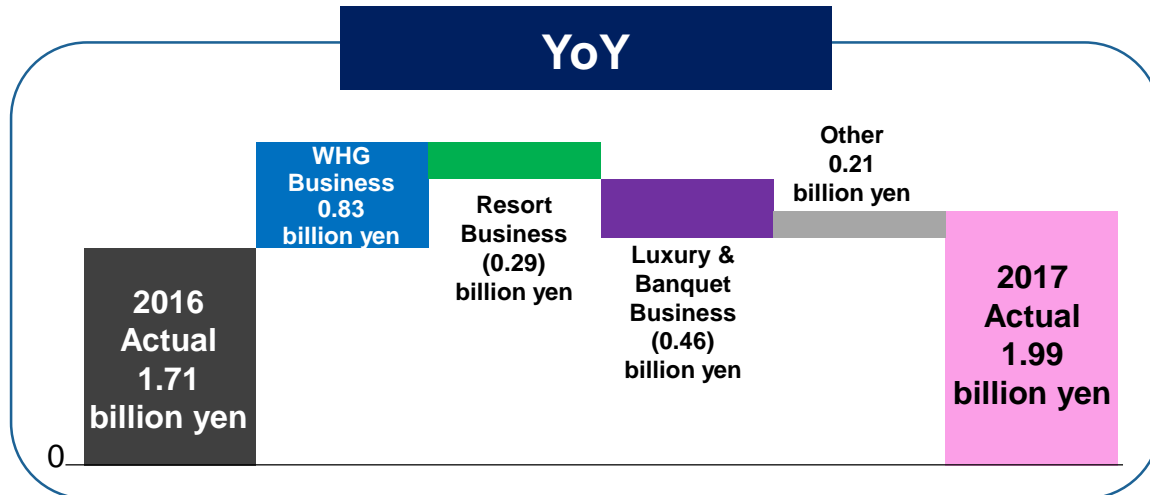
(Billion yen)	2017 Actual	2016 Actual	YoY	2017 Forecast (As of Aug. 8)	Difference from forecast
WHG Business	35.60	32.95	2.64	36.00	(0.39)
Resort Business	7.56	6.75	0.80	7.90	(0.33)
Luxury & Banquet Business	24.74	26.21	(1.47)	25.10	(0.35)
Other and adjustments	2.71	2.86	(0.14)	3.00	(0.28)
Total net sales	70.62	68.78	1.83	72.00	(1.37)



Operating Profit by Segment

WHG Business Offset Decreases in Resort Business and L&B Business

(Billion yen)	2017 Actual	2016 Actual	YoY	2017 Forecast (As of Aug. 8)	Difference from forecast
WHG Business	2.87	2.04	0.83	2.90	(0.02)
Resort Business	(0.68)	(0.39)	(0.29)	(0.50)	(0.18)
Luxury & Banquet Business	0.44	0.91	(0.46)	0.60	(0.15)
Other and adjustments	(0.63)	(0.85)	0.21	(0.70)	0.06
Total net sales	1.99	1.71	0.28	2.30	(0.30)



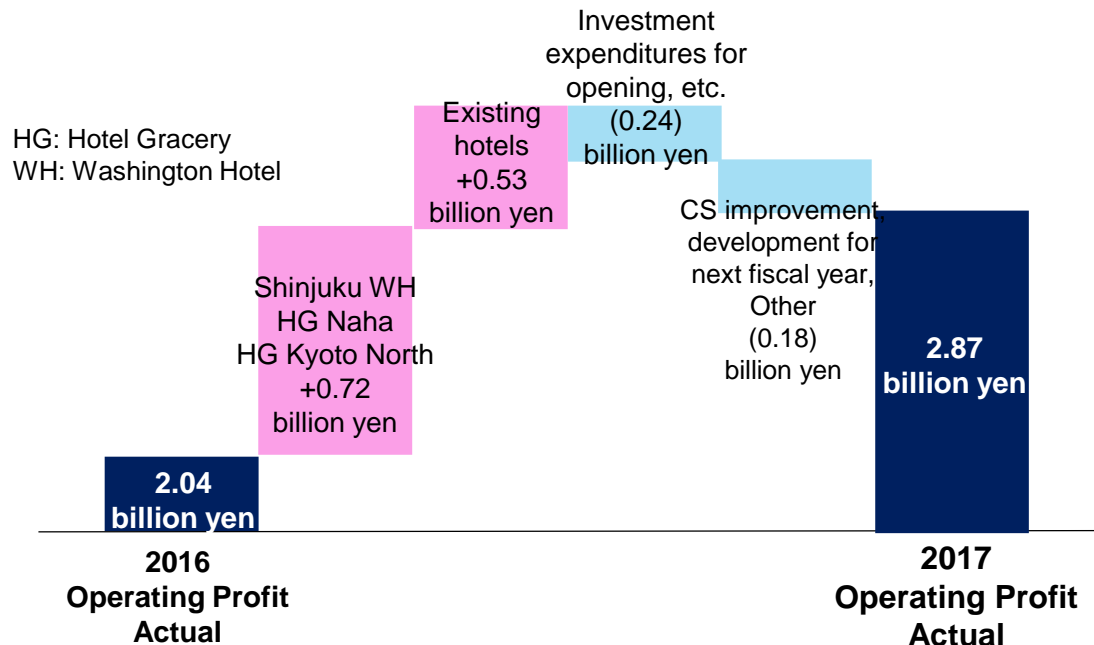
II. Operating Conditions by Segment

Operating Conditions by Segment (WHG Business)

YoY Increases in Revenue and Profit Due to Year-Round Operation of New Facilities and Increased Sales per Room

(Billion yen)	2017 Actual	2016 Actual	YoY	2017 Forecast (As of Aug. 8)	Difference from forecast
	Net sales	35.60	32.95	2.64	36.00
Operating profit	2.87	2.04	0.83	2.90	(0.02)

◆ Operating profit YoY difference factors ◆



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

	Tokyo metropolitan area	Regional hotels	Total
	YoY	YoY	YoY
Occupancy rate	+1.5%	+0.3%	+1.0%
Sales per room	+0.9%	+6.2%	+2.6%

- Hotel Gracery Kyoto Sanjo South opened on May 1 (128 rooms)
- Kisarazu Washington Hotel (Franchise system) opened on October 28 (146 rooms)

Operating Conditions by Segment (Resort Business)

New Flagship Facility Hakone Kowakien Ten-yu Opened in April

(Billion yen)	2017 Actual	2016 Actual		2017 Forecast (As of Aug. 8)	Difference from forecast
			YoY		
Net sales	7.56	6.75	0.80	7.90	(0.33)
Operating profit	(0.68)	(0.39)	(0.29)	(0.50)	(0.18)

◆ FY2017 actuals of Hakone major facilities ◆

Hakone Hotel Kowakien

- Closed on Jan. 10, 2018; showed strong performance thanks to increased demand prior to closing

Occupancy rate		Sales per room	
YoY	Difference from forecast	YoY	Difference from forecast
(1.3)%	+4.3%	+2.4%	+10.5%

Hakone Kowakien Yunessun

Visitors		Sales per person	
YoY	Difference from forecast	YoY	Difference from forecast
(4.2)%	(12.4)%	(3.9)%	(3.0)%

◆ Hakone Kowakien Ten-yu ◆

- Opened on April 20, 2017
- Kept occupancy rate low to prioritize establishment of operations
- Sales per person exceeded expectations
- Ratio of inbound guests was approximately 24%; visitors from Europe, the U.S. and Australia grew as well

Occupancy rate	Sales per person
Difference from forecast	Difference from forecast
(17.5)%	+5.5%

Operating Conditions by Segment (Luxury & Banquet Business)

Sales Were Flat YoY Excluding Impact of Azur Takeshiba

(Billion yen)	2017 Actual	2016 Actual	YoY	2017 Forecast (As of Aug. 8)	Difference from forecast
Net sales	24.74	26.21	(1.47)	25.10	(0.35)
Operating profit	0.44	0.91	(0.46)	0.60	(0.15)

◆ Sales per business ◆

(Billion yen)

Business	2017 Actual	YoY [YoY change excluding Azur Takeshiba]
Accommodation	2.29	(0.23) [+0.13]
Wedding	11.44	(0.39) [+0.03]
Banquet	5.17	(0.39) [(0.03)]
Restaurant	4.05	(0.09) [+0.14]
Other	1.77	(0.36) [(0.35)]
Total	24.74	(1.47) [(0.08)]

[Accommodation Business]

- Joined Preferred Hotels & Resorts, the world's largest network of independent hotel brands

YoY	Occupancy rate	Sales per room
Hotel Chinzanso Tokyo	+4.0%	+1.2%

[Wedding and Banquet Businesses]

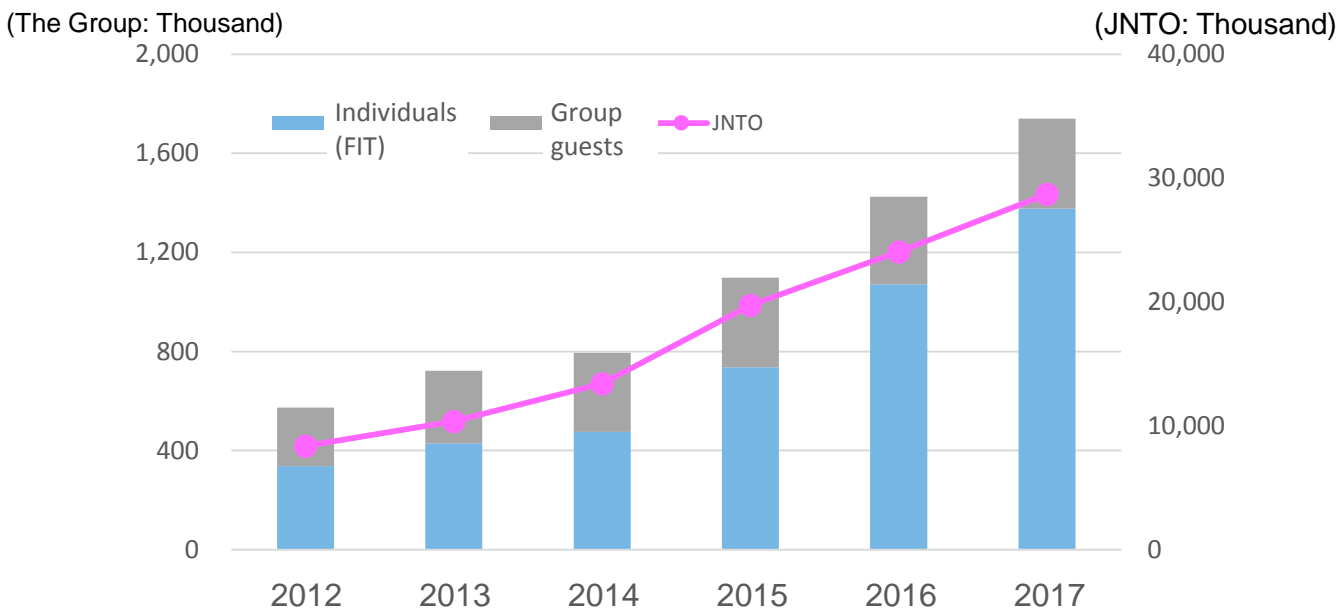
- Although wedding users decreased due to delay in shrine construction, this was offset by increased sales per user
- Launched wedding production business in Kita-Kyushu in May
- Renovated banquet hall with largest capacity "ORION" to acquire large-scale MICE

YoY	Wedding users	Sales per wedding user	Banquet users	Sales per banquet user
Hotel Chinzanso Tokyo	(9.3)%	+5.4%	(2.1)%	+0.6%
Taiko-en	(4.0)%	+4.7%	(0.2)%	+2.8%

Status of Inbound Guests and Measures

Strengthened Measures to Attract Individual Guests (FITs)

◆ Trends in total inbound guests of the Group ◆



- Strengthened measures to attract individual guests (FITs) from 2014; FIT increased by 28.6% YoY
- Number of guests totaled 1.74 million in 2017, a 22.5% increase YoY, and ratio of inbound guests was approximately 41% of the entire Group



- Held business negotiations with travel agencies and event targeting wealthy class in Shanghai in December
- The event targeting wealthy class included PR of the Group, along with demonstration of Japanese culture such as *furoshiki* cloth wrappers and *sake* tasting, which was simultaneously streamed over a magazine's official WeChat account and viewed by up to 1.84 million people
- Hotel Chinzanso Tokyo introduced free smartphone rental service "handy" in all rooms, enabling voice calls and internet data connections in and outside the hotel buildings
- The WHG Business group introduced an inquiry system using AI, which can handle inquiries in multiple languages 24 hours per day; inbound members with member's cards grew to roughly 50,000

III. Review of Medium-Term Management Plan

Revised Numerical Targets

			2019	2019	
	(Billion yen)	2018 Forecast	YoY	Initial targets	Revised targets
Net sales		72.00	1.37	88.00	76.00
Operating profit		2.30	0.30	5.30	2.70
Operating profit before depreciation		8.00	0.32	12.00	9.00
Ordinary profit		2.30	0.25	4.80	2.70
ROA (ordinary profit/total assets)		-	-	4% or more	2.5% or more
ROE (profit/net assets)		-	-	10% or more	6% or more
Capital investment (cash-based)		5.32	(3.26)	5.40	9.10
Depreciation		4.94	0.18	5.80	5.50

WHG Business

Expand Business through New Openings, Including New Brands

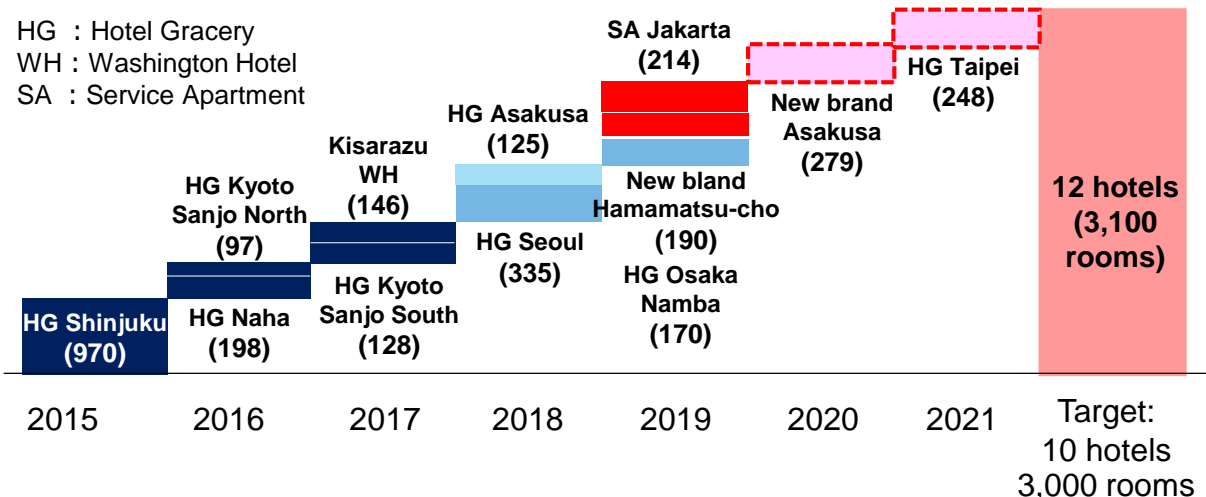
Main Measures

1. Expand business scale through new openings
2. Hire and develop human resources to support new openings
3. Improve productivity
4. Strengthen customer initiatives (acquire more repeat guests)

(Billion yen)	2018 Forecast	2019 Target
Net sales	36.94	39.10
Operating profit	2.53	2.70

◆ Future trends in number of rooms ◆

- As of 2019, 2,573 rooms (85%) against a target of 3,000 rooms, which will be achieved in 2021
- Changed opening year of HG Taipei (248 rooms) from 2019 to 2021



◆ Multi-branding ◆

- Mainly target millennials who actively enjoy traveling
 Summer of 2019: Hamamatsu-cho plan (190 rooms)
 Early 2020: Asakusa plan (279 rooms)
- Launch service apartment business
 Fall of 2019: Jakarta, Indonesia (214 rooms)

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

YoY change	Tokyo metropolitan area	Regional hotels	Total
Occupancy rate	0.5% increase	0.7% increase	0.6% increase
Sales per room	1.1% increase	3.2% increase	1.7% increase

Resort Business

Prioritize Strengthening of Profitability and Redevelopment of Hakone Kowakien

Main measures

1. Strengthen profitability of Hakone Kowakien (Ten-yu, Yunessun)
2. Redevelop Hakone Kowakien, starting with Hourai-en

(Billion yen)	2018 Forecast	2019 Target
Net sales	6.36	6.60
Operating profit	(0.37)	(0.36)

◆ Strengthen profitability of Hakone Kowakien ◆

- [Hakone Kowakien Ten-yu] Further increase customer satisfaction, and enhance initiatives to acquire repeat guests

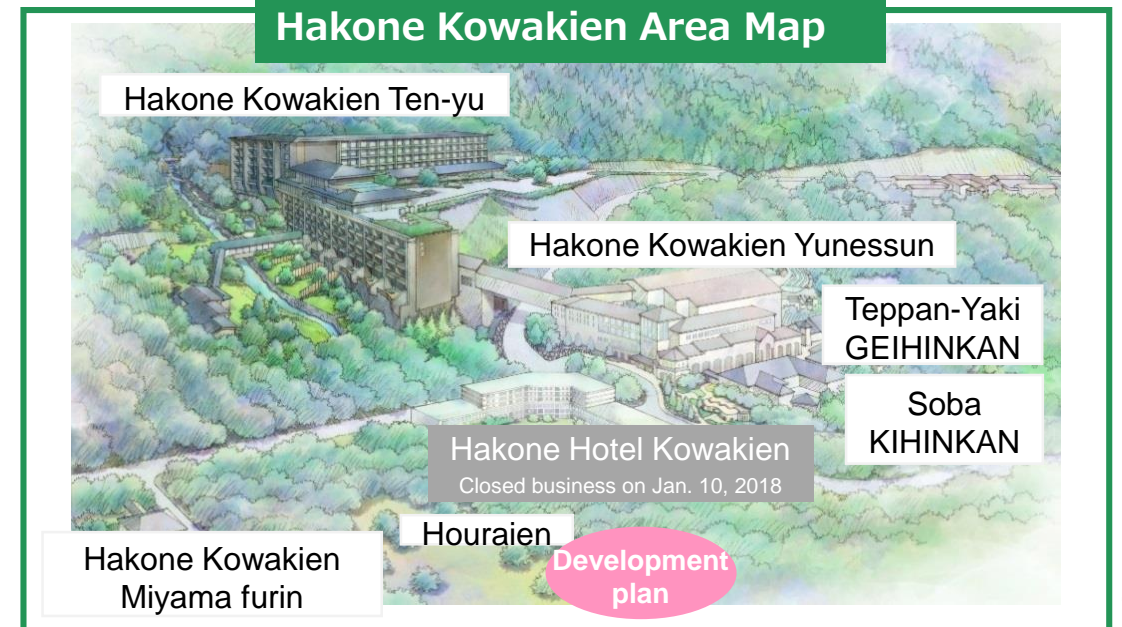
Hakone Kowakien Ten-yu	YoY
Occupancy rate	12.6% increase
Sales per person	1.2% increase

- [Hakone Kowakien Yunessun] Strive to stabilize the number of visitors year round by enhancing food & drinks, sales of goods and activities

Hakone Kowakien Yunessun	YoY
Visitors	2.0% decrease
Sales per person	7.3% increase

◆ Redevelopment of Hakone Kowakien ◆

- Create basic plan for Hourai-en, aiming to open in 2020



Luxury & Banquet Business

Enhance Brand Power and Make Well-planned Investment in Wedding Business

Main measures

1. Enhance brand power and profitability of Hotel Chinzanso Tokyo
2. In wedding business, halt trend toward shrinkage of existing business, and accelerate new development

(Billion yen)	2018 Forecast	2019 Target
Net sales	25.83	27.00
Operating profit	0.92	1.20

◆ Enhance brand power of Hotel Chinzanso Tokyo ◆

- [Accommodation] Leverage “Preferred Hotels & Resorts” network to attract foreign individual guests (FIT) of wealthy class

2018 Plan	YoY
Occupancy rate	2.3% increase
Sales per room	0.6% increase

- [Banquet] Work to capture large-scale overseas MICE accommodation demand, which has a large ripple impact on accommodation business

◆ Wedding business ◆

- In order to halt trend toward declining wedding users, make well-planned investments in Hotel Chinzanso Tokyo and Taiko-en, and improve competitiveness of wedding venues, etc.
- Launch wedding production business in regional cities In addition to Hiroshima and Kita-Kyushu, where operations have already begun, plan expansion to three sites by 2019

New Business Initiatives

New Accommodation Facilities Responding to Diversifying Needs

◆ Glamping business ◆

First location: Fujino Kirameki Fuji Gotemba

- Scheduled to open on April 27, 2018
- Made up of 20 independent cabins; provide service and comfort of a hotel in an outdoor space



◆ Open accommodation facility in front of Eihei Temple ◆

Open accommodation facility based on concept of “facility categorized between Japanese-style hotel and temple lodging” in front of Eihei Temple in Fukui Prefecture

- Planned to open in the fall of 2019
- 18 Japanese-Western guest rooms; restaurant offers *Shojin* cuisine (Buddhist vegetarian cuisine) prepared under the supervision of Eihei Temple



WHG Business Multi-Branding

◆ Launch new brand ◆

With concept of “Active & Relax,” mainly target millennials who actively enjoy traveling

- Summer of 2019: Hamamatsu-cho plan (190 rooms)
- Early 2020: Asakusa plan (279 rooms)
- Offer a relaxing space with affordable prices and service, supporting rich travel experiences

◆ Launch service apartment business ◆

To be opened in industrial park area in east of Jakarta, Indonesia

- Planned to open in the fall of 2019
- Long-term accommodation facility mainly targeting Japanese companies’ employees working locally or visiting on business trips
- 214 guest rooms (planned), with full suite of ancillary facilities including restaurant and large public bath with open-air bath



Numerical Targets by Segment

		2018 First Half Forecast	2018 Second Half Forecast	2018 Forecast	2019 Initial Targets	2019 Revised Targets
(Billion yen)						
WHG Business	Net sales	17.45	19.49	36.94	37.60	39.10
	Operating profit	0.67	1.86	2.53	2.30	2.70
Resort Business	Net sales	2.81	3.55	6.36	10.60	6.60
	Operating profit	(0.63)	0.26	(0.37)	1.30	(0.36)
Luxury & Banquet Business	Net sales	12.53	13.30	25.83	34.00	27.00
	Operating profit	0.22	0.70	0.92	1.90	1.20
Other and adjustments	Net sales	1.31	1.56	2.87	5.80	3.30
	Operating profit	(0.46)	(0.32)	(0.78)	(0.30)	(0.84)
Total	Net sales	34.10	37.90	72.00	88.00	76.00
	Operating profit	(0.20)	2.50	2.30	5.30	2.70

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.

Status of dividends

Fiscal	2013	2014	2015	2016	2017	2018 (Forecast)
Dividend	4 yen	4 yen	4 yen	4 yen	40 yen (*)	40 yen

- Implemented a share consolidation at a ratio of 10 shares to 1 share, effective July 1, 2017