

Financial Results for the
Six Months Ended June 30, 2018

August 7, 2018
FUJITA KANKO INC.
(Code number: 9722)

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I. Financial Results for the Six Months Ended June 30, 2018

Statements of Income for the First Half

Surpassed Initial Profit Forecast

(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
Net sales	33.59	33.81	(0.22)	34.10	(0.50)
Operating profit	(0.06)	0.15	(0.22)	(0.20)	0.13
Operating profit before depreciation	2.75	2.92	(0.17)	2.80	(0.04)
Ordinary profit	(0.02)	0.25	(0.28)	(0.20)	0.17
Profit attributable to owners of parent	(0.03)	(0.59)	0.56	(0.20)	0.16

Balance Sheets and Statements of Cash Flows for the First Half

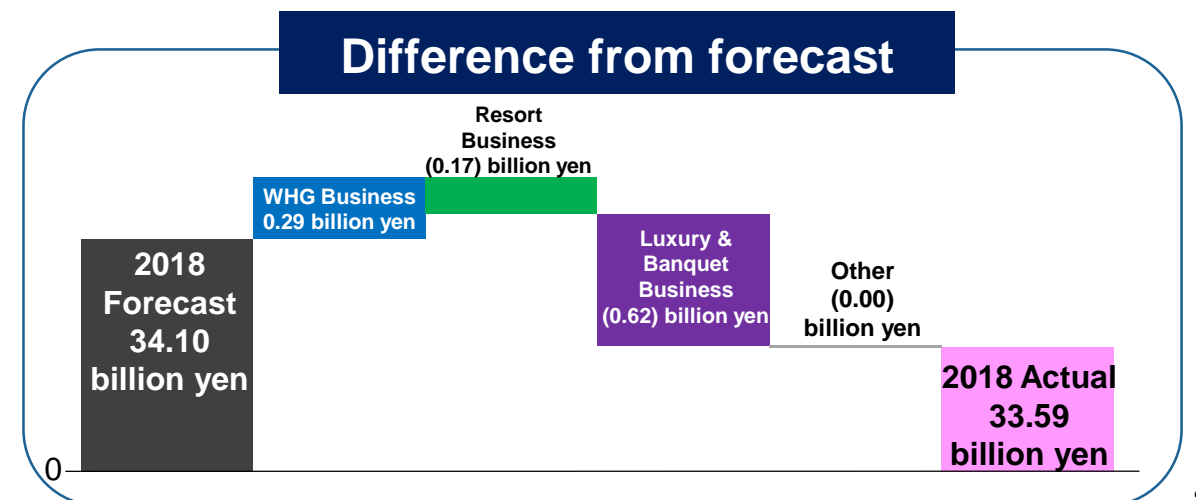
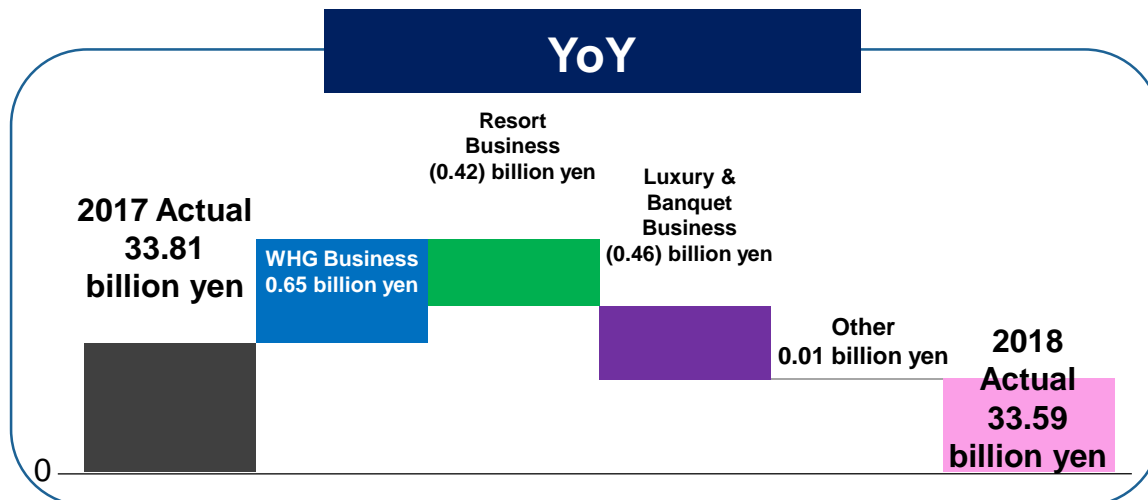
Continued Renovation of Guest Rooms and Capital Investment in New Businesses, etc.

	Q2 2018 Actual	Dec. 31, 2017	Difference from Dec. 31, 2017
(Billion yen, %)			
Total assets	103.26	107.36	(4.09)
Net assets	25.11	27.63	(2.52)
Interest-bearing debt	46.56	46.69	(0.13)
Equity ratio	24.1%	25.5%	(1.4)%
	Q2 2018 Actual	Q2 2017 Actual	YoY
(Billion yen)			
Cash flows from operating activities	2.19	0.87	1.32
Cash flows from investing activities	(2.63)	(6.51)	3.88
Capital investment (Cash-based)	2.58	6.56	(3.98)

Net Sales by Segment for the First Half

Achieved Strong Results in Capturing FITs, and Performance was Led by WHG Business which Saw an Increase in Sales per Room

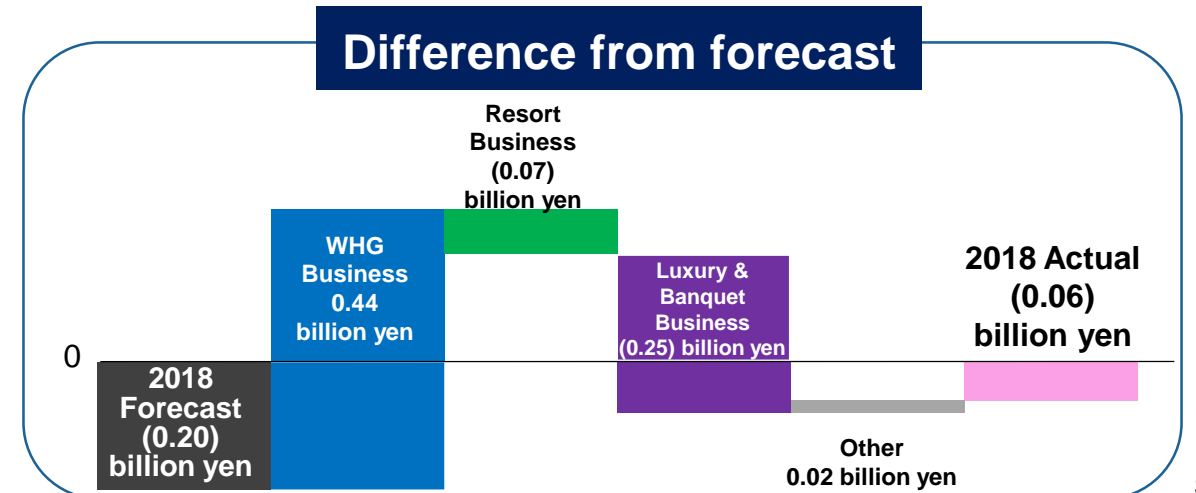
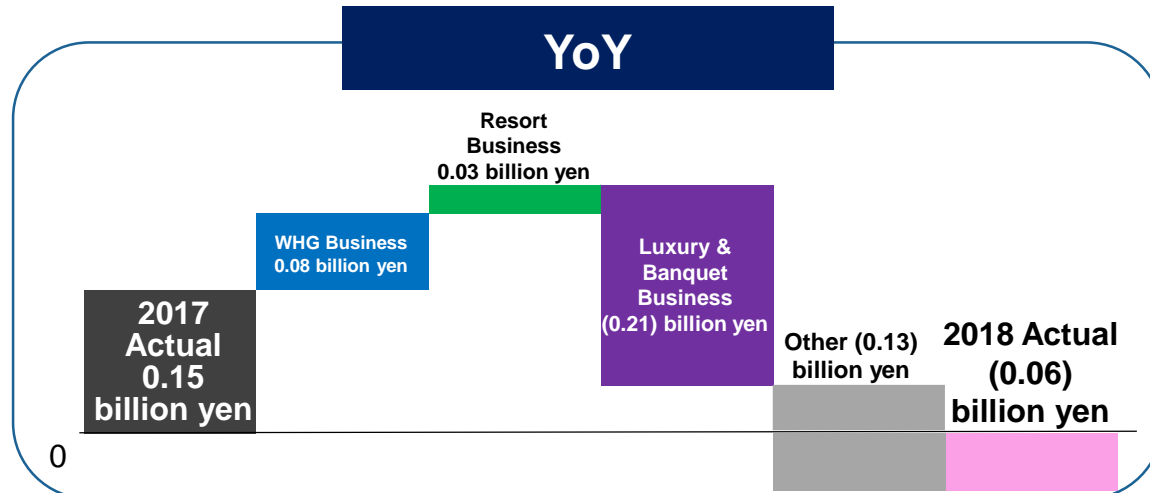
(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
WHG Business	17.74	17.08	0.65	17.45	0.29
Resort Business	2.63	3.05	(0.42)	2.81	(0.17)
Luxury & Banquet Business	11.90	12.37	(0.46)	12.53	(0.62)
Other	1.30	1.30	0.01	1.31	0.00
Total net sales	33.59	33.81	(0.22)	34.10	(0.50)



Operating Profit by Segment for the First Half

Led by WHG Business, Results were on Par with Forecast

(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
WHG Business	1.11	1.03	0.08	0.67	0.44
Resort Business	(0.70)	(0.74)	0.03	(0.63)	(0.07)
Luxury & Banquet Business	(0.03)	0.17	(0.21)	0.22	(0.25)
Other	(0.43)	(0.30)	(0.13)	(0.46)	0.02
Total operating profit	(0.06)	0.15	(0.22)	(0.20)	0.13



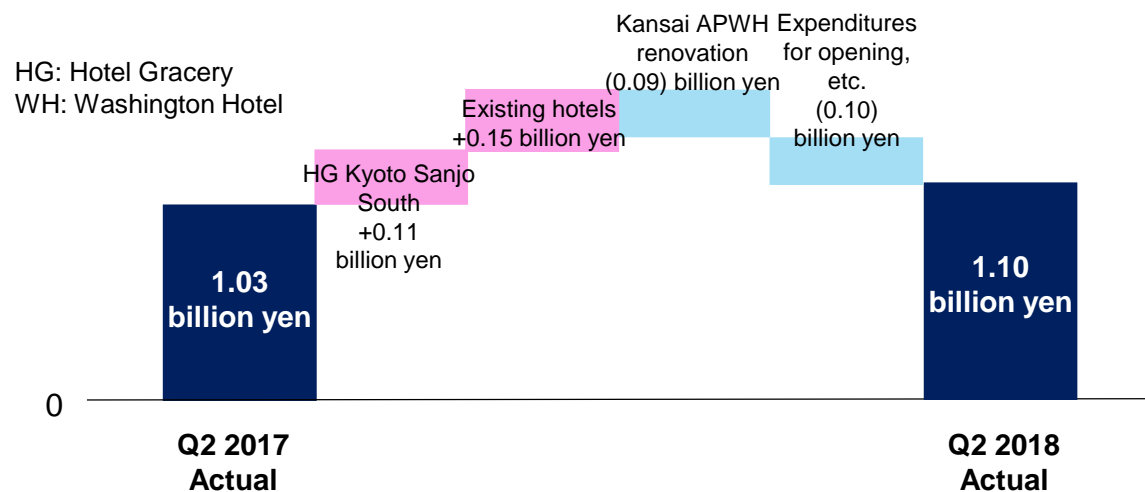
II. Operating Conditions for the First Half by Segment

Operating Conditions by Segment (WHG Business)

Sales per Room Rose at Facilities That Achieved Strong Results in Capturing FITs, Resulting in Increased in Revenue and Profit from the Forecast

(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
Net sales	17.74	17.08	0.65	17.45	0.29
Operating profit	1.11	1.03	0.08	0.67	0.44

◆ Operating profit YoY difference factors ◆



◆ Change (%) of occupancy rate and sales per room ◆

	Sales per room		Occupancy rate	
	YoY	Difference from forecast	YoY	Difference from forecast
Total	+2.0%	+0.6%	+0.9%	+0.9%
Tokyo metropolitan area	+1.0%	+0.5%	+1.9%	+1.5%
Regional hotels	+4.1%	+0.5%	(0.6)%	(0.1)%

➤ Sales per room and occupancy rate increased mainly in the Shinjuku area which saw strong demand from inbound guests, and at regional facilities that appropriately incorporated the trend of spreading out inbound guests, resulting in increases in revenue and profit at existing facilities

Operating Conditions by Segment (Resort Business)

At Hakone Kowakien Ten-yu, Occupancy Rate Rose due to Improvement in Customer Reputation

(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
	Net sales	2.63	3.05	(0.42)	2.81
Operating profit	(0.70)	(0.74)	0.03	(0.63)	(0.07)

◆ Status of Hakone Kowakien ◆

- Hakone Kowakien Ten-yu operated for a full year, compensating for the closing of business of Hakone Hotel Kowakien in terms of operating profit before depreciation
- Hakone Kowakien Yunessun was unable to attract enough guests due to the greater-than-expected impact from closing of business of Hakone Hotel Kowakien.

[Hakone Kowakien Ten-yu]

Sales per person		Occupancy rate	
YoY	Difference from forecast	YoY	Difference from forecast
-	(2.2)%	-	+6.6%

[Hakone Kowakien Yunessun]

Visitors		Sales per person	
YoY	Difference from forecast	YoY	Difference from forecast
(27.9)%	(25.8)%	+5.0%	(2.9)%

- Prioritized enhancement of customer satisfaction and strengthened development of human resources
- Customer evaluation and occupancy rate rose
- Attracted FITs from not only Asia but also Europe, the U.S. and Australia

- Expanded the food & drinks area, formed partnerships with nearby facilities and made efforts to attract FITs
- Focused on sales for summer and enhancement of safety and health and customer service capability

Operating Conditions by Segment (Luxury & Banquet Business)

Revenue and Profit Decreased YoY and from Forecast due to Impact of Decrease in the Number of Users in the Wedding Business

(Billion yen)	Q2 2018 Actual	Q2 2017 Actual	YoY	Q2 2018 Forecast	Difference from forecast
Net sales	11.90	12.37	(0.46)	12.53	(0.62)
Operating profit	(0.03)	0.17	(0.21)	0.22	(0.25)

[Luxury & Banquet Business: Sales per business]

(Billion yen)

Business	Q2 2018 Actual	YoY [YoY change excluding Azur Takeshiba]
Accommodation	1.06	(0.07) [0.02]
Wedding	5.28	(0.11) [(0.01)]
Banquet	2.68	(0.09) [0.00]
Restaurant	1.95	(0.13) [(0.07)]
Other	0.93	(0.04) [(0.03)]
Total	11.90	(0.46) [(0.09)]

[Wedding and Banquet Businesses]

- Despite a decrease in the number of wedding users, sales per person increased due to capturing of demand for Japanese-style wedding
- Transitioned to a strategy that focuses on acquisition of new customers with higher sales per person at Share Clapping Fukuoka
- Promoted measures to acquire MICE mainly at the large banquet hall that was renovated last year at Hotel Chinzanso Tokyo

	Wedding				Banquet			
	Users		Sales per user		Banquet users		Sales per user	
	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast
Hotel Chinzanso Tokyo	(6.8)%	(7.9)%	2.3%	1.4%	0.6%	(2.4)%	(0.7)%	(0.2)%
Taikoen	(4.3)%	(6.2)%	4.7%	1.8%	(2.4)%	(2.5)%	3.7%	3.0%

	Sales per room		Occupancy rate	
	YoY	Difference from forecast	YoY	Difference from forecast
Hotel Chinzanso Tokyo	(0.5)%	(0.1)%	2.4%	(1.0)%

[Accommodation Business]

- Occupancy rate rose due to efforts to attract FITs and promote repeat guests

III. Full-Year Business Results Forecast

Full-Year Forecast (by Segment)

	2017 Actual	Q2 2018 Actual	2018 Forecast	Initial forecast announced Feb.13
(Billion yen)				
WHG Business				
Net sales	35.60	17.74	37.82	36.94
Operating profit	2.87	1.11	3.10	2.53
Resort Business				
Net sales	7.56	2.63	6.25	6.36
Operating profit	(0.68)	(0.70)	(0.45)	(0.37)
Luxury & Banquet Business				
Net sales	24.74	11.90	25.08	25.83
Operating profit	0.44	(0.03)	0.45	0.92
Other and adjustments				
Net sales	2.71	1.30	2.85	2.87
Operating profit	(0.63)	(0.43)	(0.80)	(0.78)
Total				
Net sales	70.62	33.59	72.00	72.00
Operating profit	1.99	(0.06)	2.30	2.30

Full-Year Forecast (Consolidated)

	2017 Actual	Q2 2018 Actual	2018 Forecast	Initial forecast announced Feb.13
(Billion yen)				
Net sales	70.62	33.59	72.00	72.00
Operating profit	1.99	(0.06)	2.30	2.30
Operating profit before depreciation	7.68	2.75	8.00	8.00
Ordinary profit	2.04	(0.02)	2.30	2.30
Profit attributable to owners of parent	1.67	(0.03)	1.30	1.30
Capital investment (cash-based)	8.58	2.58	5.32	5.32
Depreciation	4.75	2.42	4.94	4.94

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

Measures for the Second Half by Segment (WHG Business)

(Billion yen)	2018			2018		
	Second Half Forecast	YoY	Difference from forecast	Forecast	YoY	Difference from forecast
Net sales	20.07	1.55	0.58	37.82	2.21	0.88
Operating profit	1.98	0.14	0.12	3.10	0.22	0.57

Expand Business Scale through New Openings

[New openings in the future]

- Open Hotel Gracery Seoul (335 rooms) on August 31
- Open Hotel Gracery Asakusa (125 rooms) on October 4
- Open new brand hotels targeted at active millennials (Hamamatsu-cho in summer of 2019 and Asakusa in early 2020)
- Launch serviced apartment business in Indonesia in fall of 2019
- Achieve 3,100 rooms in 2021 against a target of 3,000 rooms under the Medium-Term Management Plan

Enhance Competitiveness

[Improvement of CS and acquisition of more repeat guests]

- Evaluation of Hotel Gracery brands improves on domestic reservation websites and measures to enhance CS continue
- Strengthen campaign to promote repeated use by membership cardholders including inbound guests

[Initiatives to enhance productivity with an eye for new brands]

- Launch initiatives to enhance productivity, such as utilization of AI and renovation of operation flow/system, with an eye to introduce such initiatives for new brands
 - Introduce AI Chatbot at 9 hotels on a trial basis
 - Introduce AI revenue management on a trial basis
 - Digitization of guest register and development of AI concierge, etc.

Measures for the Second Half by Segment (Resort Business)

(Billion yen)	2018			2018		
	Second Half Forecast	YoY	Difference from forecast	Forecast	YoY	Difference from forecast
Net sales	3.61	(0.89)	0.06	6.25	(1.31)	(0.11)
Operating profit	0.25	0.20	(0.00)	(0.45)	0.23	(0.08)

Strengthen of Profitability of Hakone Kowakien

[Hakone Kowakien Ten-yu]

- Implement initiatives to enhance customer satisfaction as in the first half
- Continue promotion to create repeat guest
Strengthen measures to capture membership card holders
- Implement initiatives to improve sales per room through high value-added products and enhancement of activity programs utilizing restaurants in historical buildings such as Kihinkan and Geihinkan

[Hakone Kowakien Yunessun]

- Enhance attractiveness through provision of new activities
- Promote attraction of customers through enhanced notification of summer events
- Enhance notification of expanded food & drinks area and augmented sales of goods to attract customers on weekdays, which is a challenge, and enhance sales to FITs

Redevelopment of Hakone Kowakien

- Continue to consider the Houraien development plan

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

(Billion yen)	2018			2018		
	Second Half Forecast	YoY	Difference from forecast	Forecast	YoY	Difference from forecast
Net sales	13.17	0.80	(0.12)	25.08	0.33	(0.75)
Operating profit	0.48	0.22	(0.21)	0.45	0.00	(0.47)

Wedding Business Measures for the Second Half

[Hotel Chinzanso Tokyo]

- Increase the number of weddings for this year and beyond through securing Japanese-style wedding demands using the shrine in the garden as an attraction and by renovating banquet hall

[Taikoen]

- Continue to secure Japanese-style wedding demand
- Increase number of new visitors and the close rate by utilizing synergy effect with OPERA DOMAINE KOURAIBASHI, a historical western-style building

[Share Clapping Fukuoka]

- Promote the transition to a strategy that focuses on acquisition of customers with higher sales per person

Hotel Chinzanso Tokyo

[Banquet Business]

- Start full-operation of the banquet hall renovated last year to secure MICE accommodation demand in Japan during the year
- Improve recognition of the hotel by enhancing sales structure, participate in overseas business-matching meetings, etc., in order to acquire more overseas MICE accommodation demand

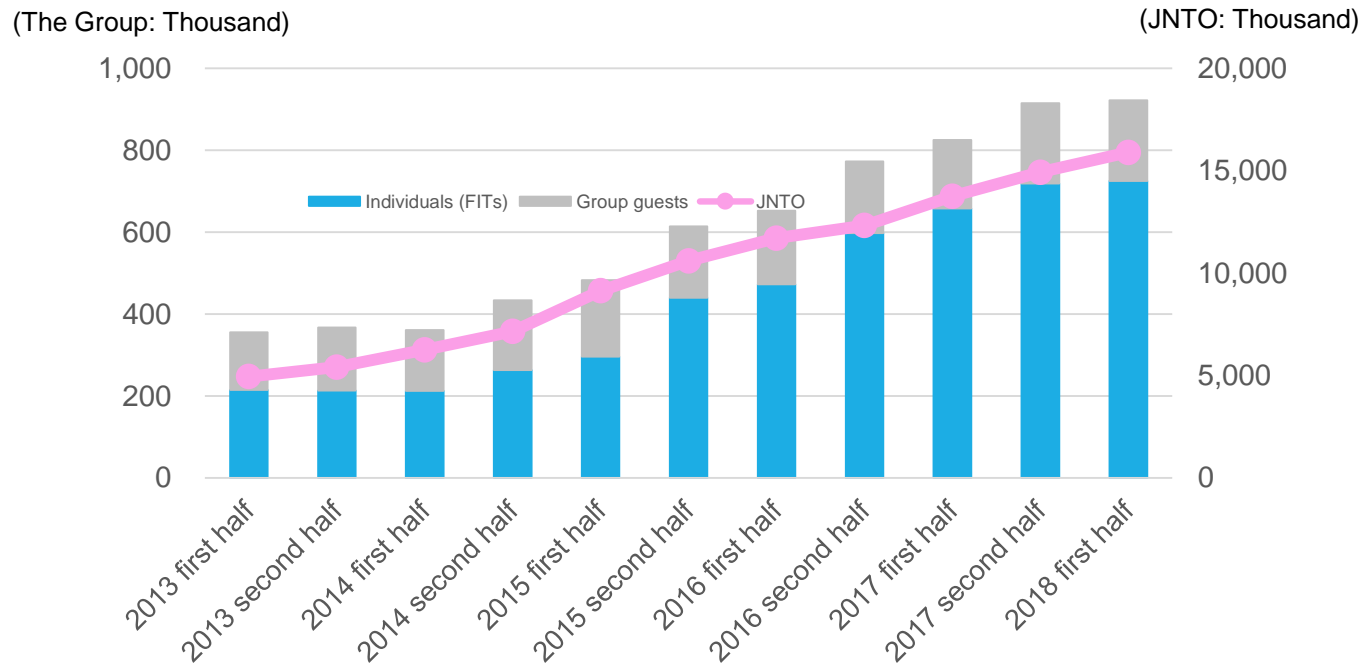
[Accommodation Business]

- Improve quality and competitiveness of the facility by renovating rooms and spas
- Continue staff training
- Acquire Japanese and foreign wealthy guests by utilizing networks of Preferred Hotels & Resorts

Status of Inbound Guests and Measures

Strengthened Measures to Attract Individuals Guests (FITs)

◆ Trends in total inbound guests of the Group ◆



- A 11.8% increase YoY in the first half of 2018 with approximately 920,000 guests, and the ratio of inbound guests was approximately 45% in the entire Group. Utilization by FITs increases during periods such as the Chinese New Year

◆ Measures to attract inbound guests and acquire repeat guests ◆

[Promotion at business-matching meetings and events]

- Held business-matching meetings in May in Guangzhou, where many people are expected to choose Japan as a travel destination
Scheduled to hold an event targeting the wealthy class in Shanghai in December
- Exhibit at business-matching meetings held by “Preferred Hotels & Resorts” and utilize sales and marketing offices deployed in 40 cities around the world



[Measures to attain repeat guests]

- Enhance measures to increase membership cardholders of inbound users at WHG hotels (of cumulative total number of members of approximately 480,000 as of June 30, 2018, 75,000 were inbound members)

New Initiatives Responding to Diversifying Needs

Glamping Business

[Fujino Kirameki Fuji Gotemba]

- Opened on April 27, 2018
- Made up of 20 independent cabins
- Provide service and comfort of a hotel in an outdoor space



[Nordisk Village Goto Islands]

- Scheduled to open on September 27, 2018
- Situated on Fukue Island of the Goto Islands in Nagasaki Prefecture, they are an ideal place for exploring “Hidden Christian Sites in the Nagasaki Region,” which are listed as a World Heritage site
- The facility will be the first one in Asia made possible by a partnership with Nordisk, a Danish manufacturer of outdoor equipment



Restaurant Business Serving Halal Food

[Japanese restaurant ORIGAMI Asakusa]

- Opened on July 25, 2018
- Conveniently located 2 minutes away from Asakusa Station
- A Japanese restaurant serving Halal food that Muslim travelers in Japan can enjoy with peace of mind
- Serves authentic Japanese cuisine using Halal certified Wagyu and domestic beef
- There is a prayer room and a facility for Wudu (to wash hands and feet) inside the restaurant

