



FUJITA KANKO INC.

Medium-term Management Plan 2020-2024

— Self-reformation and challenges —

“Continue to grow through a unique development of business that closely matches lifestyles, in order to create smiles.”

Medium-term Management Plan (2020-2024)

Continue to grow through a unique development of business that closely matches lifestyles, in order to create smiles.

Upon imagining the future after 10 years with regard to business, we have taken into consideration the backdrop of a strong demand for engagement with various stakeholders and, in order to embody the spirit of our corporate philosophy, we have established our long-term vision of what we should provide for the benefit of society.

1. Identify the needs of the age by accompanying the various scenes of our customers' lives
2. Further evolve and develop business through the addition of new values while protecting the history, culture and tradition that have been cultivated up to the present
3. Amid the further diversification of views regarding work and workstyles, aim for a society that leads to customer satisfaction and the happiness of all stakeholders, through all of our employees continuing to grow together with the company while taking pride and confidence in their own work

— Corporate Philosophy —

Our goal is to contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize.

“FUJITA PREMIUM VALUE CREATION 2015”

Overall strategies

Increase and expand added value of existing business by meeting diversified client needs

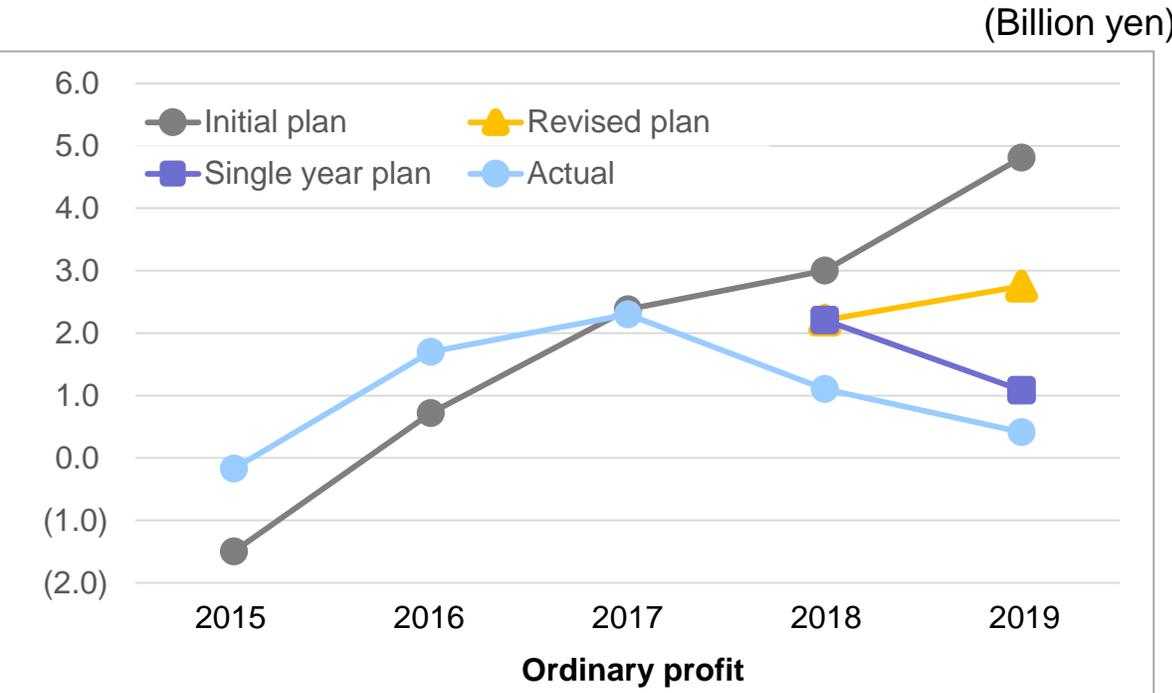
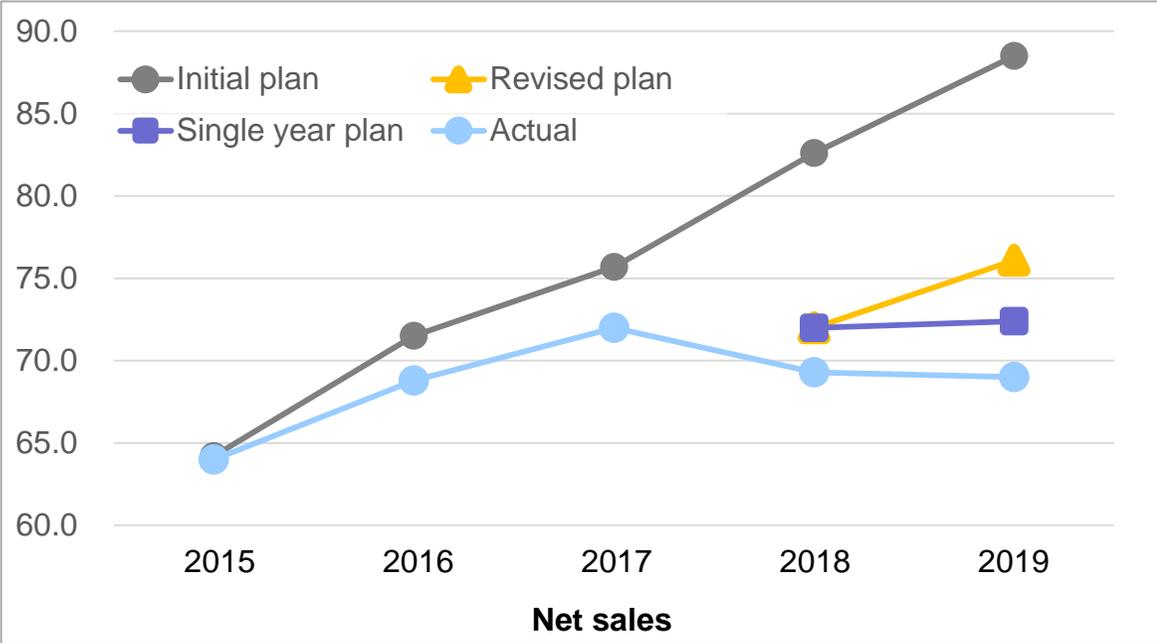
Increase marketing and sales to take advantage of growth in the foreign visitor segment and develop overseas business

Develop diverse human resources and improve employee satisfaction

Through actively implementing both tangible and intangible investments that had to be curbed due to the impact from the collapse of Lehman Brothers and earthquakes, we were able to strengthen our foundations while adapting to the environment, and shifted to a policy of increasing added value and achieving growth.

- In the WHG Business, which we positioned as a key driver for growth, we achieved 10 new openings during the period, contributing to the capturing of increasing inbound demand. We launched the new “HOTEL TAVINOS” brand that leverages such achievements.
- As a part of the redevelopment of Hakone Kowakien, in April 2017, we opened “Hakone Kowakien Ten-yu.” We attracted the upper-middle class by providing high value-added products.
- In order to respond to diversifying needs and increasing inbound guests, we developed glamping facilities and Japanese restaurants supporting halal dining, etc. New businesses that utilize the knowledge we have cultivated thus so far contributed to synergies with existing businesses and new customer development.
- We promoted both “developing diverse human resources and improving employee satisfaction” and “work style reform,” positioning them as the two wheels of organizational culture reform.

■ Results



■ Internal factors

- Poor profitability with existing facilities (Hotel Chinzanso Tokyo weddings, Hakone Kowakien)
- Non-implementation of planned new openings (Resort Business, L&B Business)

■ External factors

- Intensified competition due to rapid increase in competitors
- Natural disasters one after another in 2018 and 2019
- Changes in global situation such as Japan-South Korea relations
- Labor shortages due to declining workforce



■ Challenges

- Speedy responses to changes in customer needs
- Enhance brand power and profitability of main facilities: Hotel Chinzanso Tokyo and Hakone Kowakien
- Enhance productivity
- Construct a profit base that can withstand changes in the external environment

Medium-term Management Plan 2020-2024 —Self-reformation and challenges—

- **Challenges**
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■ Business Environment

- Opportunities**
- Holding of Tokyo Olympic and Paralympic Games
 - Increase in inbound guests
 - Promotion of work style reform and holiday acquisition
 - Development of AI and IoT technologies
 - Increasing awareness regarding SDGs

- Risks**
- Changes in accommodation and wedding markets
 - Labor shortages due to declining workforce
 - Falling accommodation demand due to natural disasters/disease epidemic
 - Geopolitical and geo-economical risks
 - Increased need for information security measures

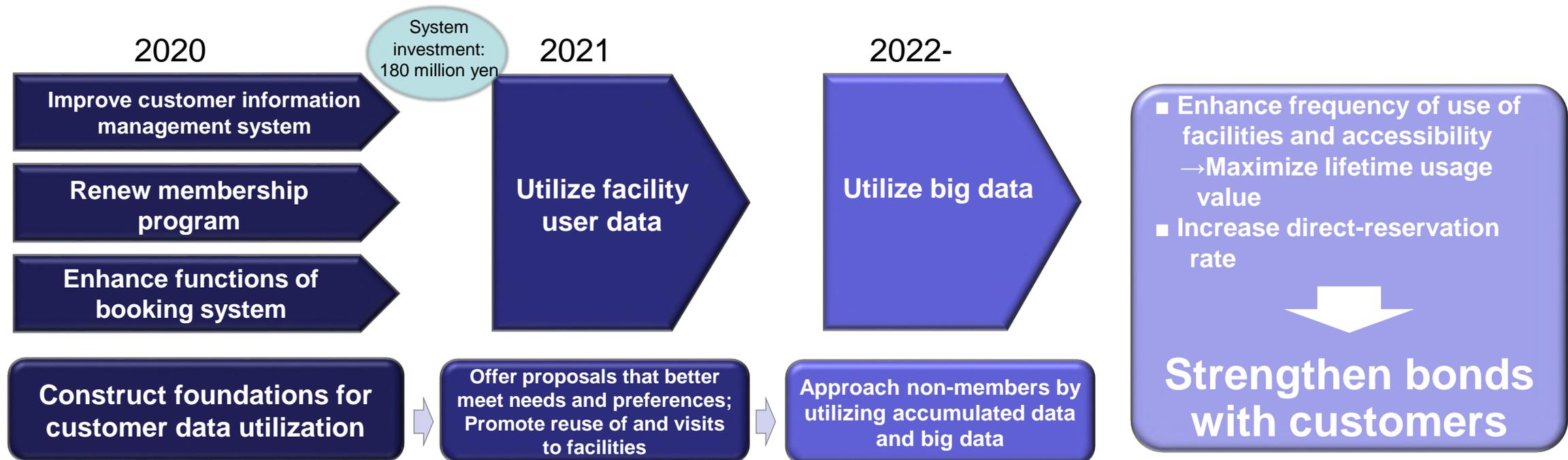


— Major Strategies —

- | | |
|--|--|
| I. Reengineering of sales and marketing | IV. Redeveloping Hakone Kowakien |
| II. Human resource development and productivity enhancement | V. Expanding the accommodation business domain |
| III. Reconstruction of business through the revival of the Chinzanso brand | VI. Promotion of the SDGs |

Centralizing customer information management and promoting digital marketing

- 1) Improve customer information management system
- 2) Renew membership program
- 3) Enhance functions of online booking system
- 4) Promote digital marketing that utilizes member and user data



Major Strategies

II. Human resource development and productivity enhancement

- 1) Construct systems which enable the active roles of diverse human resources
- 2) Work style reform which focuses on the work style “quality”
- 3) Slim down indirect divisions through changes in organizational functions at headquarters and headquarter departments, as well as systemization

<Second Stage>

2020-2024

- Construct systems which enable the active roles of diverse human resources
- Work style reform which focuses on the work style “quality”

Progress management via labor productivity indices
(Labor cost/marginal profit ratio)
→Enhanced profit orientation

Enhancement of highly specialized skills
Cooking/hospitality techniques that work inside and outside of Japan
Planning and development capabilities for products and services

<First Stage>

2015-2019

- Develop diverse human resources and improve employee satisfaction
- Work style reform
(Revolution in working hours/enhancing structures to allow longer careers)

Foreign national employee ratios
Overall Group: **21.4%**
Fiscal year 2019 new employees: **34.7%**

Female manager ratio
Fiscal year 2019: **12.7%**

Human resource development
Make training and competitions available regardless of employment type

Nurturing the next generation

- Developing next generation of executives
- Searching for new business possibilities via millennials

III. Reconstruction of business through the revival of the Chinzanso brand

Reconstruct the brand through enhancing product strength and sales capabilities in the three years to 2022; and aim to make the “Chinzanso” brand No.1 in Japan

- 1) Recruit and train specialists in each business, such as cooking and hospitality
- 2) Construct mechanism to maintain/enhance product quality, and improve new product development functions
- 3) Strengthen overseas sales structure (accommodation/MICE) and search for new sales channels
- 4) Grasp the market through utilization of digital marketing and strengthen bonds with customers

In order to enhance appeal to customers, divide hotel and banquet buildings and reconstruct brands, concepts, product mix and operation systems for both that utilize their respective features

Hotel buildings

[Accommodation]	Enhance products, human resources and sales capabilities that aim for the highest rating as a luxury hotel
[Restaurant]	Raise product strength mainly through reviewing restaurant portfolio

Banquet buildings

[Wedding]	Transform the business model by improving added value, mainly focusing on food, and reviewing operation systems
[Banquet]	Expand groups of customers through both overseas sales and community-based sales

Begin research and trials that look ahead to future redevelopment, such as the coexistence of residences and offices in which daily life and extraordinary life are fused

Major Strategies IV. Redeveloping Hakone Kowakien

Open new hotel in 2023

Together with Yunessun, revive as an integrated resort in which one can actively enjoy for two whole days

A ryokan where you can relax and enjoy “hot springs,” “nature” and “food”

Hakone Kowakien Ten-yu

A facility that anyone can use casually on a day trip
“hot springs,” “nature” and “food” + “culture” and “experiences”

Hakone Kowakien Yunessun

Yunessun hot springs town image

New hotel

Hotel in which one can experience “hot springs,”
“nature” and “food” together with Yunessun

Overall view of Hakone Kowakien area

- Return to the origins of Hakone Kowakien that can meet the needs of a wide range of customers through capturing market volume zones, including inbound guests
- Attract both accommodation and day-trip guests to transform into an area in which everyone can enjoy as a symbol of Hakone

			2020	2021	2022	2023	
Yunessun	Bustling zone	New meal options and night activities for surrounding and inbound guests (hot spring town, roadside station)	➤			★	Towards an integrated resort
	Active zone	Expand amusements other than hot baths		➤		★	
	Swimwear zone	Establish new amusements that utilize nature	➤		★		
	Mori No Yu	Increase reservable private baths	★				
Ten-yu	Attract domestic and international upper-middle class through high value-added services	➤					
New hotel	Provide high value at middle price ranges to volume zone customers	➤		Demolition New construction		★	

Major Strategies IV. Redeveloping Hakone Kowakien

Overview of new hotel

Opening	Planned for January 2023
Overview	150 guest rooms, restaurant, large communal baths, reservable private baths
Ancillary contents	Community space where customers interact with each other, space in which children can play even when waiting for check-in or raining during the stay
Price assumption	From approx. 15,000 yen per person



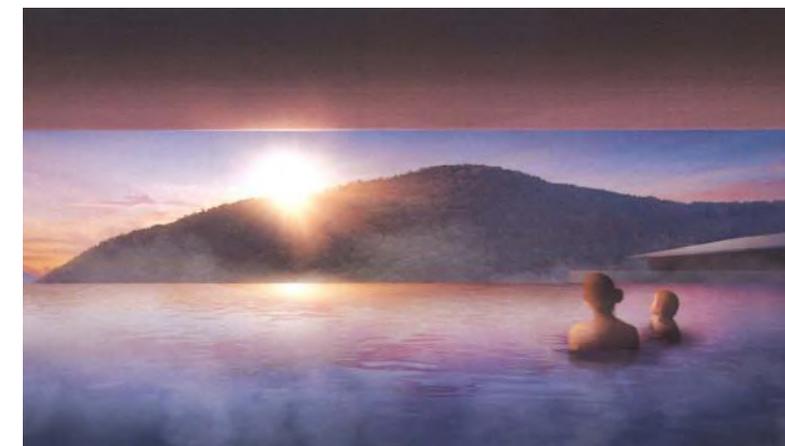
Rendering of the new hotel



Guest rooms unified with low height furniture



Buffet-style restaurant that blends naturally into nature



Large communal baths with outdoor hot spring baths that utilize natural landscapes from the top floor

Further expand profitability as a key driver of the Company's growth

- 1) Develop new openings and new business model (aim for opening of 11 facilities during the period)
- 2) Improve sales capabilities
- 3) Expand profit through structural transformation of existing facilities

■ Expansion of opening areas and business formats going forward

Washington Hotel Hotel Gracery	Continue openings going forward
HOTEL TAVINOS	Dominant development in Tokyo and Kansai areas
	Development in regions where inbound guests are increasing
New business format	Review by project

The TAVINOS model that targets inbound millennials

- Approaches to young people which the existing WHG hotel brands have not appealed to
→ Expand customer base and promote visits to other brand hotels
- Horizontally expand efficient operations to existing brands

■ Scheduled openings

- June 2020** (1) HOTEL TAVINOS ASAKUSA (278 rooms)
- 2021** (2) Hotel Gracery Taipei (248 rooms)
(3) Kyoto area (4) Okachimachi area
- 2022** (5) Higashi-nihonbashi area
(6) Asakusabashi area

* The above announced (3) to (6) are planned to be TAVINOS brands
Total of approx. 1,200 rooms at six hotels above
Plans to open five more hotels

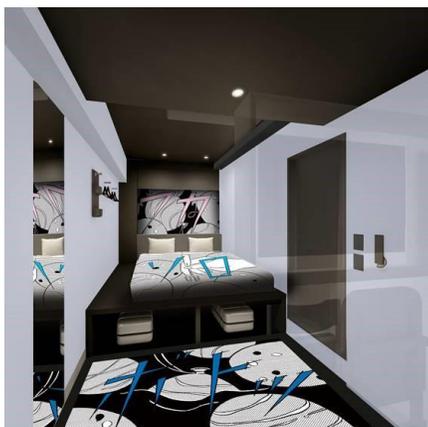


Image of HOTEL TAVINOS ASAKUSA guest room



HOTEL TAVINOS HAMAMATSUCHO

Major Strategies VI. Promotion of the SDGs

Launch the SDGs Promotion Office under the direct jurisdiction of the President and promote Group-wide efforts



Efforts relating to FUJITA KANKO Group's SDGs

See details of efforts here



<Action Policy>

FUJITA KANKO, since its establishment, under the corporate philosophy stating, “Our goal is to contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize,” has considered “environmental initiatives” and “initiatives to address diverse values” to be indispensable and important for sustainable growth as a company, and has promoted them. These initiatives are compatible with the philosophy of the Sustainable Development Goals (SDGs), which aim to realize a sustainable society. Going forward, in order for the Company to contribute to the achievement of the SDGs, we will continue to work toward resolving social issues and realizing a sustainable society through business.

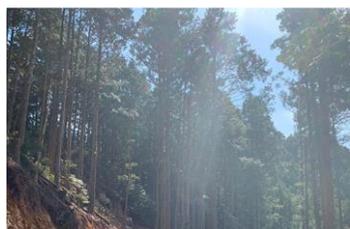
■ Environmental initiatives



1. Abolition of plastic straws



2. Eco-cleaning of guest rooms



3. Owning forests rich in nature (approx. 1,480ha in Japan)



4. Shimoda Aquarium school visits



■ Initiatives to address diverse values



5. Initiatives for universal design



6. Multicultural support



[Food waste reduction initiatives]

Deploy Group-wide food waste reduction initiatives that have begun at some facilities

Banquet buffet

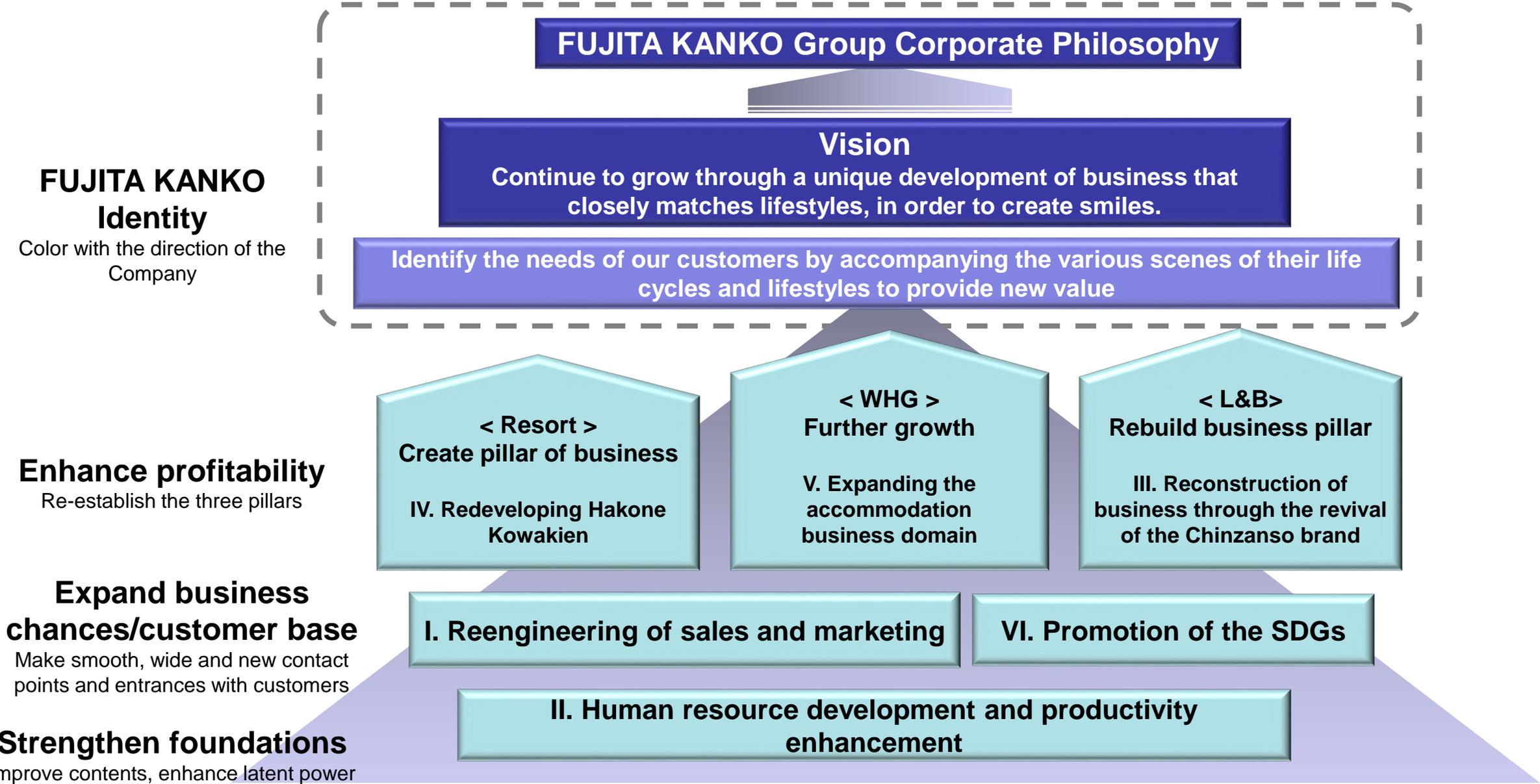
- Calls for cooperating on reducing food waste
- Ingenuity in arranging food so it is easy to portion out

Breakfast buffet

- Introduction of last order system, etc.



Relationship Diagram of Medium-term Management Plan (2020-2024) Major Strategies



Medium-term Management Plan (2020-2024)

■ Main capital investment during the period

HG: Hotel Gracery

HT: HOTEL TAVINOS

	2020	2021	2022	2023	2024
WHG Business	(1) HT ASAKUSA	(2) HG Taipei (3) Kyoto area (4) Okachimachi area	(5) Higashi-nihonbashi area (6) Asakusabashi area (7) New opening	(8) New opening (9) New opening	(10) New opening (11) New opening
L&B Business	 Revival of the Chinzanso brand 				
Resort Business	Demolition of former hotel Design of new hotel	New construction		★Opening	
	 Enhancing Yunessun functions 				
Others	System improvement				

Medium-term Management Plan (2020-2024)

		2019 Actual	Forecast for 2020	Goal for 2022	Goal for 2024
		(Billion yen, %)			
Net sales		68.9	71.0	75.0	79.0
Profitability	Operating profit	0.2	0.6	2.0	4.0
	Operating profit to net sales	0.4%	0.8%	2.7%	5.0%
	EBITDA (Operating profit + Depreciation)	5.2	5.7	7.5	9.5
	Ordinary profit	0.4	0.6	2.0	4.0
	ROE (Profit / Equity)	-	9% or more by fiscal year 2024		
ROA (Ordinary profit / Total assets)	0.4%	4% or more by fiscal year 2024			
Investment	Capital investment	3.8	25.0 billion yen for accumulated total for five years		
Financial base	Free cash flow	1.4	10.0 billion yen or more for accumulated total for five years		
	Interest-bearing debt amount	44.4	36.0 billion yen or less by fiscal year 2024		
	D/E Ratio (Interest-bearing debt / Equity)	1.7 times	1.2 times or less by fiscal year 2024		

- As of the end of January 2020, we have established numerical goals under the assumption that inbound travel demand from China will continue to decline for approximately three months due to the impact from the Novel Coronavirus. (This may vary depending on the situation, going forward.)
- With regard to the progress management of the medium-term management plan, we will manage our progress by using various indices that look approximately three years ahead as guidelines, and will roll this system forward while responding to changes in the business environment.

Numerical targets by Segment

		2019 Actual	Forecast for 2020	Goal for 2022	Goal for 2024
(Billion yen)					
WHG Business	Net sales	37.62	38.85	40.80	42.50
	Operating profit	2.25	2.45	2.55	3.15
L&B Business	Net sales	22.38	22.60	23.60	23.70
	Operating profit	(0.06)	(0.05)	0.45	0.75
Resort Business	Net sales	5.79	5.80	6.20	8.40
	Operating profit	(0.93)	(0.75)	(0.55)	0.45
Other and adjustments	Net sales	3.15	3.75	4.40	4.40
	Operating profit	(0.96)	(1.05)	(0.45)	(0.35)
Total	Net sales	68.96	71.00	75.00	79.00
	Operating profit	0.28	0.60	2.00	4.00

* In accordance with organizational changes from fiscal year 2020, we have made partial changes to the segments to which sales facilities belong. The above fiscal year 2019 actual was created using the segments after such changes.

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Note:

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