Consolidated Financial Results
for the Six Months Ended June 30, 2020
[Japanese GAAP]

August 7, 2020

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: https://www.fujita-kanko.co.jp/
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Scheduled date of filing quarterly securities report: August 7, 2020
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2020 (January 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2020	12,615	(62.5)	(10,156)	-	(10,264)	-	(13,397)	-
Six months ended June 30, 2019	33,605	0.0	(153)	-	(64)	-	(131)	-

(Note) Comprehensive income: Six months ended June 30, 2020: ¥(15,688) million [-%]
Six months ended June 30, 2019: ¥(237) million [-%]

	Profit per share	Diluted profit per share
	Yen	Yen
Six months ended June 30, 2020	(1,118.21)	-
Six months ended June 30, 2019	(10.98)	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	105,286	10,384	9.7
As of December 31, 2019	103,271	26,438	25.4

(Reference) Equity: As of June 30, 2020: ¥10,231 million
As of December 31, 2019: ¥26,263 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2019	-	0.00	-	30.00	30.00
Fiscal year ending December 31, 2020	-	0.00			
Fiscal year ending December 31, 2020 (Forecast)			-	-	-

(Note) Revision to the forecast for dividends announced most recently: Yes

*The forecast for the year-end dividends for the fiscal year ending December 31, 2020 has not been determined as it is difficult to calculate the financial results forecasts at present.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2020 (January 1, 2020 to December 31, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	-	-	-	-	-	-	-	-	-

(Note) Revision to the financial results forecast announced most recently: No

*The forecast for the financial results has not been determined as it is difficult to reasonably calculate the financial results forecasts at present due to the impact of the spread of COVID-19. The Company will disclose the forecasts immediately when they are available.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2020: 12,207,424 shares
December 31, 2019: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
June 30, 2020: 226,518 shares
December 31, 2019: 226,406 shares

3) Average number of shares during the period:
Six months ended June 30, 2020: 11,980,951 shares
Six months ended June 30, 2019: 11,981,263 shares

* Quarterly financial results are outside the scope of quarterly review by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecasts and other forward-looking statements herein are made based on currently available information and include a number of uncertainties. Accordingly, actual results may differ materially due to various factors. For the assumptions underlying the financial results forecasts, please see "1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" on page 4 of the attached material.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Group made partial changes to the segments to which sales facilities belong, in accordance with organizational changes, effective from January 1, 2020.

The analysis of operating results has been presented based on analysis and comparison with results for the previous fiscal year, using segment divisions after the changes were enacted.

The six months ended June 30, 2020 brought a global economic slowdown due to the spread of COVID-19, and the acceptance of “New Lifestyle” premised on avoiding infection risk. The Group continues to face an adverse business environment, with the effect of a dramatic decrease in the number of inbound guests due to entry restrictions into Japan, a decline in tourism and business demand within Japan, and the postponement and cancelation of weddings and banquets. Signs of a moderate recovery in business and resort demand could be observed after the lifting of travel restrictions within Japan, and the Group worked to strengthen sales initiatives, including enhanced environmental hygiene compatible with “New Lifestyle,” and the sale of high value-added products providing guests with security and enabling them to avoid the “three Cs” – closed spaces, crowded places and close contact settings. However, the accommodation business, the Group’s main business, was heavily impacted by the disappearance of inbound demand from April onward, as well as the suspension and scaling-back of operations following the declaration of a State of Emergency by the government. As a result, net sales decreased by ¥12,615 million year on year to ¥20,989 million.

From April onward (and continuing through July and beyond), the Group furloughs all of its approximately 5,500 employees, including full-time employees, contract employees, part-time and casual staff, for an average of nine days per month, as an emergency cost reduction measure. While continuing to pay employees in full during furlough, the Group uses the time to implement training, drills, etc., and has applied for the maximum amount of the Employment Adjustment Subsidy, including markup. In addition, the total amount of officers’ remuneration was reduced by 30% on average from April onward, the amount of the summer bonus for all employees was reduced by two thirds, and overtime work was minimized. Through these measures, the Group achieved a year-on-year reduction of approximately ¥1,800 million in personnel expenses. Furthermore, the Group also internalized previously outsourced duties, such as room cleaning and dishwashing, reviewed contract provisions in the context of reduced operation, negotiated lower rent, postponed investment and curbed advertising expenses.

As a result, the Group reduced operating expenses, comprising variable costs and fixed operating costs, by approximately ¥8,700 million year on year. Due to the extremely large decline in net sales however, operating loss deteriorated by ¥10,002 million year on year to ¥10,156 million. Ordinary loss deteriorated by ¥10,199 million year on year to ¥10,264 million, and loss attributable to owners of parent deteriorated by ¥13,265 million year on year to ¥13,397 million, with the recording of extraordinary losses including fixed costs (personnel expenses, depreciation, etc.) arising from the suspension of operations at facilities.

An overview of business results is as follows.

(Million yen)

	Actual results for the current period	YoY change
Net sales	12,615	(20,989)
Operating loss	(10,156)	(10,002)
Ordinary loss	(10,264)	(10,199)
Loss attributable to owners of parent	(13,397)	(13,265)

(Reference)

EBITDA	(8,072)	(10,306)

Main cost-cutting measures:

Furlough employees	Employees: approximately 5,500 full-time employees, contract employees, part-time and casual staff Method: implementation of fully-paid furloughs for an average of nine days out of every month Period: From April onward (continuing) Furloughs are used to implement training, drills, etc., and an application has been made for the maximum amount of the Employment Adjustment Subsidy, including markup (the Subsidy will be recorded in the third quarter onward)
Reduce officers' compensation	Reduction in remuneration for Directors and Executive Officers by 30% on average (from April to December)
Reduce bonuses	Reduction in the amount of the summer bonus for all employees by two thirds (the winter bonus may be reduced by the same or an even greater proportion)
Internalize outsourced duties and review contracts	Internalization of previously outsourced duties, such as room cleaning and dishwashing, and review of contract provisions in the context of reduced operation (implemented from February onward)
Negotiate rent reductions	Approach owners to negotiate for temporary rent reductions
Postpone investment	Postpone approximately ¥1.5 billion in non-urgent investment from the original plan
Other	Minimize overtime work and curb advertising expenses, etc.

An overview of business results by segment is as follows.

WHG Business

The WHG Business suffered from a substantial decline in room occupancy rates, particularly in the Tokyo metropolitan area, as a result of the decline in demand due to a dramatic decrease in the number of inbound guests, as well as Japanese residents refraining from tourism and business trips, and the suspension and scaling-back of operations at multiple facilities. Operations gradually recommenced from June, with weekday business demand slowly returning after travel restrictions were lifted, and facilities with a high proportion of Japanese guests in particular heading for recovery. However, overall room occupancy rates declined by 53.8 percentage points year on year. Meanwhile, the Group implemented cost-cutting measures including the internalization of previously outsourced duties, such as room cleaning.

As a result, net sales for this segment decreased by ¥12,320 million year on year to ¥6,074 million, and operating loss (segment loss) deteriorated by ¥6,948 million year on year to ¥5,900 million.

Luxury & Banquet Business

In the wedding business, we established the "New Normal for Happy Wedding Declaration," a joint initiative by 18 wedding companies, to create places for the blessing and celebration of marriage in this era of COVID-19, and implemented initiatives including the introduction of online consultations. Despite these initiatives, net sales in the wedding business declined by ¥3,198 million year on year to ¥1,665 million, due to the impact of successive postponements and cancellations following requests for self restraint, including the avoidance of the "three Cs." Similar factors also caused a decline in demand in the banquet business, for which net sales decreased by ¥1,614 million year on year to ¥929 million.

As a result, net sales for this segment decreased by ¥6,783 million year on year to ¥4,230 million, and operating loss (segment loss) deteriorated by ¥2,501 million year on year to ¥2,716 million.

Resort Business

The accommodation business also suffered from a substantial slump in room occupancy rates, due to the rapid decline in domestic and inbound demand. After restrictions on travel were lifted however, the segment witnessed a large number of guests from the Kanto region. Hakone Kowakien Ten-yu, which features private outside baths in all rooms, and implemented initiatives utilizing QR codes to avoid the "three Cs," maintained a high occupancy rate, particularly at weekends. Bookings are also robust for the Fujino Kirameki Fuji Gotemba glamping facility, with the rise in demand for outdoor activities. As a result, net sales in the accommodation business decreased by ¥1,083 million year on year to ¥820 million.

In the leisure business, net sales decreased by ¥316 million year on year to ¥285 million, due factors including the impact of a year-on-year decrease of over 50% in the number of visitors to the Hakone Kowakien Yunessun day-trip hot spring facility.

As a result, net sales for this segment decreased by ¥1,494 million year on year to ¥1,186 million, and operating loss (segment loss) deteriorated by ¥240 million year on year to ¥874 million.

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets as of June 30, 2020 increased by ¥2,014 million from the end of the previous fiscal year to ¥105,286 million. Non-current assets decreased by ¥3,689 million, mainly due to a decline in the market price of investment securities, while current assets increased by ¥5,704 million mainly due to an increase in cash and deposits.

Liabilities increased by ¥18,068 million from the end of the previous fiscal year to ¥94,901 million. Loans payable increased by ¥22,541 million, while accounts payable – trade, etc. decreased. The total amount of loans payable as of June 30, 2020 was ¥67,011 million.

Net assets decreased by ¥16,053 million from the end of the previous fiscal year to ¥10,384 million. This was mainly due to a decrease in retained earnings of ¥13,756 million owing to the recording of a loss attributable to owners of parent and cash dividends paid.

2) Cash flows

Cash and cash equivalents as of June 30, 2020 amounted to ¥12,743 million, up ¥9,394 million from the end of the previous fiscal year.

i) Cash flows from operating activities

Net cash used in operating activities was ¥10,699 million (an increase of ¥12,514 million compared with the same period of the previous fiscal year). This was mainly due to a loss before income taxes of ¥13,258 million, of which depreciation comprised ¥2,421 million.

ii) Cash flows from investing activities

Net cash used in investing activities was ¥2,005 million (an increase of ¥157 million compared with the same period of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment and intangible assets of ¥2,329 million.

iii) Cash flows from financing activities

Net cash provided by financing activities was ¥22,105 million (an increase of ¥22,495 million compared with the same period of the previous fiscal year). This was mainly due to procurement of loans payable.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There are still no indications of the spread of COVID-19 being brought under control, and the outlook is extremely uncertain, with the countermeasures implemented by the national and local governments changing day by day as the number of cases grows again. Many uncertainties also remain regarding the impact on the Group's financial results, and it is difficult at present to reasonably calculate the financial results forecast. For this reason, the consolidated financial results forecast for the fiscal year ending December 31, 2020 has been left pending, and will be disclosed promptly as soon as it becomes possible to calculate the forecast.

The COVID-19 exerts an ever deeper impact on the Group. In this business environment, large-scale rationalization measures, including the cost-cutting measures indicated above, as well as further consideration of capital and funding measures, and associated structural reforms of management and other functions, have become indispensable. From the end of July, we have established an Emergency Response Office as an advisory and executive body under the direct control of the President.

Under the guidance of the Emergency Response Office, the reduction in officers' remuneration and all employees' winter bonuses, and the minimization of overtime work, will continue through the second half of the fiscal year, and we will aim for a reduction of ¥1,500 million or greater in personnel expenses, compared to the initial plan. In addition, we will proceed with further internalization of previously outsourced duties, reduce our rent expense, postpone investment and continue to curb advertising expenses, targeting a reduction of ¥9,000 million or greater in operating expenses, comprising variable costs and fixed operating costs, compared to the initial plan. Furthermore, we consider that a recovery in guest numbers will take some time, due to factors such as the general acceptance of "New Lifestyle," and we will convert our businesses to ensure profitability even with the scale of sales expected under these changed conditions. We will review the organization and assignment of duties at the Headquarters and Business Operations Division, strengthen our operations on the ground by assigning necessary personnel directly to departments, and promote the reconstruction of operational structures and the enhancement of productivity. At the same time, we will make swift decisions on disbanding unprofitable departments and facilities. Under the direction of the Emergency Response Office, we will push forward with substantial measures to reduce costs, including personnel expenses, and forcefully promote rationalization, including the review of management and operational structure, and the withdrawal from unprofitable businesses.

(4) Risks Related to Business

Impact of the spread of Novel Coronavirus

The spread of COVID-19 has caused a dramatic decrease in the number of inbound guests due to entry restrictions into Japan, a decline in tourism and business demand within Japan, and the postponement and cancelation of weddings and banquets. Net sales declined substantially due to the impact of the suspension and scaling-back of operations following the declaration of a State of Emergency by the government, and we consider that, at present, conditions exist that may cast significant doubt on the going concern assumption.

Moreover, the Group’s financial results may suffer an even greater impact in the event that COVID-19 is not brought under control, and domestic and international economies are subject to a prolonged slowdown, due to factors such as people refraining from leaving home.

In these conditions, the Group has implemented cost-cutting initiatives, including reductions in officers’ remuneration and employee bonuses, rent reduction negotiations, etc., and built a structure that ensures business funding, based on a funding plan that assumes the prolonged impact. We have determined that no material uncertainty exists regarding the going concern assumption, based on the continued implementation these countermeasures.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	3,424	12,819
Notes and accounts receivable – trade	5,241	750
Merchandise and finished goods	51	47
Work in process	19	13
Raw materials and supplies	490	327
Other	2,062	3,033
Allowance for doubtful accounts	(19)	(15)
Total current assets	11,272	16,976
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,772	38,735
Tools, furniture and fixtures, net	5,575	4,554
Land	12,292	12,850
Construction in progress	411	1,136
Golf courses	2,419	2,419
Other, net	1,011	972
Total property, plant and equipment	61,484	60,667
Intangible assets		
Goodwill	200	180
Other	703	786
Total intangible assets	903	966
Investments and other assets		
Investment securities	18,611	15,179
Other	11,005	11,501
Allowance for doubtful accounts	(5)	(5)
Total investments and other assets	29,611	26,675
Total non-current assets	91,999	88,309
Total assets	103,271	105,286

(Million yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,505	138
Short-term borrowings	3,230	8,935
Current portion of long-term borrowings	7,526	7,540
Income taxes payable	351	58
Provision for bonuses	179	73
Provision for bonuses for directors (and other officers)	8	–
Provision for point card certificates	143	153
Provision for noncurrent assets removal cost	473	422
Provision for loss on disaster	315	281
Provision for loss on business withdrawal	98	68
Other	6,936	4,343
Total current liabilities	20,768	22,015
Non-current liabilities		
Long-term borrowings	33,711	50,535
Provision for retirement benefits for directors (and other officers)	103	110
Retirement benefit liability	9,676	9,673
Deposits received from members	10,581	10,537
Other	1,990	2,028
Total non-current liabilities	56,063	72,885
Total liabilities	76,832	94,901
Net assets		
Shareholders' equity		
Share capital	12,081	12,081
Capital surplus	5,431	5,431
Retained earnings	5,240	(8,516)
Treasury shares	(931)	(931)
Total shareholders' equity	21,821	8,064
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,741	2,466
Deferred gains or losses on hedges	(71)	(69)
Foreign currency translation adjustment	(164)	(176)
Remeasurements of defined benefit plans	(63)	(51)
Total accumulated other comprehensive income	4,442	2,167
Non-controlling interests	175	153
Total net assets	26,438	10,384
Total liabilities and net assets	103,271	105,286

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended June 30

(Million yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Net sales	33,605	12,615
Cost of sales	31,564	21,046
Gross profit (loss)	2,040	(8,431)
Selling, general and administrative expenses	2,193	1,724
Operating loss	(153)	(10,156)
Non-operating income		
Interest income	4	2
Dividend income	358	345
Rental income from land and buildings	46	45
Other	86	84
Total non-operating income	496	477
Non-operating expenses		
Interest expenses	256	289
Share of loss of entities accounted for using equity method	40	146
Other	110	148
Total non-operating expenses	407	585
Ordinary loss	(64)	(10,264)
Extraordinary income		
Insurance claim income	–	89
Gain on sales of investment securities	66	–
Release from memberships deposits obligation	32	–
National subsidies	16	–
Other	–	19
Total extraordinary income	115	109
Extraordinary losses		
Business suspension loss	–	2,289
Impairment loss	45	814
Provision for loss on business withdrawal	56	–
Loss on withdrawal from business	10	–
Extra retirement payments	6	–
Loss on sales of non-current assets	0	–
Other	0	–
Total extraordinary losses	120	3,103
Loss before income taxes	(69)	(13,258)
Income taxes	64	154
Loss	(133)	(13,413)
Loss attributable to non-controlling interests	(2)	(16)
Loss attributable to owners of parent	(131)	(13,397)

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended June 30

(Million yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Loss	(133)	(13,413)
Other comprehensive income		
Valuation difference on available-for-sale securities	(86)	(2,268)
Deferred gains or losses on hedges	(19)	1
Foreign currency translation adjustment	(16)	(11)
Remeasurements of defined benefit plans, net of tax	19	11
Share of other comprehensive income of entities accounted for using equity method	(0)	(7)
Total other comprehensive income	(103)	(2,274)
Comprehensive income	(237)	(15,688)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(234)	(15,672)
Comprehensive income attributable to non-controlling interests	(2)	(16)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Cash flows from operating activities		
Loss before income taxes	(69)	(13,258)
Depreciation	2,389	2,421
Impairment loss	45	814
Amortization of goodwill	20	20
Increase (decrease) in allowance for doubtful accounts	(3)	(4)
Increase (decrease) in provision for bonuses	(36)	(105)
Increase (decrease) in provision for bonuses for directors (and other officers)	(4)	(8)
Increase (decrease) in provision for point card certificates	24	10
Increase (decrease) in provision of noncurrent assets removal	–	(50)
Increase (decrease) in provision for loss on disaster	–	(34)
Increase (decrease) in provision for loss on business withdrawal	52	(30)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(8)	6
Increase (decrease) in retirement benefit liability	(166)	14
Interest and dividend income	(362)	(347)
Interest expenses	256	289
Foreign exchange losses (gains)	46	84
Share of loss (profit) of entities accounted for using equity method	40	146
Loss (gain) on sales of non-current assets	0	(0)
Loss on retirement of non-current assets	31	47
Loss (gain) on sales of short-term and long-term investment securities	(66)	–
Release from memberships deposits obligation	(32)	–
Decrease (increase) in trade receivables	350	4,490
Decrease (increase) in inventories	174	173
Increase (decrease) in trade payables	(380)	(1,366)
Increase (decrease) in accrued consumption taxes	(731)	(423)
Other, net	(72)	(3,195)
Subtotal	1,498	(10,305)
Interest and dividends received	371	360
Interest paid	(252)	(262)
Income taxes (paid) refund	197	(491)
Net cash provided by (used in) operating activities	1,815	(10,699)

(Million yen)

	For the six months ended June 30, 2019	For the six months ended June 30, 2020
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(1,874)	(2,329)
Proceeds from sales of property, plant and equipment and intangible assets	0	0
Proceeds from sales of investment securities	248	–
Payments into time deposits	(0)	(0)
Payments of guarantee deposits	(208)	(108)
Proceeds from refund of guarantee deposits	6	428
Other, net	(19)	2
Net cash provided by (used in) investing activities	(1,848)	(2,005)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	447	5,704
Proceeds from long-term borrowings	4,000	20,800
Repayments of long-term borrowings	(4,287)	(3,944)
Proceeds from sales of treasury shares	0	–
Purchase of treasury shares	(0)	(0)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42)	–
Dividends paid	(472)	(359)
Dividends paid to non-controlling interests	(3)	(5)
Repayments of finance lease obligations	(15)	(19)
Other, net	(15)	(71)
Net cash provided by (used in) financing activities	(389)	22,105
Effect of exchange rate change on cash and cash equivalents	(21)	(4)
Net increase (decrease) in cash and cash equivalents	(444)	9,394
Cash and cash equivalents at beginning of period	3,388	3,348
Cash and cash equivalents at end of period	2,943	12,743