



Financial Results for the
Six Months Ended June 30, 2020

August 7, 2020
FUJITA KANKO INC.
(Code number: 9722)

I . Promotion of Structural Reforms

Allow me to offer my greetings as we announce the financial results for the six months ended June 30, 2020.

First of all, I would like to extend my respectful condolences for the loss of those who have passed away due to novel coronavirus disease (COVID-19), and my best wishes for all those currently battling the disease, and their families.

There is still no sign of the spread of COVID-19 being brought under control, and the number of cases of the disease in Japan is growing again. Meanwhile, the Group continues to face an adverse business environment. Since the government declared a State of Emergency, many facilities have been left with no alternative but to suspend operations long-term, for the first time in their history. Hotels continuing to operate have provided safe and secure accommodation for healthcare workers, police, and Japanese nationals and foreigners undergoing 14-day quarantine after traveling from overseas, while minimizing the risk of infection for both guests and employees.

Through emergency cost-cutting measures, such as temporary furloughing all employees (we will receive the Employment Adjustment Subsidy from the third quarter onward), reducing officers' remuneration and employee bonuses, and minimizing overtime work, we were able to reduce personnel costs by approximately ¥1.8 billion year on year. In addition, we internalized previously outsourced duties, negotiated to reduce rent, postponed investment and curbed advertising expenses. As a result, we were able to reduce operating expenses, comprising variable costs and fixed operating costs, by about ¥8.7 billion year on year.

In this business environment however, with the persistent and deepening impact of COVID-19, it is vital that we engage in more extensive, Group-wide structural reforms. We are carrying out thorough cost-cutting measures, under the guidance of the newly-established Emergency Response Office, an advisory and executive body under the direct control of the President. By promoting rationalization, including the review of management and operational structure and the withdrawal from unprofitable businesses, and swiftly implementing structural reforms to embed sustainable organizational structures, we will strive to transform the Group to secure profitability.

Yoshihiro Ise

Representative Director and President, Executive Officer
FUJITA KANKO INC.

Promotion of Structural Reforms

▶ Establishment of the Emergency Response Office under the direct control of the President, and swift structural transformation to secure profitability

The Group has established the Emergency Response Office, an advisory and executive body under the direct control of the President, in view of the dramatic changes taking place in the business environment. We aim to transform to secure profitability, by implementing thorough cost reductions, and swiftly implementing structural reforms to embed sustainable organizational structures.

<Measures>▶ Implement thorough cost-cutting, under the guidance of the Emergency Response Office

Operating expenses, comprising variable costs and fixed operating costs ⇒ First half: Reduction of approx. ¥8.7 billion YoY

Second half: Target reduction of over ¥9.0 billion vs. initial plan

- Cut personnel costs by reducing officers' remuneration and employee bonuses, and curbing overtime work
(First half: Reduction of approx. ¥1.8 billion YoY Second half: Target reduction of over ¥1.5 billion vs. initial plan)
- Moreover, implement internalization of outsourced duties, rent reductions, postponement of investment, etc.

[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)
	Used for training, drills, etc.; an application has been made for the maximum Employment Adjustment Subsidy, including markup (to be recorded from the third quarter onward)	
Reduce officers' remuneration	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 (from February onward; continuing)	
Negotiate rent reductions	Approach owners to negotiate for temporary rent reductions	
Postpone investment	Postpone approximately ¥1.5 billion in non-urgent investment	
Other	Minimize overtime work and curb advertising expenses, etc.	

II . Overview of Financial Results for the Six Months Ended June 30, 2020

Summary of the First Half of 2020

➤ Significant impact from suspension of operations, decline in inbound demand, and the postponement and cancellation of weddings and banquets

- ▲ Operations were suspended at 37 hotels and facilities following the declaration of a State of Emergency (Resumed operations at most facilities from June)
- ▲ Slowdown is continuing at facilities with a high inbound ratio
- ▲ Many weddings and banquets postponed or cancelled from March (more than 90% of weddings postponed until the second half of the year)

➤ Gradual recovery in weekend resort demand and bookings at facilities with many Japanese guests in the WHG Business following the lifting of travel restrictions

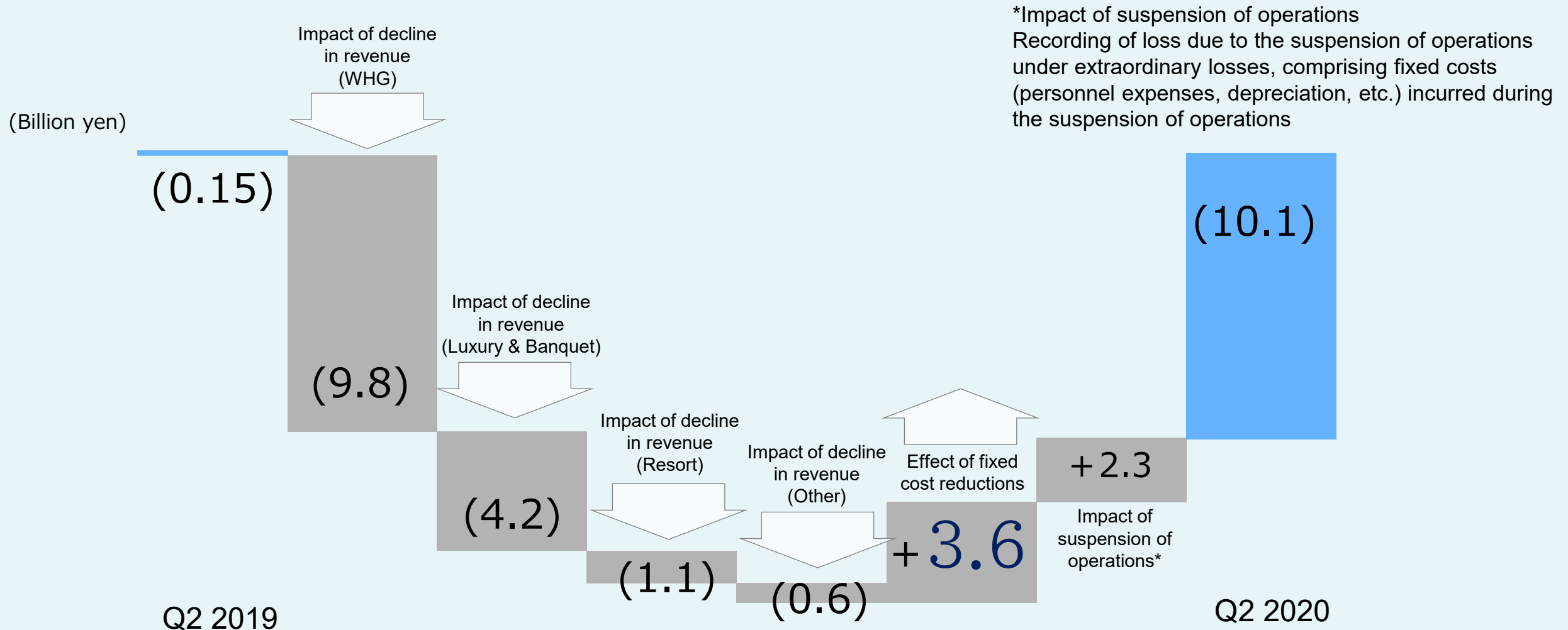
- Weekday business demand began to recover gradually after travel restrictions were lifted on June 19, while progress in bookings recovered for Hakone Kowakien Ten-yu and the Fujino Kirameki Fuji Gotemba glamping facility, primarily for weekends
- Impact on facilities with a high proportion of Japanese guests was relatively mild, with recovery underway
- 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
- The “Earth Mondahmin Cup” women’s professional golf competition was held at Camellia Hills Country Club, with subsequent bookings progressing smoothly

Statements of Income

(Million yen)	Q2 2019 Actual	Q2 2020 Actual	YoY	Main difference factors
Net sales	33,605	12,615	(20,989)	
Operating profit (loss)	(153)	(10,156)	(10,002)	Mainly impact of decrease in revenue in WHG Business, although fixed cost reductions were effective
EBITDA (Operating profit + depreciation)	2,233	(8,072)	(10,306)	
Ordinary profit (loss)	(64)	(10,264)	(10,199)	
Profit (loss) attributable to owners of parent	(131)	(13,397)	(13,265)	Extraordinary losses of ¥2,289 million recorded due to suspension of operations

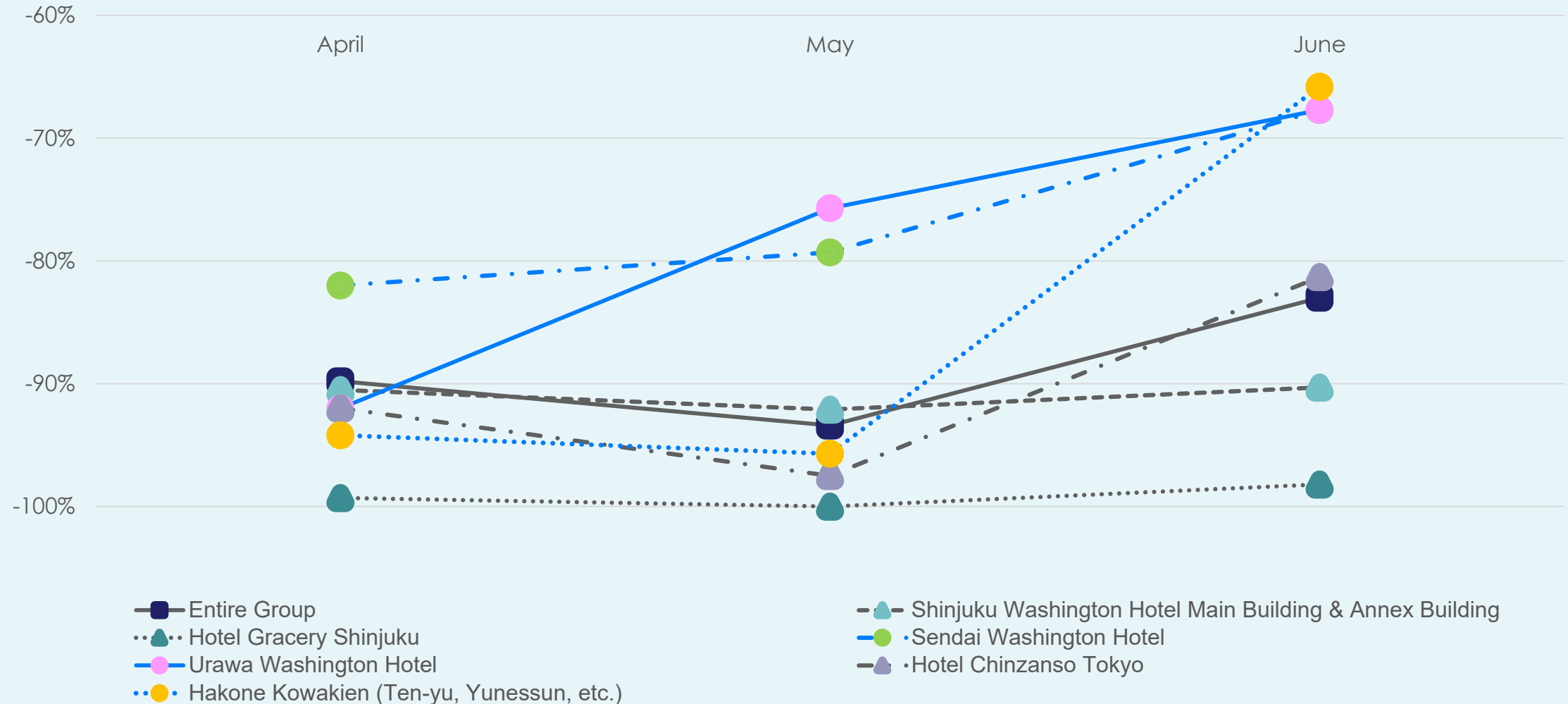
Operating Profit: Main Difference Factors

► Significant impact from decrease in profit at the WHG Business, although fixed costs were reduced through cost-cutting measures such as reductions to officers' remuneration and rent



YoY Change in Net Sales

- ▶ Impact on Sendai and Urawa facilities, which have a high proportion of Japanese guests, was relatively mild, and recovery in bookings is underway
- ▶ Bookings for Hakone Kowakien have progressed smoothly since reopening



Sales per Business and Operational Indicators for Main Facilities

Financial Results for the Six Months Ended June 30, 2020

Operational Indicators: comparison with previous year and initial plan (January to June)

Sales per business (Million yen)			
	Business	Net sales (actual)	YoY
WHG	Accommodation	4,891	(10,461)
	Other	1,182	(1,859)
Luxury & Banquet	Accommodation	384	(742)
	Wedding	1,665	(3,198)
	Banquet	929	(1,614)
	Restaurant	813	(933)
	Other	437	(293)
Resort	Accommodation	820	(1,083)
	Leisure	285	(316)
	Other	81	(94)

Accommodation business		ADR Sales per person for Ten-yu		Occupancy rate	
		YoY	Difference from plan	YoY	Difference from plan
WHG	Total	(20.2)%	(17.0)%	(53.8)pt	(50.0)pt
	Tokyo metro. area	(23.3)%	(17.8)%	(55.7)pt	(50.3)pt
	Regional hotels	(14.2)%	(15.3)%	(51.1)pt	(49.3)pt
Hotel Chinzanso Tokyo		+5.5%	+4.8%	(47.2)pt	(42.2)pt
Hakone Kowakien Ten-yu		(11.3)%	(8.2)%	(41.1)pt	(37.6)pt

Wedding and banquet businesses	Wedding: sales per user		Wedding: guests		Banquet: sales per user		Banquet: guests	
	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast	YoY	Difference from forecast
Hotel Chinzanso Tokyo	+21.7%	+20.6%	(75.4)%	(70.8)%	+8.2%	+7.5%	(66.7)%	(67.8)%
Taikoen	+7.8%	+29.5%	(62.7)%	(70.2)%	(1.0)%	+1.6%	(61.3)%	(63.6)%

Leisure business	Visitors		Sales per person	
	YoY	Difference from forecast	YoY	Difference from forecast
Hakone Kowakien Yunessun	(51.7)%	(50.8)%	(0.7)%	+0.9%

Balance Sheets

(Million yen)

<Assets>	December 31, 2019	June 30, 2020	YoY	Main difference factors
Total current assets	11,272	16,976	5,704	Reinforced cash on hand in response to COVID-19
Total non-current assets	91,999	88,309	(3,689)	Decline in market price of investment securities
Total assets	103,271	105,286	2,014	

<Liabilities and net assets>	December 31, 2019	June 30, 2020	YoY	Main difference factors
Total current liabilities	20,768	22,015	1,246	Increase in short-term loans payable to raise cash on hand
Total non-current liabilities	56,063	72,885	16,821	Increase in long-term loans payable to raise cash on hand
Total liabilities	76,832	94,901	18,068	
Total net assets	26,438	10,384	(16,053)	Decrease in retained earnings (13,756)
Total liabilities and net assets	103,271	105,286	2,014	

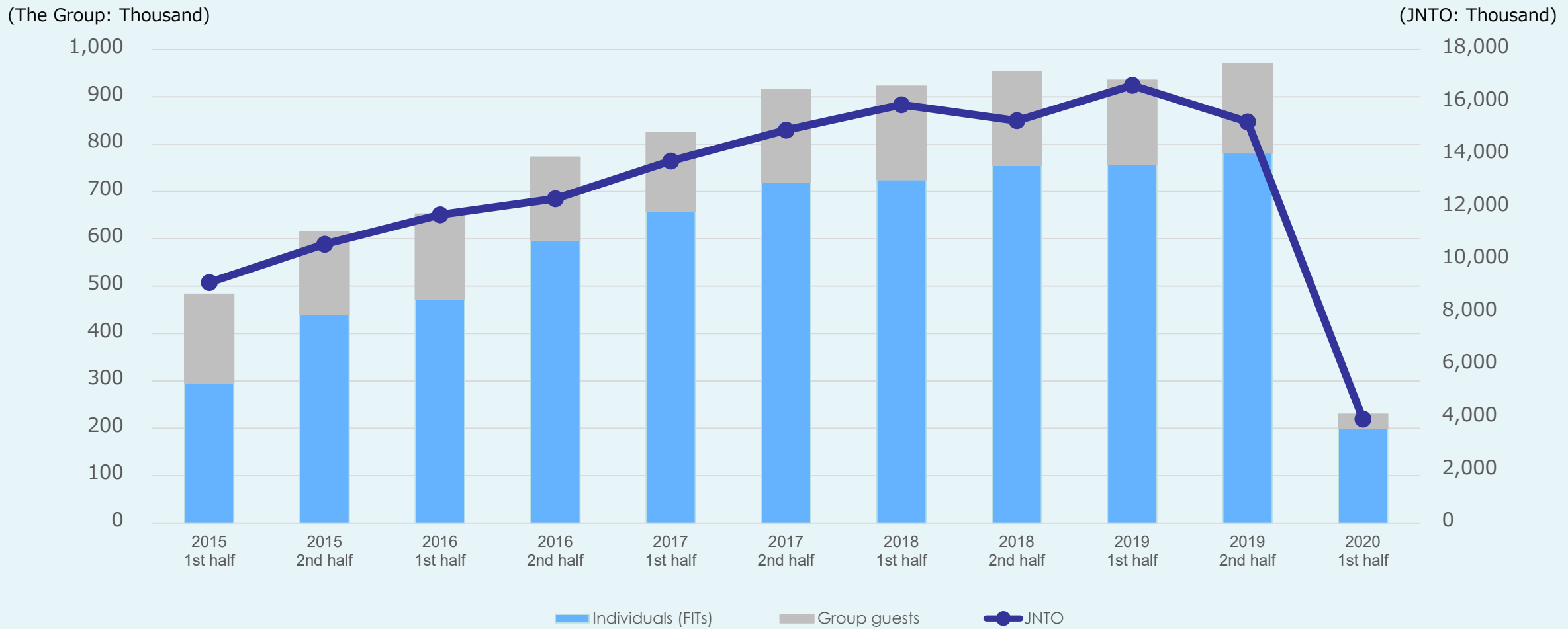
Statements of Cash Flows

(Million yen)

	Q2 2019 Actual	Q2 2020 Actual	YoY	Main factors for Q2 2020
Cash flows from operating activities	1,815	(10,699)	(12,514)	
Cash flows from investing activities	(1,848)	(2,005)	(157)	Increase in outflow due to purchase of property, plant and equipment and intangible assets (2,329)
Free cash flow	(33)	(12,705)	(12,672)	
Cash flows from financing activities	(389)	22,105	22,495	Procurement and repayment of loans payable

Trends of Total Number of Inbound Guests of the Group

- ▶ Results for first half of 2020: **229** thousand (of which April to June comprised only around 0.5%)
- ▶ Year on year: down approx. **700** thousand (down **75.5%**)
- ▶ Inbound ratio: **29.0%**



Net Sales by Segment

(Million yen)	Q2 2019 Actual	Q2 2020 Actual	YoY
Net sales	33,605	12,615	(20,989)
WHG Business	18,394	6,074	(12,320)
Luxury & Banquet Business	11,014	4,230	(6,783)
Resort Business	2,681	1,186	(1,494)
Other	1,514	1,124	(390)

Note: The Group made partial changes to the segments to which sales facilities belong, in accordance with organizational changes, effective from January 1, 2020. Segment results for the six months ended June 30, 2019 have been presented using segment divisions after the changes were made.

Operating Profit by Segment

(Million yen)	Q2 2019 Actual	Q2 2020 Actual	YoY
Operating profit (loss)	(153)	(10,156)	(10,002)
WHG Business	1,047	(5,900)	(6,948)
Luxury & Banquet Business	(214)	(2,716)	(2,501)
Resort Business	(634)	(874)	(240)
Other	(352)	(664)	(312)

Policy for the Second Half of the Fiscal Year

With promotion of structural reforms as our highest priority, we will acquire repeat customers in Japan and secure profit through high value added products

▶ Promote structural reforms

- Implement further cost reductions under the guidance of the Emergency Response Office
 - Target a reduction of over ¥9.0 billion vs. the initial plan for operating expenses, comprising variable costs and fixed operating costs
 - Cut personnel expenses by over ¥1.5 billion vs. the initial plan, by reducing officers' remuneration and employee bonuses, and curbing overtime work
 - In addition, internalize outsourced duties, reduce rent, postpone investment, etc.
- Swiftly implement structural transformation to secure profitability

▶ Capture Japanese domestic demand, where an early recovery is expected

- Promote the use of restaurants, which are recovering faster than accommodation, among surrounding residents
- Fully capture demand for short trips at Hotel Chinzanso Tokyo, Hakone Kowakien Ten-yu, etc., which have been popular with repeat guests from the Kanto region
- Acquire Japanese domestic business and tourism demand
- Utilize the “Go to Travel Campaign” and sell plans targeting Tokyo residents at hotels in Tokyo

▶ Expand high value-added products leveraging facilities' attractions

Enhance profitability by developing high value-added products that allow guests to enjoy luxurious experiences with a sense of privacy, minimizing the chance of contact with other guests

[Hotel Chinzanso Tokyo]

- Overnight stay plan with two meals included, featuring a room service dinner and taxi transfer
- Open-air events in the garden, such as a beer terrace and champagne garden

[Hakone Kowakien Ten-yu]

- Executive suite room plan featuring a private outdoor hot spring bath attached to each room and a separate living room where guests can enjoy meals

Current Conditions

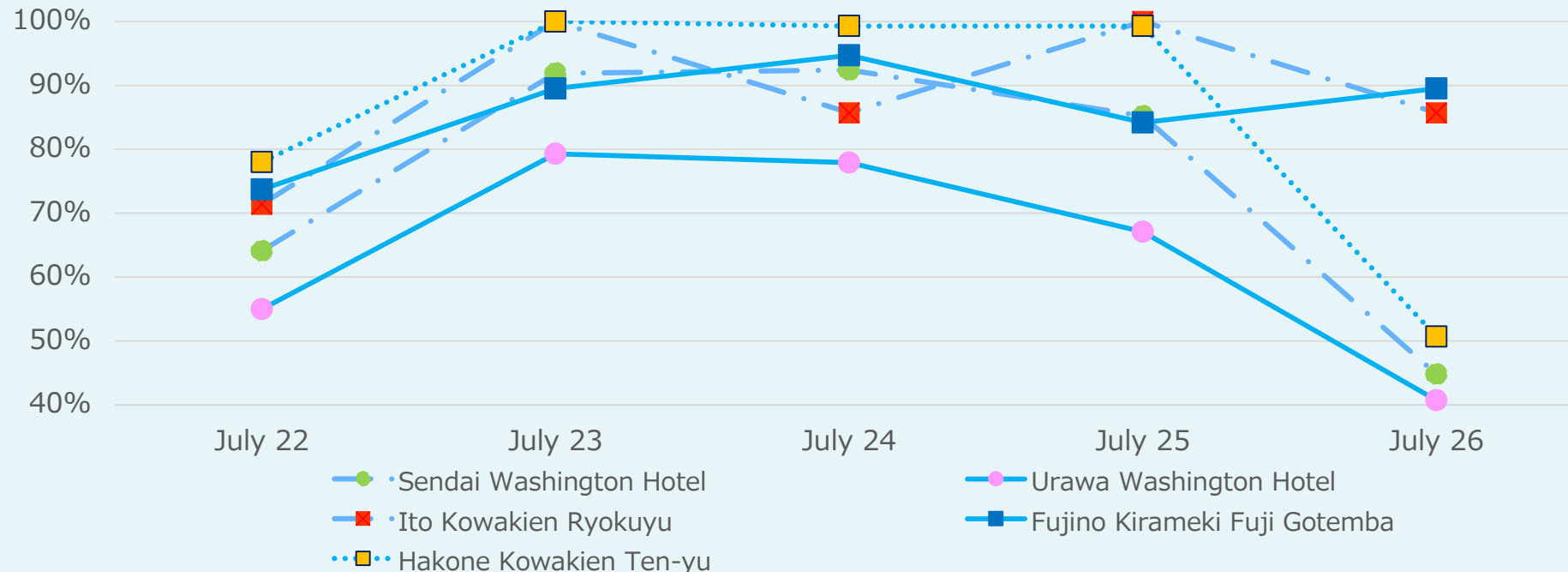
▶ Accommodation business

- Maintained high occupancy rates during the 4-day long weekend in July, especially at resorts such as Hakone Kowakien Ten-yu, which captured short trip demand
- Bookings are strong for the Fujino Kirameki Fuji Gotemba glamping facility, with the rise in demand for outdoor activities
- Occupancy rates remain sluggish for facilities with high inbound ratios

▶ Leisure business

- Reopened an event at Hakone Kowakien Yunessun allowing guests to experience the world of EVANGELION from July 23, after implementing measures to avoid the risk of infection, and attracted guest numbers at the July 4-day long weekend equivalent to a weekend last year
- Bookings at Camellia Hills Country Club progressed smoothly after the “Earth Mondahmin Cup” women’s professional golf competition

Occupancy rates for the July 4-day long weekend



Status of Hakone Kowakien

- ▶ Capturing rising demand for short trips from the Kanto region at Hakone Kowakien Ten-yu and Yunessun (All sections of the Hakone Tozan Railway recommenced operation from July 23)
- ▶ Plan to open Mikawaya Ryokan as part of redevelopment, converted to a resort complex catering to a wide range of guest needs

Hakone Kowakien Mikawaya Ryokan Planned opening October 2, 2020



[Main building: a nationally-registered Tangible Cultural Property (structure)]

We have upgraded this historical ryokan, which has been operating for 140 years, with modern soundproofing, insulation, etc., while leaving its historical grace untouched, to provide guests with a more comfortable stay

- ▶ 25 rooms, including rooms with outdoor bath
- ▶ Average weekday one-night stay with two meals included From ¥20,000 (including consumption tax and service charge)



Hakone Kowakien Ten-yu

High value-added products leveraging the strength of private outdoor hot spring baths attached to every room

Hakone Kowakien Yunessun

Implemented a bookings-only system, entry restrictions and usage time limits from July 23 to August 31, to avoid the “three Cs” – closed spaces, crowded places and close contact settings

New hotel Planned opening in January 2023

Commenced dismantling of former hotel

Response to the New Normal

Enhanced environmental management

- Thorough precautions by staff, including the use of masks, hand sanitizer, hand washing, gargling, and temperature and health checks at the start of work each day
- Personnel who have undergone re-training in accordance with our newly-established Environmental Hygiene Policies are appointed Environmental Hygiene Supervisors, and will be deployed at each facility by September
- Establish a structure where the SDGs (Sustainable Development Goals) Promotion Team, in charge of internal audits, will monitor hygiene management

Temperature checks and sanitization at the entrance to the facility



Acrylic partition at reception



Sanitization of public spaces



Seating that ensures social distancing

[Hakone Kowakien Ten-yu]

[Hotel Chinzanso Tokyo]

[Hotel Gracery Osaka Namba]

[Hotel Chinzanso Tokyo]

Response to the New Normal

New style of presenting cuisine at restaurants, events, etc.

- Replace breakfast buffets with breakfast sets
- Commence providing hotel-made cuisine through a take-out service
- Install acrylic partitions and shields on buffet counters, while food is served and presented by staff
- Hold garden events, making the most of the open air environment

[Hakone Kowakien Ten-yu]

The dining room layout, partitioned using screens and walls, ensures social distancing

We have replaced the breakfast buffet with a traditional individual meal set

Special rooms feature a bedroom and separate living room where guests can enjoy breakfast and dinner in privacy

We have commenced a delivery service to provide snacks and drinks to guest rooms



[Hotel Chinzanso Tokyo]

We have commenced a take-out service enabling those holding a celebration or other events at home to enjoy specialty hotel cuisine

Acrylic partitions are installed at buffet events, while food is served and presented by staff

We utilize the open feeling of the hotel garden to hold events such as a beer terrace and champagne garden, while avoiding the “three Cs”



Response to the New Normal

Operations and products that reduce the chance of personal contact and maintain social distancing

- Promote cashless settlement, including expanded automatic check-in services and QR code payment
- Use QR codes to provide updates on user density in large public baths
- Entry restrictions and pre-sale of tickets for designated dates and times at day-trip facilities
- Provide wedding ceremonies and receptions in accordance with social distancing guidelines



[Hakone Kowakien Ten-yu]

Provide information on crowding in the large public baths through QR codes and lobby signage



[Hakone Kowakien Yunessun]

Limit the number of users through the sale of tickets (QR codes) for designated dates and times



[Hotel Chinzanso Tokyo]

Online wedding consultations



[Fujino Kirameki Fuji Gotemba]

Guests check in at a stand-alone cabin, reducing the chance of contact with other guests