Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 [Japanese GAAP]

February 14, 2024

Company name: FUJITA KANKO INC.
Stock exchange listing: Tokyo Stock Exchange
Code number: 9722
URL: https://www.fujita-kanko.co.jp/
Representative: Yoshihiro Ise, Representative Director and President, Executive Officer
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Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2024
Scheduled date of filing annual securities report: March 27, 2024
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on annual financial results: Available
Schedule of annual financial results briefing session: Scheduled (for institutional investors and securities analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	%
Fiscal year ended December 31, 2023	64,547	47.5	6,636	-	7,081	-	8,114	-
Fiscal year ended December 31, 2022	43,749	53.9	(4,048)	-	(4,461)	-	(5,789)	-

(Note) Comprehensive income: Fiscal year ended December 31, 2023: ¥9,143 million [-%]
Fiscal year ended December 31, 2022: ¥(5,864) million [-%]

	Profit per share	Diluted profit per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2023	677.03	-	33.4	7.3	10.3
Fiscal year ended December 31, 2022	(483.05)	-	(22.6)	(4.2)	(9.3)

(Reference) Profit (loss) of entities accounted for using equity method: Fiscal year ended December 31, 2023: ¥- million
Fiscal year ended December 31, 2022: ¥- million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2023	93,496	25,974	27.8	1,299.49
As of December 31, 2022	99,962	22,740	22.6	586.49

(Reference) Equity: As of December 31, 2023: ¥25,974 million
As of December 31, 2022: ¥22,629 million

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2023	11,109	(5,919)	(15,667)	13,675
Fiscal year ended December 31, 2022	645	(6,122)	(8,935)	24,110

2. Dividends

	Annual dividends					Total dividends	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2022	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 31, 2023	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2024 (Forecast)	-	0.00	-	30.00	30.00		6.8	

(Note) "Dividends" above are dividends for common shares. For dividends for class shares (unlisted) with different rights from those of common shares issued by the Company, please see "Dividends on Class Shares" to be described later.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(% 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
First half	32,700	12.1	2,000	4.6	2,000	(20.2)	1,500	(51.2)	125.15
Full year	68,700	6.4	6,000	(9.6)	5,800	(18.1)	5,300	(34.7)	442.21

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (Changes in specified subsidiaries resulting in change in scope of consolidation) : Yes
Excluded: 1 company (Fujita Green Service Inc.)

(2) 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

(3) Total number of issued shares (common shares)
1) Total number of issued shares at the end of the period (including treasury shares):
December 31, 2023: 12,207,424 shares
December 31, 2022: 12,207,424 shares

2) Total number of treasury shares at the end of the period:
December 31, 2023: 222,259 shares
December 31, 2022: 221,887 shares

3) Average number of shares during the period:
Fiscal year ended December 31, 2023: 11,985,376 shares
Fiscal year ended December 31, 2022: 11,985,639 shares

(Reference) Summary of Non-consolidated Financial Results

1. Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2023	49,351	48.5	5,828	-	6,506	-	8,201	-
Fiscal year ended December 31, 2022	33,242	61.1	(2,210)	-	(2,469)	-	(6,234)	-

	Profit per share	Diluted profit per share
	Yen	Yen
Fiscal year ended December 31, 2023	684.31	-
Fiscal year ended December 31, 2022	(520.12)	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2023	93,111	25,354	27.2	1,247.79
As of December 31, 2022	99,894	21,770	21.8	514.82

(Reference) Equity: As of December 31, 2023: ¥25,354 million
As of December 31, 2022: ¥21,770 million

* Financial results are outside the scope of audit 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 “Overview of Operating Results for Current Fiscal Year” on page 2 of the attached material.

Dividends on Class Shares

The following shows the breakdown of dividend per share of Class A preferred shares, which have different rights from those of common shares.

Class A preferred Shares	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	-	-	-	4,000,000.00	4,000,000.00
Fiscal year ended December 31, 2023	-	-	-	4,000,000.00	4,000,000.00
Fiscal year ending December 31, 2024 (Forecast)	-	-	-	-	-

(Notes)

1. Number of unredeemed Class A preferred shares are 100 shares. The Company issued 150 Class A preferred shares on September 28, 2021, of which 50 shares were purchased and canceled by the Company on December 22, 2023. The capital surplus was used to fund the dividends paid for the fiscal year ended December 31, 2023. For details, please see “Breakdown of Dividends Paid Out of Capital Surplus” below.
2. The forecast for dividends for the fiscal year ending December 31, 2024 has not been determined at present.

Breakdown of Dividends Paid Out of Capital Surplus

The following shows the breakdown of dividends paid out of capital surplus for the fiscal year ended December 31, 2023.

Record date	Year-end	Total
	Yen	Yen
Dividend per share	4,000,000.00	4,000,000.00
	Million yen	Million yen
Dividend total	400	400

(Notes)

1. The figures above correspond to 100 shares after purchase and cancellation.
2. Net asset decrease ratio is 0.023.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for Current Fiscal Year

During the fiscal year ended December 31, 2023, the tourism industry saw a significant recovery after emerging from the impact of COVID-19 infections, which had continued since 2020. In the domestic market, travel demand recovered mainly owing to the removal of movement restrictions following the reclassification of COVID-19 to Class 5 under the Infectious Diseases Control Law. In the inbound tourism market, the number of inbound tourists in 2023 reached 79% of that in 2019, according to data released by the Japan National Tourism Organization (JNTO). In October and December, the figures exceeded those of the same months in 2019, when the COVID-19 pandemic was yet to come.

In this environment, the Group has captured demand, which led to significant year-on-year growth in ADR and occupancy rate in the accommodation business of each segment. Fixed operating costs, mainly labor costs, increased year on year. However, they were lower than in 2019, prior to the COVID-19 pandemic.

As a result, net sales for the entire Group increased by ¥20,797 million year on year to ¥64,547 million, operating profit increased by ¥10,685 million year on year to ¥6,636 million, and ordinary profit increased by ¥11,542 million year on year to ¥7,081 million. Profit attributable to owners of parent was ¥8,114 million due mainly to extraordinary income from the sale of the land where Hotel Toba Kowakien used to be. Profit attributable to owners of parent reached a high second only to 2021, when the Company posted a ¥33,300 million of gain on sale of non-current assets (extraordinary income), buoyed in part by the fruit of structural reform initiatives carried out during COVID-19 pandemic.

Of the 150 Class A preferred shares issued on September 28, 2021, 50 shares were redeemed on December 22, 2023 (purchased and canceled).

An overview of business results is as follows.

(Million yen)

	Actual results for the current period	YoY change
Net sales	64,547	20,797
Operating profit	6,636	10,685
Ordinary profit	7,081	11,542
Profit attributable to owners of parent	8,114	13,904

An overview of business results by segment is as follows.
Sales and operating profit by segment

(Million yen)

	Net sales		Operating profit (loss)	
	Actual	YoY change	Actual	YoY change
WHG Business	36,363	15,776	5,428	8,646
Luxury & Banquet Business	17,878	2,686	1,253	1,277
Resort Business	8,458	2,819	169	609
Other (including adjustment amounts)	1,847	(483)	(215)	151
Total	64,547	20,797	6,636	10,685

(Note) Adjustment amounts refer to eliminations of inter-segment transactions.

1) WHG Business

The WHG Business saw an increase in the number of inbound accommodation guests primarily in Tokyo and Osaka. In particular, ADR rose significantly at facilities located in the Tokyo metropolitan area, including the flagship facilities Shinjuku Washington Hotel and Hotel Gracery Shinjuku. As a result, net sales for this segment increased by ¥15,776 million year on year to ¥36,363 million, and operating profit increased by ¥8,646 million to ¥5,428 million.

2) Luxury & Banquet Business

In the Luxury & Banquet Business, the Hotel Chinzanso Tokyo reported year-on-year revenue growth in all divisions. In the accommodation business, ADR rose due to high-ADR sales and an increase in suite occupancy rate. In the banquets business, business use increased year on year. As a result, net sales for this segment increased by ¥2,686 million year on year to ¥17,878 million, and operating profit increased by ¥1,277 million to ¥1,253 million.

3) Resort Business

In the Resort Business, Hakone Kowakien Hotel, which opened in July, got off to a good start by capturing demand from the main target, families, from right after opening. At Hakone Kowakien Yunessun, the number of visitors increased from the previous year and from 2019 due to the effects of redevelopment, such as the installation of a flowing pool, as well as the opening of Hakone Kowakien Hotel. Hakone Kowakien Ten-yu saw an increase in weekday use and a year-on-year increase in occupancy rate thanks to inbound visitors and other factors. As a result, net sales for this segment increased by ¥2,819 million year on year to ¥8,458 million, and operating profit increased by ¥609 million to ¥169 million.

(2) Overview of Financial Position for Current Fiscal Year

Total assets as of December 31, 2023 decreased by ¥6,466 million from the end of the previous fiscal year to ¥93,496 million. Current assets decreased by ¥9,654 million due mainly to a decrease in cash and deposits, and non-current assets increased by ¥3,187 million due mainly to the acquisition of assets associated with the redevelopment of Hakone Kowakien.

Liabilities decreased by ¥9,701 million from the end of the previous fiscal year to ¥67,521 million, mainly due to the repayments of borrowings. The total amount of borrowings as of December 31, 2023 was ¥40,021 million.

Net assets increased by ¥3,234 million from the end of the previous fiscal year to ¥25,974 million. Capital surplus decreased by ¥5,798 due to the payment of dividends and the redemption of Class A preferred shares, while retained earnings increased by ¥8,114 million due to the recording of profit attributable to owners of parent.

(3) Overview of Cash Flows for Current Fiscal Year

Cash and cash equivalents (hereinafter referred to as “Funds”) as of December 31, 2023 amounted to ¥13,675 million, down ¥10,434 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities was ¥11,109 million (¥645 million provided in the previous fiscal year). This was mainly because operating profit increased by ¥10,685 million year on year.

2) Cash flows from investing activities

Net cash used in investing activities was ¥5,919 million (¥6,122 million used in the previous fiscal year). This was mainly due to the purchase of non-current assets of ¥5,243 million.

3) Cash flows from financing activities

Net cash used in financing activities was ¥15,667 million (¥8,935 million used in the previous fiscal year). This was mainly due to the repayments of borrowings of ¥9,721 million and the purchase of treasury shares of ¥5,001 million associated with the redemption of Class A preferred shares, etc.

(Reference) Historical cash flow indicators

	FY2019	FY2020	FY2021	FY2022	FY2023
Years of debt redemption (years)	9.0	-	-	77.3	3.6
Interest coverage ratio (times)	9.7	-	-	1.1	21.8

1. “Operating cash flow” uses cash flows from operating activities in the consolidated statements of cash flows. “Interest-bearing debt” includes all liabilities bearing interest posted in the consolidated balance sheets. “Interest expenses” uses “interest paid” in the consolidated statements of cash flows.
2. For the fiscal year ended December 31, 2020 and the fiscal year ended December 31, 2021, the years of debt redemption and interest coverage ratio are not stated as operating cash flows were negative.

(4) Future Outlook

We have formulated a five-year medium-term management plan that covers the period of from 2024 to 2028 under the slogan “Shine for Tomorrow, to THE FUTURE.” For details, please refer to 3. Management Policies (2) Issues to be Addressed.

As for the full-year financial results forecast for 2024, the Group forecasts net sales of ¥68,700 million, an increase of ¥4,152 million year on year, operating profit of ¥6,000 million, a decrease of ¥636 million year on year, and ordinary profit of ¥5,800 million, a decrease of ¥1,281 million year on year. The Group anticipates profit attributable to owners of parent of ¥5,300 million.

The forecast is based on the Group’s judgement using currently available information, and actual results may vary from the forecast due to various factors.

Forecast for the consolidated financial results and financial results by segment is as follows.

Consolidated financial results forecast for the fiscal year ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(Million yen)

	First half				Full year			
	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net sales	Operating profit (loss)	Ordinary profit	Profit attributable to owners of parent
Consolidated total	32,700	2,000	2,000	1,500	68,700	6,000	5,800	5,300
WHG Business	19,000	2,000	-	-	39,500	4,800	-	-
Luxury & Banquet Business	8,800	300	-	-	18,100	800	-	-
Resort Business	4,400	(200)	-	-	10,000	500	-	-
Other (including adjustment amounts)	500	(100)	-	-	1,100	(100)	-	-

(Note) Adjustment amounts refer to eliminations of inter-segment transactions.

(5) Basic Dividend Policy and Dividend Payments for Current Fiscal Year and Next Fiscal Year

Regarding dividends of surplus, the Company has a basic policy to fully consider passing its profits on to shareholders, and pay dividends in proportion to the results of its business in consideration of further reinforcement of corporate structure and accumulation of internal reserves to be utilized to promote businesses.

Although tourism demand recovered during the fiscal year ended December 31, 2023, the Group was significantly impacted by the COVID-19 pandemic, and we recognize the urgent need to restore and strengthen our financial base. Therefore, we sincerely regret to announce that no dividend will be paid on common shares for the fiscal year ended December 31, 2023. For the fiscal year ending December 31, 2024, we plan to pay a dividend of ¥30 per common share. As for the dividend on class shares issued through a third-party allotment in September 2021 for the fiscal year ended December 31, 2023, the Company plans to pay out an amount in accordance with the issuance document for the class shares drawn up at the time of the issuance.

(6) Risks Related to Business

Major risk factors involving the Group’s business activities and other aspects of operations that may have a significant effect on investor decisions are described as follows. The Group takes into consideration the possibility of such risks materializing and intends to take every measure to avoid the occurrence of any risks, as well as to minimize their impact should they occur.

The following risk factors include foreseen items based on our judgment as of the announcement of the financial results on February 14, 2024, and risk factors related to business are not limited to these items.

1) Stock price fluctuations

The Group owns ¥11,400 million of marketable securities mainly of its business partners and is subject to the risk of stock price fluctuations. As of the end of the current fiscal year, the valuation based on the market price yielded an unrealized gain on marketable securities; however, this may affect the operating results and financial position, depending on the future trend of stock prices.

2) Recording of impairment loss

The Group owns ¥50,300 million of property, plant and equipment such as hotel properties as of the end of the current fiscal year. The future fall in real estate prices exceeding a certain range or deteriorating business income may lead to an impairment loss in a part of property, plant and equipment.

3) Continued use or earlier termination of leased property

In the hotel business, such as the Washington Hotels, some of the hotel properties are on long-term lease. In case any owner of such properties is forced into bankruptcy, etc., making continued use difficult, it may negatively affect our operating results. Additionally, if the Group may intentionally choose to cancel a long-term lease contract before its expiration for whatever reason, it may be required to assume obligation to pay the rent or compensate for part of the lease payment, which is ¥61,300 million for the remaining portion of the lease period.

4) Natural disaster and pandemic outbreak

If a natural disaster such as a massive earthquake, volcanic eruption, typhoon, or extraordinary weather conditions occurs, or a pandemic such as COVID-19 or new strains of influenza breaks out, temporary suspension of business operations or cancelation of trips and a decline in inbound demand due to entry restrictions into Japan and overseas travel advisories are expected, and may negatively affect the Group’s financial position and business.

5) Loss from withdrawal of real estate-related businesses

The Group was once actively involved in property sales business, and currently continues with peripheral businesses such as infrastructure including road and water, and property management. Many of them are low profit or unprofitable, and if we decide to exit from these businesses, a considerable amount of loss may be temporarily incurred.

6) Incidents including food poisoning, etc.

We pay close attention to safety and hygiene; however, if by any chance food poisoning does occur, it would damage our customer confidence and may lead to temporary suspension of business operations.

7) Fluctuation in Japanese yen interest rate

Among ¥40,000 million of borrowings as of the end of the current fiscal year, ¥11,700 million is loans with floating interest rates, which may result in increased interest payments if the yen interest rate rises due to the recovery of the Japanese economy in the future.

8) Fluctuation in exchange rate

Revenues and expenses, as well as receivables and payables, from operating activities of the Group’s overseas businesses are denominated in foreign currencies. Consequently, the results could be affected by exchange rate fluctuations when converting financial results of overseas subsidiaries to yen amount.

2. Overview of the Corporate Group

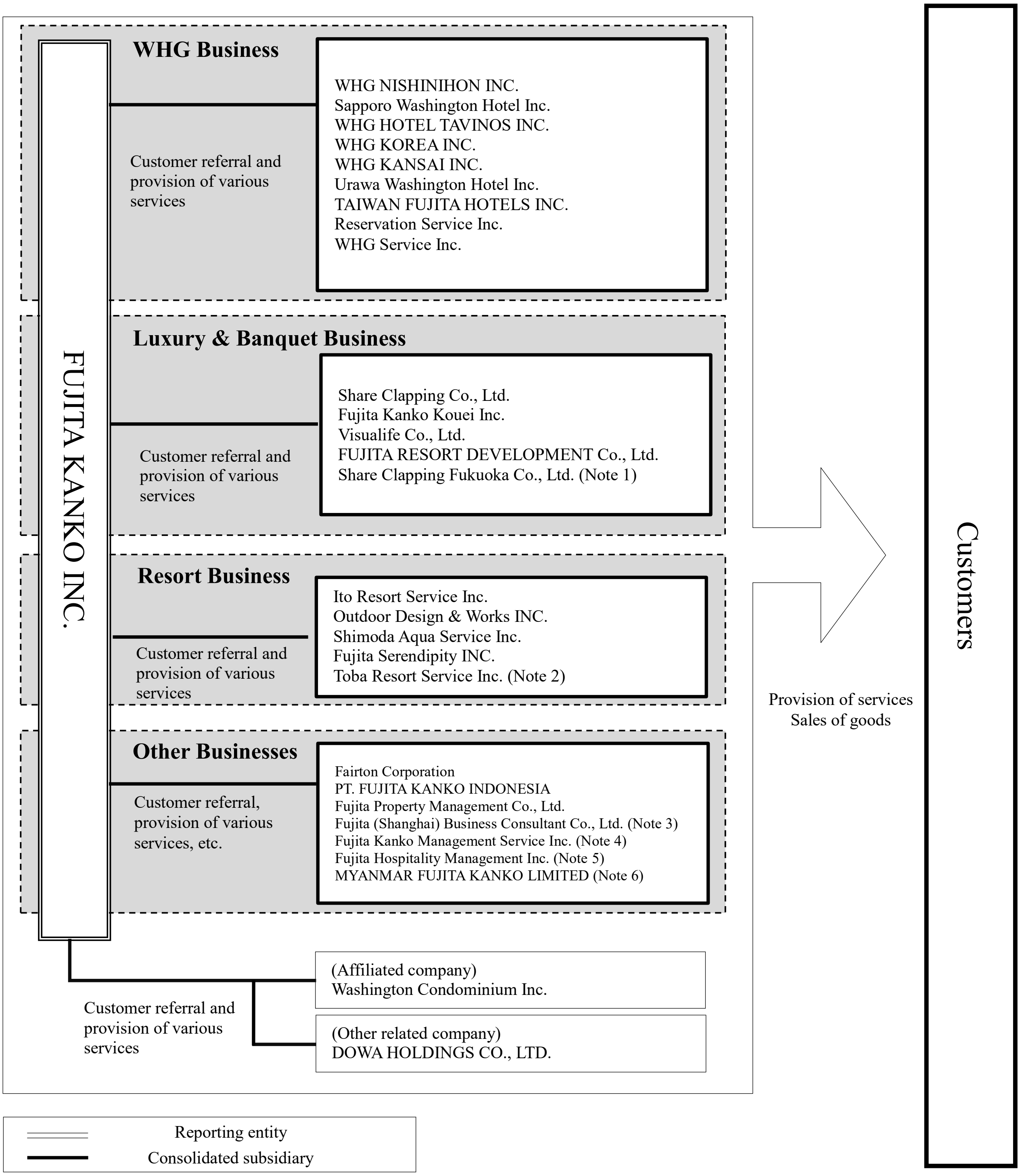
The Group consists of FUJITA KANKO INC., 26 consolidated subsidiaries, 1 affiliated company, and 1 other related company. The Group engages in the WHG Business, the Luxury & Banquet Business, and the Resort Business as the main businesses and provides various services related to each business.

The position of businesses operating in each segment is as follows.

		Main businesses	Major affiliates, etc. (Note)
Reportable segment	WHG Business	Hotel business emphasis on accommodations	Total of 9 companies including FUJITA KANKO INC. (the Company) and Urawa Washington Hotel Inc.
	Luxury & Banquet Business	Wedding/banquet/restaurant/hotel/golf/flower arrangement/garden management/imaging businesses	Total of 5 companies including FUJITA KANKO INC. (the Company) and Share Clapping Co., Ltd.
	Resort Business	Resort hotel/leisure business	Total of 5 companies including FUJITA KANKO INC. (the Company) and Ito Resort Service Inc.
Other Businesses		Cleaning and maintenance and other businesses	Total of 7 companies including FUJITA KANKO INC. (the Company) and Fairton Corporation

(Note) With the exception of the Company, company names and numbers of companies listed under "Major affiliates, etc." are all consolidated subsidiaries of the Company.

The following diagram illustrates the business structure.



(Notes)
1. Share Clapping Fukuoka Co., Ltd. is inactive as of the end of the current fiscal year.
2. Toba Resort Service Inc. is inactive as of the end of the current fiscal year.
3. Fujita (Shanghai) Business Consultant Co., Ltd. is in the process of liquidation as of the end of the current fiscal year.
4. Fujita Kanko Management Service Inc. is inactive as of the end of the current fiscal year.
5. Fujita Hospitality Management Inc. is inactive as of the end of the current fiscal year.
6. MYANMAR FUJITA KANKO LTD., which was in the process of liquidation at the end of the current fiscal year, completed its liquidation on January 23, 2024.
7. Fujita Green Service Inc. was excluded from the scope of consolidation since we sold all our stake in the company in March 2023.

3. Management Policies

(1) Basic Management Policies of the Company

The FUJITA KANKO Group sets its goal to "contribute to the well-being of our society by providing hospitable services and places where people can relax, refresh, and revitalize," and has defined its management guidelines and code of conduct that establish a specific guideline based on this philosophy.

(2) Issues to be Addressed

Basic understanding in view of the business environment

In 2023, the status of COVID-19 was downgraded from Class 2 to Class 5 under the Infectious Diseases Control Law after a string of public holidays in May, and movement restrictions were lifted for the first time in three years. Inbound tourism demand also recovered rapidly thanks in part to the weak yen. During the period from January to September of 2023, domestic travel consumption in Japan recovered to 95.7% of the 2019 level. In October, the number of foreign visitors to Japan on a monthly basis exceeded the corresponding figure for 2019 for the first time since the end of the pandemic, further stimulating tourism-related consumption. For fiscal 2023 as a whole, the proportion of inbound tourists among the Group's accommodation guests exceeded that of 2019. ADR also exceeded the 2019 level by approximately 15% to 40% at WHG hotels, including Shinjuku Washington Hotel and Hotel Gracery Shinjuku, and at Hotel Chinzanso Tokyo and Hakone Kowakien Ten-yu.

As for the future business environment, we believe that the most pressing challenge is to address the chronic labor shortage facing the entire industry amid a decline in the domestic working population and a rapid recovery of accommodation demand. In 2024, occupancy is expected to somewhat slow down compared with 2023 as "revenge spending" runs its course. However, there are also factors that will boost tourism, such as an increase in the number of three-day weekends. We must capture demand and continue to supply products with high added value. Furthermore, we strongly recognize the need to prepare for natural disasters, abnormal weather conditions, and other unexpected events and establish a management foundation that is less vulnerable to such external factors.

In light of this situation, we have formulated a five-year medium-term management plan that covers the period from 2024 to 2028 as we seek to achieve our long-term vision established in 2020: "Continue to grow through a unique development of business that closely matches lifestyles, in order to create smiles."

● Long-term Vision

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

Envisaging the shape of our business ten years in the future, we established our long-term vision in 2020 to articulate the value that we need to provide to embody the spirit of our 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. This vision rests upon the following three aspirations.

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

● Medium-term Management Plan 2028

Medium-term Management Plan 2028 sets forth the following core challenges under the slogan of "Shine for Tomorrow, to THE FUTURE": I. Establish a foundation for sustainable growth impervious to environmental conditions, II. Secure and develop talent, and III. Construct a sound financial foundation.

Core Challenges	Key Actions
I. Establish a foundation for sustainable growth impervious to environmental conditions	(1) Realign business portfolio (2) Create new businesses
II. Secure and develop talent	(1) Strengthen recruitment (2) Strengthen talent development
III. Construct a sound financial foundation	(1) Accumulate internal reserves through expansion of net sales (2) Achieve early redemption of preferred shares

I. Establish a foundation for sustainable growth impervious to environmental conditions

Looking at the business portfolio, the WHG Business currently accounts for the predominantly largest proportion of our net sales and operating profit. Our efforts to realign the portfolio will rebalance it in ways that strengthen the earning power of existing facilities of the Luxury & Banquet Business and the Resort Business. We consider this a medium- to long-term challenge that we will need to continue addressing beyond the period covered by Medium-term Management Plan 2028.

In addition, we will diversify how we open new WHG Business locations, going beyond leasing to use other approaches as well, including asset acquisition, franchising, and management contracting.

Efforts to create new businesses will focus on domains outside the realm of our existing businesses. We have established a framework for initiating new projects that empower the members, mainly young employees, to freely conceive and develop new business ideas. In launching new businesses, we will seek to lay a foundation that enables us to continue earning and growing while minimizing risk.

II. Secure and develop talent

As indicated earlier, the service industry as a whole is understaffed due to the rapid recovery of accommodation demand amid an imbalance between supply and demand in the labor market. Employers are especially challenged to secure professional talent for jobs such as cooking and facility management. We will pursue two approaches for overcoming this situation: strengthen recruitment and strengthen talent development.

To strengthen recruitment, we will offer long-term internships, build up our relationships with vocational schools, actively tap into the mid-career talent market, and implement other actions for developing an approach and environment that support stable employment of professional talent. In addition, we launched an "area job" program that limits employee assignment to a specific area or facility in 2023, and we see this as contributing to the realization of diverse work styles and to greater access to talent.

To strengthen talent development, we will begin by more firmly implanting the new human resource system established in 2022. The system offers two tracks for career advancement: general career track and professional career track. Our establishment of career paths that improve professional expertise and skills in many different occupations—business manager, cook, concierge, accountant, facility manager, and more—we empower employees to choose and map out their future careers.

We will also introduce a talent management system this year to enable integrated management of human resource processes such as training, evaluation, and employee career requests. We will use this system to place the right people in the right positions, provide proper training, and increase employee retention, and in so doing, further enhance our strength as an organization.

As we carry out these actions, we will remain mindful of the Group's management guideline of "having recognized that the heart of a company is its people, and that fostering human resources is crucial to growth, we strive to foster motivated, well-balanced employees."

III. Construct a sound financial foundation

We have implemented a process of structural reform since 2020 to resolve issues that were exposed by COVID-19. Through these efforts, we tremendously strengthened our earning power with productivity improvements and cost reductions. We will strive to maintain that power to ensure our financial stability and achieve early redemption of preferred shares.

Objective indicators for assessing progress toward management goals

		2023 Actual	Goal for 2028
Profitability	Net sales	64.5 billion yen	80.0 billion yen
	Operating profit	6.6 billion yen	8.0 billion yen
	Operating profit to net sales	10.3%	10%
	ROE (Profit / Equity)	31.2%	Maintain at 10% or higher
Investment	Capital investment	5.2 billion	5-year total of 35.0 billion
Financial	Cash flows from operating activities	11.1 billion	5-year total of 45.0 billion
	Equity ratio (Equity / Total assets)	27.8% 17.1% (excluding preferred shares)	Maintain at 25% or higher

During the period of Medium-term Management Plan 2028, we will seek to maintain a profitable structure by keeping ordinary profit at ¥5,000 million or higher each year, investing in human resources, and improving added value and productivity. The first three years are positioned as the “foundation building phase,” and during this time we will endeavor to achieve early redemption of preferred shares. The remaining two years will be the “profit expansion phase”; in the final year, 2028, we expect to achieve an operating profit of ¥8,000 million (an increase of ¥1,400 million over 2023) by generating profits through new openings and businesses of the WHG Business and the Resort Business, and though improvement of Hotel Chinzanso Tokyo’s performance.

<Strategy by segment >

WHG Business

Our initial focus in the WHG Business will be to improve the convenience and hospitality of guest rooms and restaurants at existing facilities. In addition to making renovations and cosmetic enhancements to guest rooms and restaurants, we will add lounge functions to strengthen the properties as hotels that not only serve as bases for business and sightseeing, but also provide relaxing stays. We will automate front desk procedures to free up manpower to provide a higher level of hospitality and service to guests. In so doing, we will seek to differentiate our brands and increase customer satisfaction.

In addition, we will work to increase awareness of the brands Washington Hotel (50th anniversary last year), Hotel Gracery (15th anniversary last year), and HOTEL TAVINOS (5th anniversary this year) by stepping up promotion and broadly showcasing each brand’s features and the value provided by their products and services. We will also seek to acquire new guests and promote use by THE FUJITA MEMBERS guests.

Although no new locations have been opened since the launch of Hotel Gracery Taipei in 2021 (during the pandemic), last year we began full-fledged efforts to find potential sites for development. In addition to sites suitable for business guests, we are also exploring urban sightseeing destinations, and are considering using non-leasing approaches as well to achieve new openings.

Luxury & Banquet Business

We will endeavor to improve the level of profit of this business by leveraging our property, plant and equipment, and intangible assets.

At Hotel Chinzanso Tokyo, some of the facilities with comparatively low occupancy rates will be repurposed as an ancillary facility for exclusive use by suite guests, a postnatal care facility, and so forth. We will also leverage the use of the postnatal care facility as an opportunity to encourage those guests to not only request newborn baby photo shoots but also return to Hotel Chinzanso Tokyo for photography and banquets marking milestones in their child's growth, such as Shichi-go-san and coming-of-age.

We will also utilize the skills and insights we have accumulated in the wedding business and the green space business (development, management, and operation of gardens) to expand into other business areas such as management contracting, with the aim of increasing profits of Hotel Chinzanso Tokyo's wedding business and the Luxury & Banquet Business as a whole.

Resort Business

In this segment, we opened Hakone Hotel Kowakien last July under the concept of a hotel that, together with Yunessun, enables guests to experience hot springs, nature, and dining. At the same time, Hakone Kowakien Yunessun reopened following its largest renovation ever. The installation of Hakone's first flowing pool, the addition of more private baths, and other changes have evolved it into a fun facility that caters to the diverse needs of guests visiting the Hakone Kowakien resort area.

The synergy created by these openings has revitalized the entire Hakone Kowakien area. In 2023, Hakone Kowakien Yunessun recorded its highest net sales since first opening its doors in 2001, contributing strongly to the Resort Business's return to profit.

Other possibilities for further increasing revenue are being explored, including strengthening the appeal of existing facilities' products and adding more guest rooms to Hakone Hotel Kowakien. Profits will also be expanded by hosting activities at Hakone Hotel Kowakien's poolside area and garden. The functions of Hakone Kowakien Yunessun's Mori No Yu will be further developed to attract new types of clientele in addition to families. Moreover, we will seek to tap into inbound demand through postings on international travel websites and social media, aiming to boost profits by drawing visitors on weekdays and during the off season.

In addition, we will make use of our idle land holdings in Hakone area and explore opportunities for opening new locations in other areas as well.

Through our implementation of Medium-term Management Plan 2028, we will work to become a company that grows sustainably. We will track the plan's progress on a rolling basis, using the annual budgeting process as an opportunity to re-examine the measures for resolving each business segment's challenges and the roadmap for realizing the plan, and make any course corrections deemed necessary in light of changes in the business environment and other circumstances.

We will also continue striving to abide by all principles of Japan‘s Corporate Governance Code, properly disclose nonfinancial information, maintain positive relationships with all stakeholders, and fulfill our social responsibilities as a corporate citizen.

4. Basic Policy on Selecting Accounting Standard

The Group will continue to prepare consolidated financial statements based on Japanese GAAP for the time being, taking into consideration comparability of consolidated financial statements in terms of periods and companies.

In the future, we will take appropriate actions in accordance with various conditions in Japan and overseas.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	24,139	13,705
Notes and accounts receivable - trade	4,157	5,155
Merchandise and finished goods	48	58
Work in process	26	31
Raw materials and supplies	386	432
Other	2,201	1,915
Allowance for doubtful accounts	(13)	(5)
Total current assets	30,947	21,293
Non-current assets		
Property, plant and equipment		
Buildings and structures	93,613	95,165
Accumulated depreciation	(59,249)	(57,235)
Buildings and structures, net	34,364	37,930
Tools, furniture and fixtures	19,675	20,353
Accumulated depreciation	(17,628)	(17,599)
Tools, furniture and fixtures, net	2,047	2,754
Land	6,381	6,309
Construction in progress	3,095	52
Golf courses	2,443	2,477
Other	4,316	4,456
Accumulated depreciation	(3,595)	(3,629)
Other, net	721	826
Total property, plant and equipment	49,053	50,350
Intangible assets		
Software	484	424
Other	188	177
Total intangible assets	673	602
Investments and other assets		
Investment securities	9,794	11,604
Guarantee deposits	9,195	9,137
Deferred tax assets	45	474
Other	360	141
Allowance for doubtful accounts	(107)	(107)
Total investments and other assets	19,288	21,250
Total non-current assets	69,015	72,202
Total assets	99,962	93,496

(Million yen)

	As of December 31, 2022	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	957	1,132
Short-term borrowings	10,042	9,387
Current portion of long-term borrowings	9,016	10,923
Income taxes payable	65	61
Accrued consumption taxes	1,131	902
Provision for bonuses	106	216
Provision for loss on business withdrawal	689	199
Provision for noncurrent assets removal cost	—	177
Other	5,311	7,363
Total current liabilities	27,321	30,365
Non-current liabilities		
Long-term borrowings	30,673	19,710
Provision for retirement benefits for directors (and other officers)	49	72
Deferred tax liabilities	401	11
Retirement benefit liability	6,490	6,352
Deposits received from members	10,547	9,498
Other	1,739	1,510
Total non-current liabilities	49,901	37,156
Total liabilities	77,222	67,521
Net assets		
Shareholders' equity		
Share capital	100	100
Capital surplus	32,256	26,457
Retained earnings	(11,020)	(2,906)
Treasury shares	(903)	(904)
Total shareholders' equity	20,432	22,746
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,233	3,430
Deferred gains or losses on hedges	3	(12)
Foreign currency translation adjustment	(316)	(357)
Remeasurements of defined benefit plans	276	167
Total accumulated other comprehensive income	2,196	3,227
Non-controlling interests	110	—
Total net assets	22,740	25,974
Total liabilities and net assets	99,962	93,496

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended December 31, 2022	For the fiscal year ended December 31, 2023
Net sales	43,749	64,547
Cost of sales	44,976	54,800
Gross profit (loss)	(1,227)	9,746
Selling, general and administrative expenses	2,821	3,109
Operating profit (loss)	(4,048)	6,636
Non-operating income		
Interest income	7	9
Dividend income	247	247
Foreign exchange gains	—	384
Subsidy income	3	164
Dividend income of life insurance	47	52
Rental income from land and buildings	77	79
Other	98	98
Total non-operating income	482	1,036
Non-operating expenses		
Interest expenses	585	491
Commission expenses	75	—
Loss on retirement of non-current assets	66	54
Other	167	45
Total non-operating expenses	895	591
Ordinary profit (loss)	(4,461)	7,081
Extraordinary income		
Gain on sale of non-current assets	4	605
Subsidy income	1,084	49
Gain on sale of shares of subsidiaries and associates	—	21
Reversal of provision for assets removal	1	—
Gain on reversal of provision for loss on business withdrawal	0	—
Other	1	—
Total extraordinary income	1,092	675
Extraordinary losses		
Impairment losses	2,279	453
Provision for removal expenses of noncurrent assets	—	243
Provision for loss on business withdrawal	669	192
Loss on refund of subsidy	—	156
Loss on sale of shares of subsidiaries and associates	—	19
Loss on valuation of investment securities	—	6
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	44	—
Total extraordinary losses	2,994	1,071
Profit (loss) before income taxes	(6,362)	6,685
Income taxes - current	34	80
Income taxes - deferred	(613)	(1,507)
Total income taxes	(578)	(1,426)
Profit (loss)	(5,784)	8,112
Profit (loss) attributable to non-controlling interests	5	(2)
Profit (loss) attributable to owners of parent	(5,789)	8,114

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended December 31, 2022	For the fiscal year ended December 31, 2023
Profit (loss)	(5,784)	8,112
Other comprehensive income		
Valuation difference on available-for-sale securities	(300)	1,197
Deferred gains or losses on hedges	71	(16)
Foreign currency translation adjustment	(171)	(40)
Remeasurements of defined benefit plans, net of tax	320	(109)
Total other comprehensive income	(80)	1,031
Comprehensive income	(5,864)	9,143
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(5,870)	9,145
Comprehensive income attributable to non-controlling interests	5	(2)

(3) Consolidated Statements of Changes in Net Assets
For the fiscal year ended December 31, 2022 (January 1, 2022 to December 31, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	100	32,412	(5,231)	(902)	26,378
Changes during period					
Dividends of surplus - other capital surplus		(156)			(156)
Profit (loss) attributable to owners of parent			(5,789)		(5,789)
Purchase of treasury shares				(0)	(0)
Cancellation of treasury shares					–
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					–
Total changes during period	–	(156)	(5,789)	(0)	(5,946)
Balance at end of period	100	32,256	(11,020)	(903)	20,432

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,533	(67)	(144)	(43)	2,277	177	28,833
Changes during period							
Dividends of surplus - other capital surplus							(156)
Profit (loss) attributable to owners of parent							(5,789)
Purchase of treasury shares							(0)
Cancellation of treasury shares							–
Change in ownership interest of parent due to transactions with non-controlling interests							0
Net changes in items other than shareholders’ equity	(300)	71	(171)	320	(80)	(66)	(147)
Total changes during period	(300)	71	(171)	320	(80)	(66)	(6,093)
Balance at end of period	2,233	3	(316)	276	2,196	110	22,740

For the fiscal year ended December 31, 2023 (January 1, 2023 to December 31, 2023)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	100	32,256	(11,020)	(903)	20,432
Changes during period					
Dividends of surplus - other capital surplus		(796)			(796)
Profit (loss) attributable to owners of parent			8,114		8,114
Purchase of treasury shares				(5,001)	(5,001)
Cancellation of treasury shares		(5,000)		5,000	–
Change in ownership interest of parent due to transactions with non-controlling interests		(2)			(2)
Net changes in items other than shareholders' equity					–
Total changes during period	–	(5,798)	8,114	(1)	2,314
Balance at end of period	100	26,457	(2,906)	(904)	22,746

	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	2,233	3	(316)	276	2,196	110	22,740
Changes during period							
Dividends of surplus - other capital surplus							(796)
Profit (loss) attributable to owners of parent							8,114
Purchase of treasury shares							(5,001)
Cancellation of treasury shares							–
Change in ownership interest of parent due to transactions with non-controlling interests							(2)
Net changes in items other than shareholders' equity	1,197	(16)	(40)	(109)	1,031	(110)	920
Total changes during period	1,197	(16)	(40)	(109)	1,031	(110)	3,234
Balance at end of period	3,430	(12)	(357)	167	3,227	–	25,974

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended December 31, 2022	For the fiscal year ended December 31, 2023
Cash flows from operating activities		
Profit (loss) before income taxes	(6,362)	6,685
Depreciation	3,613	3,636
Impairment losses	2,279	453
Increase (decrease) in allowance for doubtful accounts	(0)	(1)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	12	23
Increase (decrease) in provision for bonuses	95	119
Increase (decrease) in provision for point card certificates	(69)	—
Increase (decrease) in provision for loss on business withdrawal	574	9
Increase (decrease) in provision of noncurrent assets removal	(3)	177
Increase (decrease) in retirement benefit liability	28	(106)
Interest and dividend income	(255)	(256)
Interest expenses	585	491
Foreign exchange losses (gains)	62	(384)
Loss on reversal of foreign currency translation adjustments due to liquidation of foreign subsidiary	44	—
Loss (gain) on sale of non-current assets	(4)	(606)
Loss on retirement of non-current assets	66	54
Loss (gain) on valuation of investment securities	—	6
Decrease (increase) in trade receivables	(1,863)	(1,117)
Decrease (increase) in inventories	(82)	(63)
Increase (decrease) in trade payables	148	175
Loss (gain) on sale of shares of subsidiaries and associates	—	(1)
Increase (decrease) in accrued consumption taxes	911	(221)
Other, net	1,382	2,389
Subtotal	1,164	11,463
Interest and dividends received	255	256
Interest paid	(589)	(509)
Income taxes refund (paid)	(184)	(101)
Net cash provided by (used in) operating activities	645	11,109

(Million yen)

	For the fiscal year ended December 31, 2022	For the fiscal year ended December 31, 2023
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(6,998)	(5,243)
Proceeds from sale of property, plant and equipment and intangible assets	5	687
Payments into time deposits	(0)	—
Payments of guarantee deposits	(19)	(7)
Proceeds from refund of guarantee deposits	883	91
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	—	(1,463)
Other, net	7	15
Net cash provided by (used in) investing activities	(6,122)	(5,919)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(658)	(655)
Repayments of long-term borrowings	(7,867)	(9,066)
Purchase of treasury shares	(0)	(5,001)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(72)	(110)
Dividends paid	(156)	(796)
Repayments of finance lease liabilities	(40)	(40)
Other, net	(140)	2
Net cash provided by (used in) financing activities	(8,935)	(15,667)
Effect of exchange rate change on cash and cash equivalents	(97)	43
Net increase (decrease) in cash and cash equivalents	(14,509)	(10,434)
Cash and cash equivalents at beginning of period	38,619	24,110
Cash and cash equivalents at end of period	24,110	13,675