

Medium-term Management Plan 2028

Shine for Tomorrow, to THE FUTURE



February 14, 2024

FUJITA KANKO INC.

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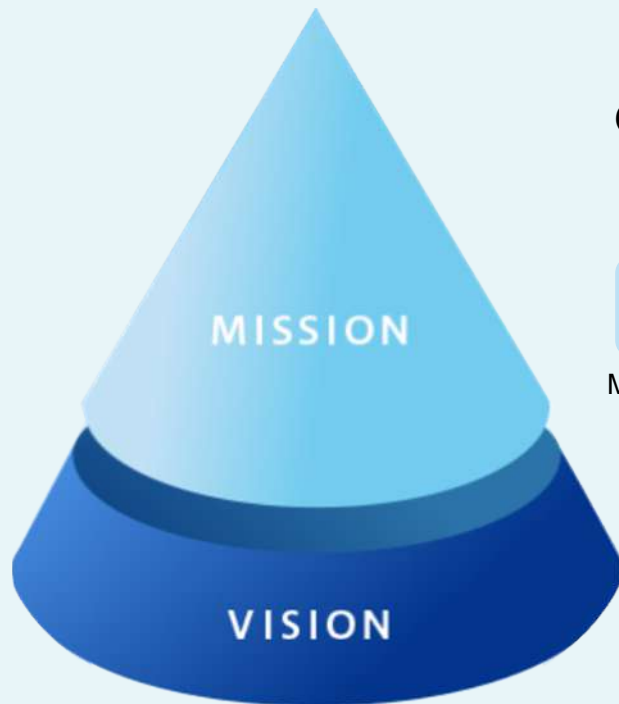


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Vision

1. Vision



— 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.

Guiding Precepts

Management Guidelines
Code of Conduct

Our Shared Value

Always be the first to provide services that people appreciate

Principles of Conduct

Smiles Greeting
Cleanliness Speediness

Long-term Vision

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

Underlying 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



Overcoming Pandemic-related Challenges Analysis of Our Business Environment

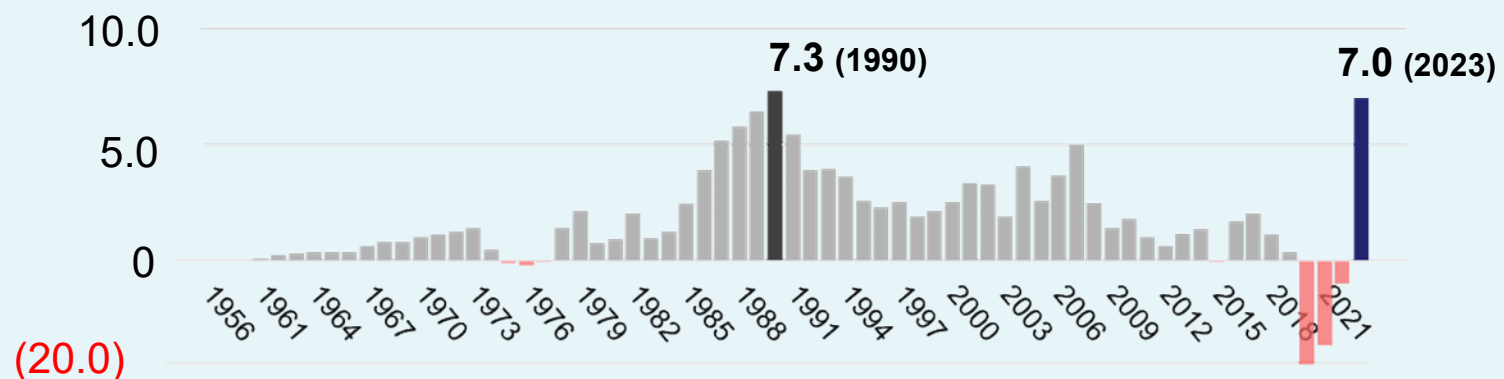
2. Overcoming Pandemic-related Challenges

We carried out a **structural reform** to succeed against the unprecedented changes in the external environment

We generated strong earnings (even when compared with pre-pandemic levels) **and achieved an operating profit in every business**

Business plan addressing pandemic challenges	Actions	Outcomes
	<ul style="list-style-type: none"> Sold Taikoen Issued Class A preferred shares Implemented early retirement program, reduced compensation, bonuses & salaries Reduced rent, divested unprofitable facilities Canceled plans for new openings Transferred membership-based resort business Launched THE FUJITA MEMBERS 	<ul style="list-style-type: none"> Reform of labor costs and other costs Execution of initiatives addressing unprofitable businesses Transformation of HR system to a job-based model Strengthening of business through revitalization of Chinzanso brand, redevelopment of Hakone Kowakien, and other actions Pursuit of marketing approach leveraging membership programs

Ordinary Profit, 1956–2023 (Billion yen)



3. Analysis of Our Business Environment



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External	Internal
<p>Financial uncertainties Unstable global situation, price fluctuations</p> <p>Accommodation industry's return to normal Inbound travel is growing: 25 million visitors in 2023 Government target: 60 million visitors in 2030</p> <p>Labor shortages & aging of population Impacts on young workers and professional occupations</p>	<p>Effects of structural reform Reduced fixed costs, sold assets, issued preferred shares</p> <p>Rebounding of demand & impact of weak yen Maintained high ADR and occupancy rates mainly in Tokyo metropolitan area Opened Hakone Hotel Kowakien in July 2023</p> <p>Concerns for understaffing Recovery of demand poses concerns for understaffing</p>

Challenges that need to be addressed

- **Construction of a business foundation that can withstand potential future crises on the scale of COVID-19**
- **The need to secure and train talent for operating our businesses**

A photograph of a modern lounge or bar area. The background features a large wall mural of a mountain range in shades of orange, red, and brown. In the center, there is a bar counter with a backlit base and several high-top stools. The foreground is furnished with several red velvet armchairs and small black tables. The lighting is warm and ambient.

Key Points of Medium-term Management Plan

4. Key Points of Medium-term Management Plan

Medium-term Management Plan 2028 Shine for Tomorrow, to THE FUTURE

I. Business Strategy

II. Talent Strategy

III. Financial Strategy

IV. Sustainability Strategy

V. Growth Strategy

Core Challenges

Establish a foundation for sustainable growth impervious to environmental conditions

- Realign business portfolio
- Create new businesses

Secure and develop talent

- Strengthen recruitment
- Strengthen talent development

Construct a sound financial foundation

- Accumulate internal reserves through expansion of net sales
- Achieve early redemption of preferred shares

4. Key Points of Medium-term Management Plan



Medium-term Management Plan 2028

Strategies addressing core challenges are divided into **two phases**:
foundation building and **profit expansion**

Foundation building phase

2024–2026

Profit expansion phase

2027–2028

Businesses

Review business portfolio (profit margin, break-even point ratio, asset efficiency)

Begin tackling individual challenges

Expand number of locations & launch new businesses

Grow membership & enhance services → Build long-term relationships

Increase added value & productivity

Continue addressing as an unending challenge

Talent

Talent recruitment / Talent development & placement / Training / Corporate culture

Finance

Construct financial foundation & maintain equity ratio of 25%

Reduce liabilities & increase equity ratio

Sustainability

Implement activities leading to sustainable growth



Strategies

5. Strategies

Advance to Next Stage of Business Expansion



- ◆ Improve earning power by increasing product appeal
- ◆ Expand number of locations through new openings
- ◆ Reorganize brands and increase brand awareness
- ◆ Acquire a fan base

Flagship Brands & Facilities



WASHINGTON HOTELS



HOTEL GRACERY



HOTEL TAVINOS

Actions

- ✓ Increase quality of guest rooms
- ✓ Consider opening new locations through non-leasing approaches
- ✓ Explore new models for business expansion
- ✓ Enhance member benefits

2023 Actual*1

Net sales **36.6** billion yen

Operating profit **5.4** billion yen

2028 Plan

Net sales **47.1** billion yen Operating profit **5.9** billion yen

*1 Due to changes in some segments to which sales facilities belong in accordance with organizational changes, the segment information for FY2023 is stated based on the segments after the change.

5. Strategies

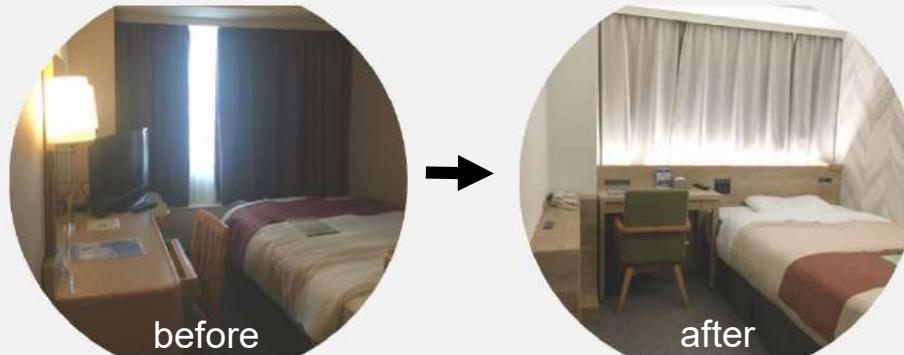
I. Business Strategy WHG Business

Medium-term Management Plan 2028

Improve earning power by increasing product appeal

Implement tangible and intangible improvements to increase the value

- Enhance quality of guest rooms (e.g., wallpaper, carpeting, illuminance, furnishings) provided



- Automate front desk procedures (automated check-in kiosks, self-service lockers) to improve hospitality services
- Create exclusive lounges

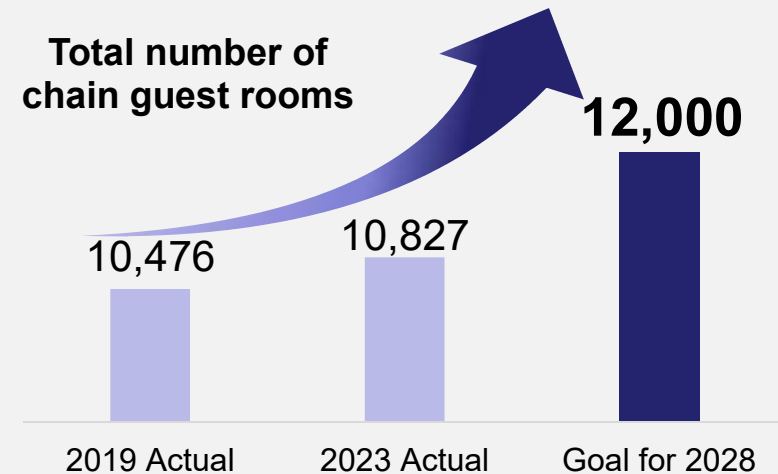


Expand locations

Become chain where loyalty points can be used for travel

- Open locations in sightseeing destinations to maintain sustainable growth amid the decline in business travel demand
- Explore new models for business expansion e.g., upper models of existing brands small-scale models, large communal bath installation model
- Open new locations with diverse approaches (leasing, asset acquisition, franchising, management contracting, etc.)

Total number of chain guest rooms



5. Strategies

I. Business Strategy Luxury & Banquet Business



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Enhance human resources and product appeal to take on the challenge of business expansion



Hotel Chinzanso Tokyo
guest room

- ◆ Utilize property, plant and equipment
- ◆ Leverage brands, expertise, and skills
- ◆ Strengthen professional skills and maximize potential of human resources

Flagship Brands & Facilities



Actions

- ✓ Make effective use of assets with low occupancy rates
- ✓ Improve earning power of wedding business
- ✓ Leverage expertise to expand into other business domains
- ✓ Strengthen garden management at Hotel Chinzanso Tokyo

2023 Actual

Net sales 17.8 billion yen

Operating profit 1.2 billion yen

2028 Plan

Net sales **19.4** billion yen Operating profit **1.3** billion yen

5. Strategies

I. Business Strategy Luxury & Banquet Business

Make effective use of assets held

Property, plant and equipment

Add executive lounges



Launch postnatal care business*



* Postnatal care business: Services for helping mothers to physically and mentally recover from childbirth, for supporting their newborns

Intangible Assets

Business for hosting weddings at external partner facilities



Strengthen garden management / Expand into external services



5. Strategies

Reap benefits of Hakone redevelopment & sow the seeds for the future



- ◆ Maximize impact of Hakone Kowakien redevelopment
- ◆ Enhance product appeal of existing facilities and utilize idle land
- ◆ Expand into other business domains and open new locations

Flagship Brands & Facilities



Actions

- ✓ Add more guest rooms to Hakone Hotel Kowakien
- ✓ Enhance product appeal in preparation for anniversaries
- ✓ Increase the appeal of Hakone Kowakien as a resort
- ✓ Run pilot projects to open way to business expansion

2023 Actual
 Net sales **8.4** billion yen
 Operating profit **0.1** billion yen



2028 Plan
 Net sales **11.7** billion yen Operating profit **0.8** billion yen

5. Strategies

I. Business Strategy Resort Business

Medium-term Management Plan 2028



Maximize impact of Hakone Kowakien redevelopment

Advance Hakone Kowakien's evolution into a tourist destination

- Use idle land, etc. to develop scenic spots
Construct promenades, etc.
- Renovate water slides
- Expand functions of Mori No Yu area
- Enhance lineup of activities
 - Buddhist cuisine
 - Zen experiences
 - Hiking and more



Enhance product appeal of existing facilities

Enhance product appeal in preparation for anniversaries

- Invest in improvement of Ten-yu's added value for 10th anniversary
- Renovate Shimoda Aquarium for 60th anniversary

Expand into other business domains and open new locations

Business expansion through alliances and other collaborations

- Consider launching accommodation service for guest with pets
- Examine possibilities for wellness business
→Run pilot projects at existing facilities



Explore opportunities for new openings

- Aspire to expand locations and business areas in the future
- Develop a model for opening new locations based on Ten-yu and Hotel Kowakien



5. Strategies

II. Talent Strategy

Stably secure strategic talent (management/professional talent who constantly pursue transformation and take on challenges) **to lay the foundation for the Company's growth and to improve human capital**

Secure strategic talent

- Build up recruitment channels and create new recruitment routes
- Actively tap into the mid-career talent market

Maintain & improve employment conditions

- Realize industry-leading treatment of employees
- Enhance employee benefit/support programs
- Support diverse work styles tailored to each employee's needs (e.g., employees whose assignments are limited to a specific area, professional career track)



Energize internal talent

- Steadily operate the new human resource system
- Introduce a talent management system*
- Support internal career development

Increase management & professional expertise

- Develop system of training and implement training plans
- Create more training opportunities

Foster corporate culture

- Hold Top Management Direct Meetings
- Regularly monitor motivation

* System enabling integrated management of human resource processes such as training, evaluation, and employee career requests

5. Strategies

II. Talent Strategy



Medium-term Management Plan 2028

		Baseline (2023 actual)	Goal for 2028
Securing	Engagement score	3.42 pt ^{*1}	3.75 pt
	Overtime work	12.4 h ^{*2}	10.0 h
	Annual paid leave utilization	65.6 % ^{*3}	70 %
	Third-year employee turnover	39.7 % ^{*4}	30 %
	Foreign employee ratio	8.1 % ^{*5}	10.0 %
Training	Investment in training per employee	57,000 yen ^{*6}	70,000 yen

*1 According to Group-wide employee motivation survey conducted by external agency (some Group companies were excluded)

*2 Average of monthly overtime for January to December

*3 Result for Oct. 2022 to Sept. 2023 (paid leave days used ÷ paid leave days awarded)

*4 Average for past four years (employees hired April 2017 to April 2020)

*5 As of Dec. 31, 2023

*6 Amount invested in 2019 (¥93 million ÷ 1,629 employees = ¥57,000)

Construct a sound financial foundation while maintaining financial stability

1

Redeem Class A preferred shares

Aim to redeem shares within five years while maintaining financial security

2

Properly control cash flows

Keep investment within the bounds of operating cash flows and reduce interest-bearing debt

3

Respond to capital market requirements and changes in accounting standards

Pursue management practices mindful of capital market requirements and changes in lease accounting standards

Currently, cost of capital (WACC) is approx. **5%** and cost of equity is approx. **8%**

Seek to improve profitability, set segment targets and track progress toward them

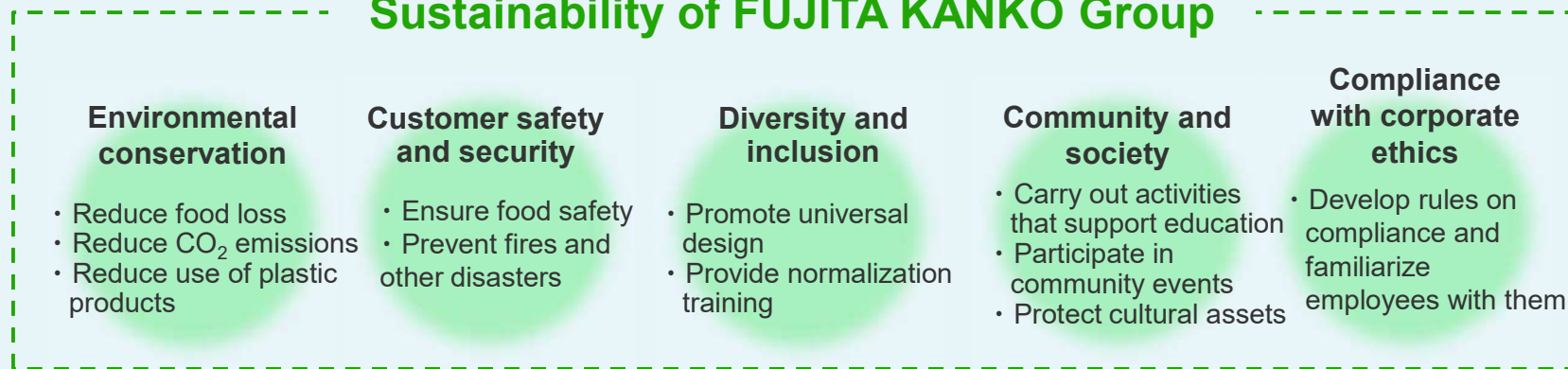
Engage in management that aims for:

ROIC > WACC

ROE > Cost of equity

Engage in activities that contribute to the sustainable growth of society and the Company

Sustainability of FUJITA KANKO Group



Actions under the Medium-term Management Plan

- ◆ **Enhance and develop sustainability-oriented products**
 - Develop products that are offered by all facilities
 - Plan SDGs events for customers
- ◆ **Develop a more supportive work environment and foster job satisfaction**
 - Continuously hold one-on-one meetings, career meetings with female candidates for management positions, and support opportunities
- ◆ **Carry out initiatives for increasing the appeal of facilities**
 - Energize promotional activities through inter-facility exchanges
 - Acquire various certifications
- ◆ **Enhance dissemination of information**
 - Expand sustainability-related pages on the corporate website



Contribute to sustainable growth of society and the Company

Follow this link for more on initiatives and targets



Membership Program

Build up relationships with customers through THE FUJITA MEMBERS

<p>(1) Increase membership Expand scale of sales</p>	<p>(2) Promote long-term continual patronage Enhance services and convenience</p>	<p>(3) Construct foundations for customer data utilization Firmly implant the use of data analytics and improve data literacy</p>
<ul style="list-style-type: none"> Analyze member characteristics to guide efforts to attract potential clientele from outside 	<ul style="list-style-type: none"> Launch new services designed to promote greater patronage Improve convenience of member webpages and app 	<ul style="list-style-type: none"> Deploy customer data utilization foundations across the Company Provide data analysis training

New Businesses

Endeavor to expand into new business areas

<p>(1) Establish a continuous and effective business creation process from ideation to commercialization</p>	<p>(2) Explore opportunities outside the current business framework</p>
<ul style="list-style-type: none"> Create an internal team of handpicked talent to drive new business development forward (task force) 	<ul style="list-style-type: none"> Expand collaboration with external partners in industry, academia, etc., and develop and operate processes such as open calls for business opportunities



Numerical Targets

6. Numerical Targets

		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 yen	5-year total of 35.0 billion yen
Financial	Cash flows from operating activities	11.1 billion yen	5-year total of 45.0 billion yen
	Equity ratio (Equity / Total assets)	27.8 % 17.1 % (excluding preferred shares)	Maintain at 25 % or higher