Resorttrust, Inc.

Financial Results Briefing for the Fiscal Year Ended March 2021

May 17, 2021

Event Summary

[Company Name]	Resorttrust, Inc.	
[Company ID]	4681-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2021	
[Fiscal Period]	FY2020 Annual	
[Date]	May 17, 2021	
[Number of Pages]	27	
[Time]	14:00 – 14:48 (Total: 48 minutes, Presentation: 26 minutes, Q&A: 22 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Ariyoshi Fushimi	President
	Hitomi Yagi	General Manager Investor Relations Division
[Analyst Names] *	Mariko Watanabe	UBS Securities Japan Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Yagi: Since the time has come, we will now begin the briefing on the financial results for the fiscal year ended March 31, 2021, and the rolling plan of the medium-term management plan of Resorttrust, Inc.

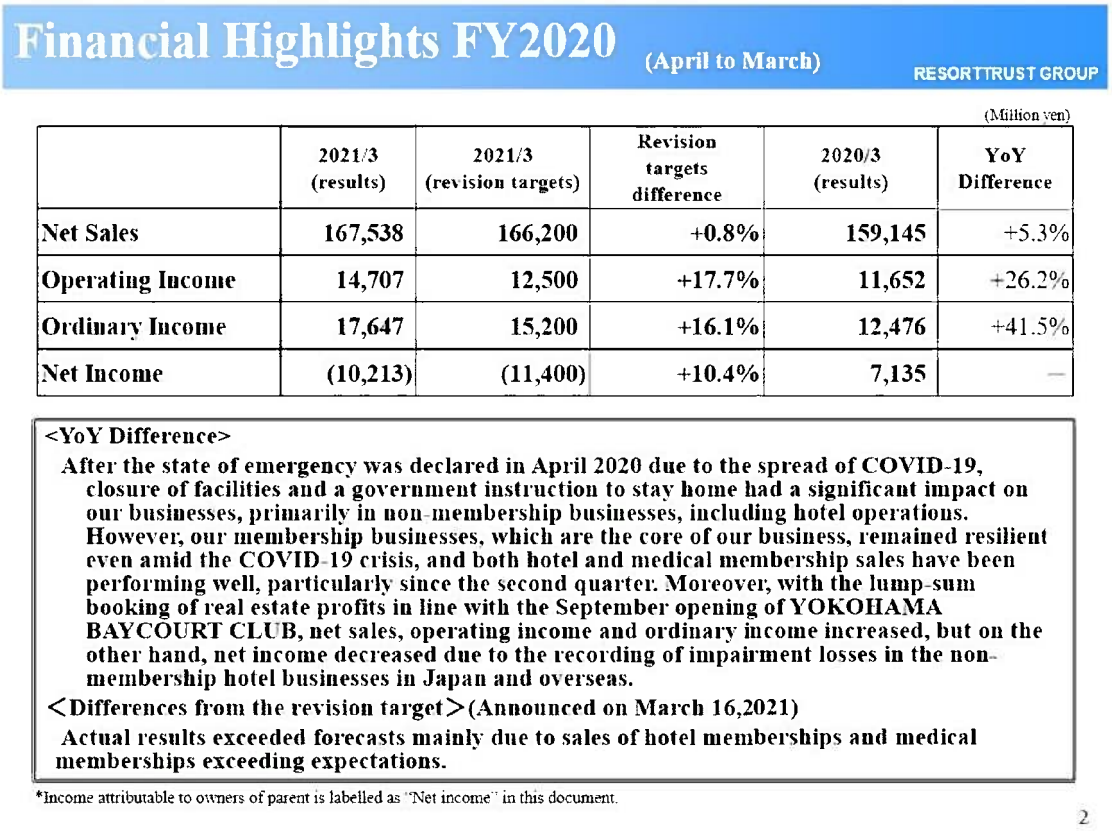
I am Yagi from the Investor Relations Division, and I will be your moderator today.

We welcome your questions at any time, so please fill out the question form. We will answer your questions after the explanation.

President Fushimi, could you begin, please?

Fushimi: I'm Fushimi from Resorttrust. I would like to explain our financial results today.

I am sure you have already read the materials, so I will try to keep my explanation of the materials as brief as possible, and we will have time for Q&A later.



Financial Highlights FY2020 (April to March) RESORTTRUST GROUP

(Million yen)

	2021/3 (results)	2021/3 (revision targets)	Revision targets difference	2020/3 (results)	YoY Difference
Net Sales	167,538	166,200	+0.8%	159,145	+5.3%
Operating Income	14,707	12,500	+17.7%	11,652	+26.2%
Ordinary Income	17,647	15,200	+16.1%	12,476	+41.5%
Net Income	(10,213)	(11,400)	+10.4%	7,135	—

<YoY Difference>

After the state of emergency was declared in April 2020 due to the spread of COVID-19, closure of facilities and a government instruction to stay home had a significant impact on our businesses, primarily in non-membership businesses, including hotel operations. However, our membership businesses, which are the core of our business, remained resilient even amid the COVID-19 crisis, and both hotel and medical membership sales have been performing well, particularly since the second quarter. Moreover, with the lump-sum booking of real estate profits in line with the September opening of YOKOHAMA BAYCOURT CLUB, net sales, operating income and ordinary income increased, but on the other hand, net income decreased due to the recording of impairment losses in the non-membership hotel businesses in Japan and overseas.

<Differences from the revision target> (Announced on March 16,2021)

Actual results exceeded forecasts mainly due to sales of hotel memberships and medical memberships exceeding expectations.

*Income attributable to owners of parent is labelled as "Net income" in this document.

2

Let's begin by looking at page 2 of the document. This is a financial highlight.

In 2021, net sales were JPY167.5 billion, up 5.3% YoY, up 0.8% from the plan. Operating income was JPY14.7 billion, up 26% YoY, up 17% from the plan. Ordinary income was JPY17.6 billion, up 41% YoY, up 16% from the plan. Net income for the year was JPY10.213 billion, up 10% from the plan.

First of all, net income for the current fiscal year was negative for the first time since we were listed due to the recording of a very large impairment loss of approximately JPY22 billion mainly on non-membership hotels.

However, net sales, operating income, and ordinary income all exceeded the previous year's results and the plan.

Segment Sales and Operation Income FY2020 (April to March)

RESORTTRUST GROUP

<Sales> (Million yen)

	Membership	Hotel and Restaurant	Medical	Other		Total
2021/3 (results)	**66,523**	**60,322**	**40,022**	**670**		**167,538**
2020/3 (results)	38,948	80,659	38,867	670		159,145
YoY Change	+70.8%	(25.2%)	+3.0%	+0.0%		+5.3%

<Operating Income> (Million yen)

	Membership	Hotel and Restaurant	Medical	Other	Overhead expenses	Total
2021/3 (results)	**22,951**	**(6,165)**	**6,341**	**531**	**(8,952)**	**14,707**
2020/3 (results)	13,559	92	5,829	663	(8,491)	11,652
YoY Change	+69.3%	—	+8.8%	(19.9%)	(461)	+26.2%

"YoY Change" is the difference in the amount.

<Reference: EBITDA > (Million yen)

	Membership	Hotel and Restaurant	Medical	Other	Overhead expenses	Total
2021/3 (results)	**22,990**	**(43)**	**8,053**	**853**	**(7,029)**	**24,824**
2020/3 (results)	13,608	6,504	7,526	996	(6,543)	22,092
YoY Change	+68.9%	—	+7.0%	(14.3%)	(486)	+12.4%

*Segment operating income before depreciation (=EBITDA) is calculated as the sum of operating income, depreciation and Amortization of goodwill.

"YoY Change" is the difference in the amount.

3

The following is an explanation by business.

First, the membership segment. In the membership segment, net sales increased by JPY27.5 billion YoY, and operating income increased by JPY9.3 billion. This is mostly due to the realization of deferred profit in YOKOHAMA BAYCOURT CLUB.

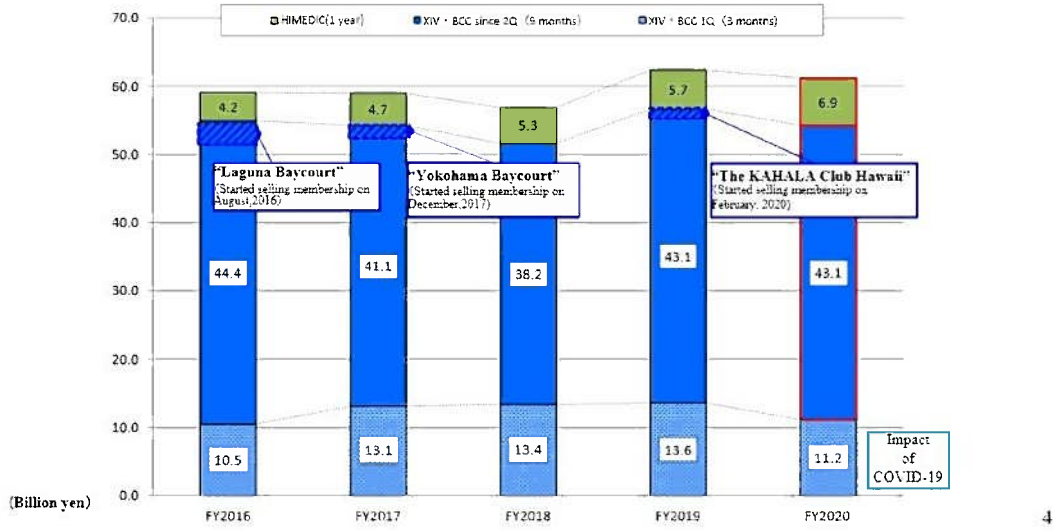
Other than that, it was almost the same as the previous fiscal year, and the contract volume was JPY62.1 billion this fiscal year compared to JPY62.8 billion in the previous fiscal year.

It was a year in which sales were very smooth, even in the midst of the COVID-19 crisis.

Progress of contract values for FY2020

RESORTTRUST GROUP

- Contract values of hotel memberships declined during April-June from the previous year due to partially reduced sales activities following the declaration of a state of emergency. However, these values had grown steadily during the nine months after July, returning to almost the same level as in previous years, when an impact of the launch was present.
- Contract values of HIMEDIC memberships were at an even higher level than in the previous fiscal year, when it reached a record high for the full year, accelerating further in the fourth quarter in particular.



Please refer to the next page, progress of contract values.

In Q1, at the bottom of the bar graph, there was an impact of COVID-19, as expected, resulting in a decrease of JPY2.4 billion YoY.

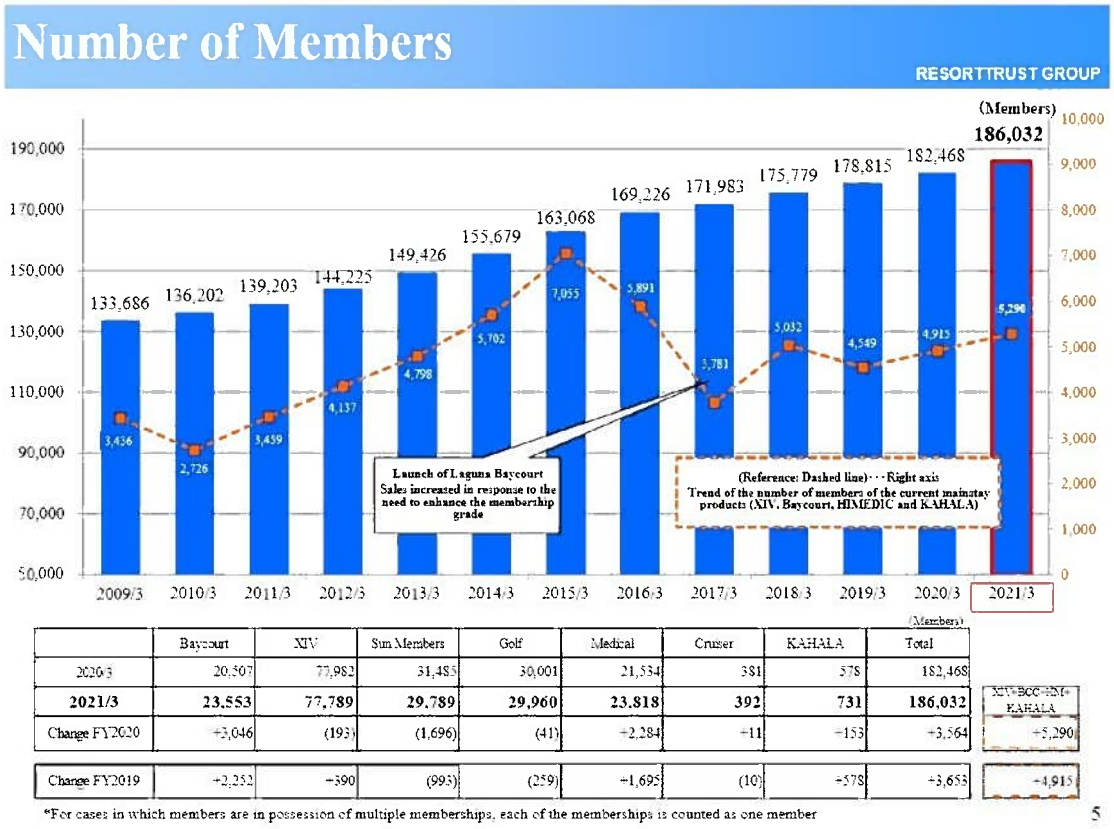
In Q2, and thereafter, we were able to raise the contract volume at the same level as the previous year, with no change at all.

In addition, the green area at the top is HIMEDIC and HIMEDIC, was able to show a record high contract volume.

The reason for this is, of course, that the safety, security business model of the membership era has been reviewed. In the COVID-19 pandemic, we received 1,228 in-house referrals, such as new referrals from people who visited the hotel and from other departments, which is 225% YoY.

In addition, via the email magazine, which has grown as a new sales method for memberships, we have received 574 orders, which is 227% YoY.

Moreover, we have referrals from banks. They were about 200% each, and I think one of the main reasons for this is that the new methods have been paid off in the COVID-19 pandemic.

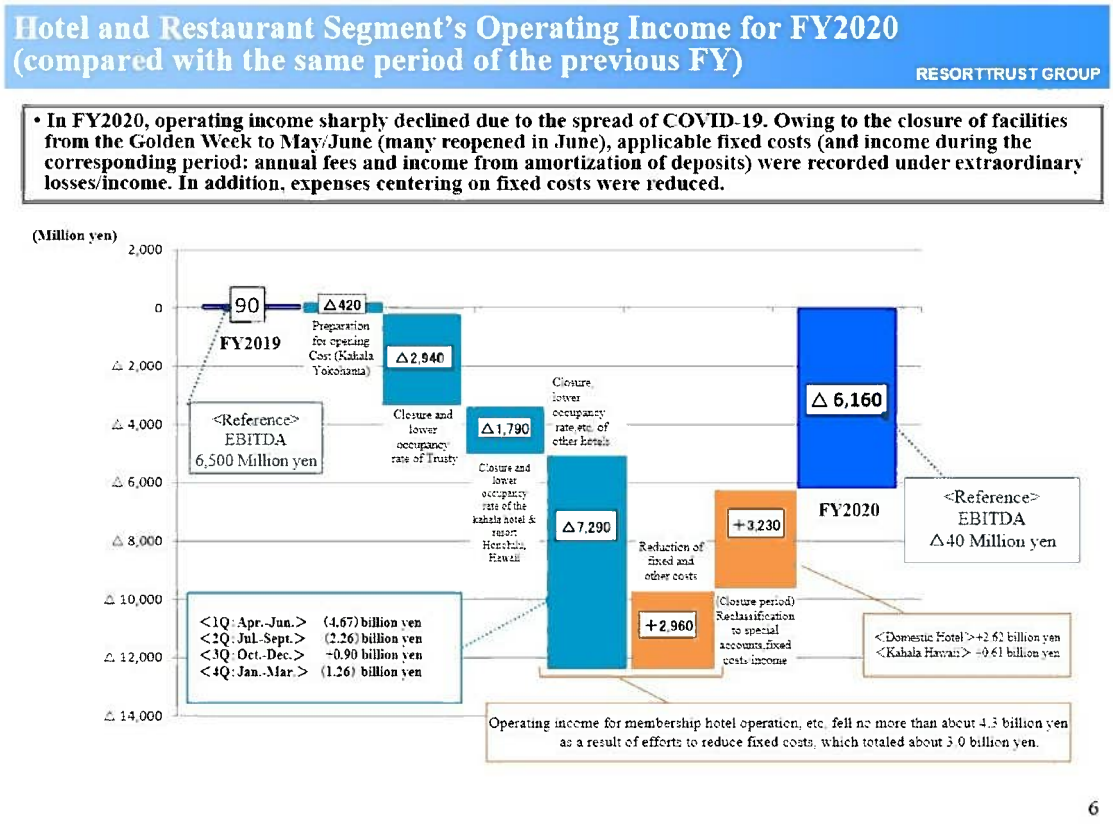


As for the number of members, as I mentioned, we were able to steadily increase the number of members by 5,290.

Especially in this part, until now, it was pointed out that the number of XIV members may be decreasing due to the bias toward Baycourt and HIMEDIC.

This time, XIV is also slightly negative throughout the year. But if you look at this breakdown for XIV in Q1, though it was down 460 members, but in H2, we steadily increased 420 members.

As for EXIV itself, although it is related with the inventory of Baycourt, we believe that the strength of the product has increased, and the sales staff is becoming more motivated.



This is followed by the hotel and restaurant segment.

We would like to use the variant bar chart on page 6 to explain the hotels.

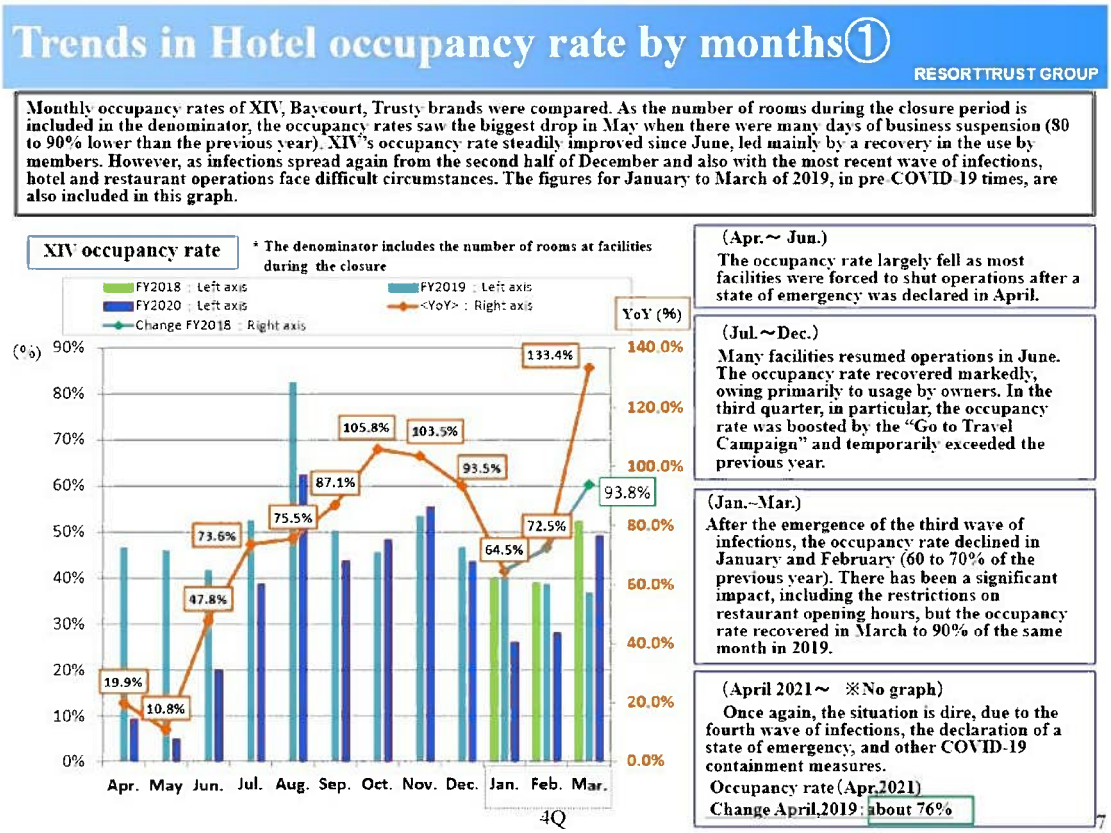
These are the factors of increase/decrease YoY. From the left, the blue parts are the negative parts.

First of all, this fiscal year, Kahala Yokohama, [Inaudible], opening expenses.

In addition, due to the impact of COVID-19, Trusty's business was closed, or occupancy dropped by JPY2.9 billion in the non-membership hotel sector. Kahala in Hawaii also closed, or occupancy dropped, resulting in a negative JPY1.79 billion. Our mainstay hotels, XIV and Baycourt, experienced a significant decline in operating revenue of JPY7.2 billion.

On the other hand, we added JPY2.96 billion by reducing fixed costs, et cetera. After adding JPY3.2 billion in subsidies and other temporary transfers, the final operating revenue was negative JPY6.1 billion, which is significantly negative.

It was a very difficult year for the operation.



Next, please take a look at page 7.

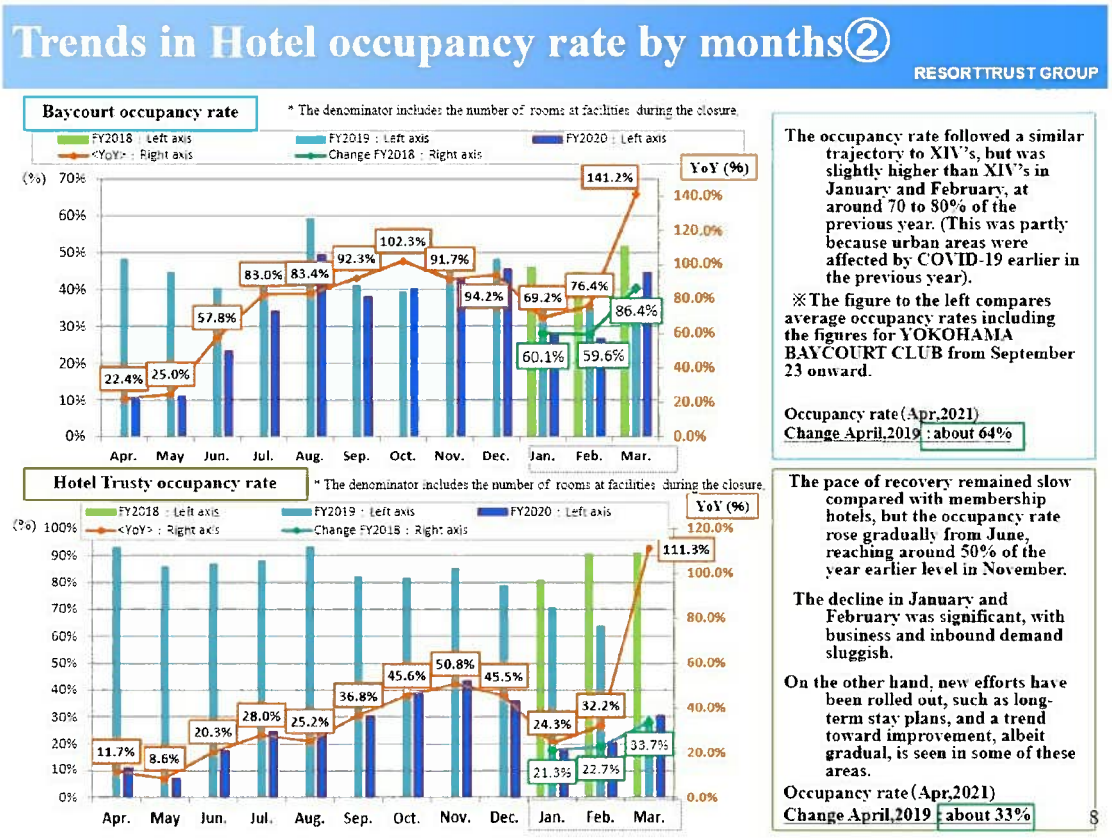
This is the annual occupancy rate of XIV.

First of all, in Q1, due to the fact that the entire building was closed for Golden Week holidays and other holidays, the figures were a very severe 10% and 20%.

In Q2, non-membership hotel business was still slow, but membership hotel business was able to return to about 70% of the previous year's level.

Then, as you know, with the Go To campaign, Q3 almost exceeded the same level as the previous year.

However, unfortunately, in Q4, there was the emergency state again, and we fell into the negative again.



Next, take a look at the diagrams of Baycourt and Trusty.

In Baycourt, the positive and negative factors are slightly less than in XIV, but they are almost the same.

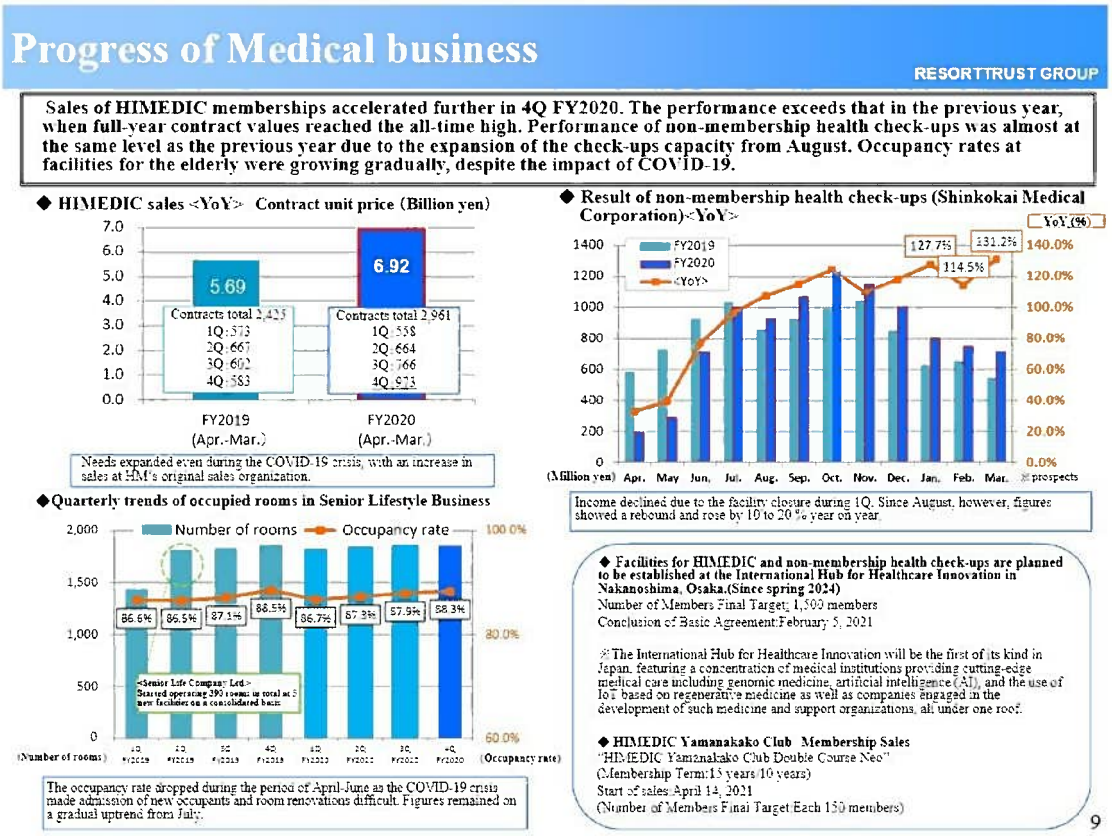
Because Trusty is a non-membership hotel, occupancy rates were extremely low throughout the year, especially in Tokyo.

Among them, it can be said that Kanazawa, Kobe, and other places with tourism elements, had positive results, as in the case with resort facilities, so there was a big difference.

However, in the operation in the current fiscal year, we have taken various measures, such as the point club and app membership. The total number of members of the app is now over 200,000. LINE also has about 40,000 corporate employee members and 40,000 individual members, and the number is increasing at a rate of about 10,000 per month.

This April remained very harsh under the state of emergency. But looking at the situation, for example, the occupancy rate of corporate clients who had not registered for LINE was 50% YoY, while it exceeded 80% YoY for those who connected with us through LINE.

The effect has come out remarkably, so we would like to increase the number in the COVID-19 pandemic.



Next, I would like to explain the medical segment. Medical sales is basically positive. Both sales and operating income increased YoY. Especially in terms of profit, we were able to achieve a record high profit. It was a business entity that had a strong presence in the Corona crisis.

First of all, HIMEDIC was able to make progress compared to the previous year with a total of 2,961 units, an increase of about 500 units YoY.

The content is new membership health checkups, especially at closed facilities in all of Tokyo, Nagoya, and Osaka. Also, in the case of COVID-19 pandemic, especially in Q1, there was a recognition as temporary diseases, due to the lack of health checkups, and new data showing that the detection of the 10 major diseases was delayed, which had a positive effect in health checkups, so HIMEDIC performed well.

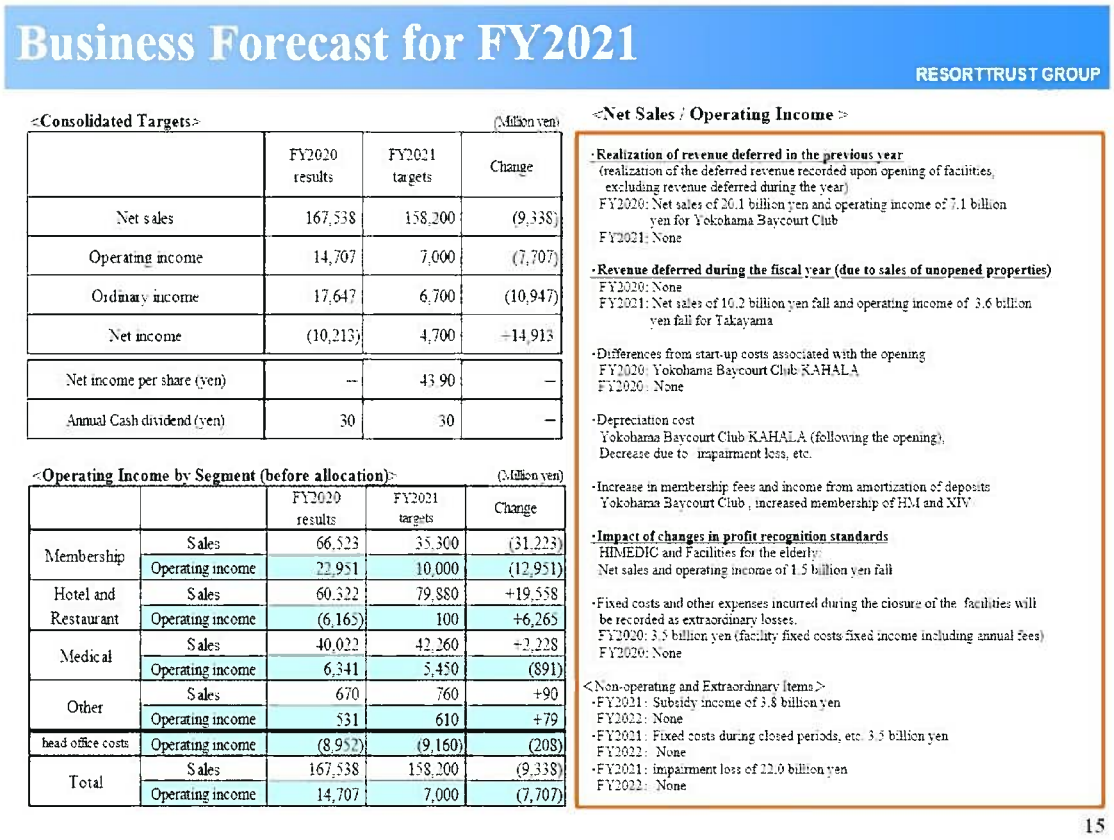
Then, non-membership health check-ups on the right. In the same way, in Q1, the Ministry of Health, Labor and Welfare included health checkups in the framework of unnecessary and non-urgent, and we received requests from health insurance unions to stop medical checkups. This resulted in a large negative impact.

But at that time, we were able to make up as much as we could in Q2 and beyond, and we were able to make it at almost the previous year's level. Since it is a once-a-year event, it takes time to return to normal if the timing is off, so we expect this to continue to have an impact this fiscal year.

Next, senior lifestyle business. Senior Life is also more of a healthy type of facility than a nursing home type, which means that various inconveniences can be considered after people who do not need urgent care move in, such as restrictions on visits. Also, the existing residents were wary of newcomers visiting the

facility, so we had a very difficult time, especially for the healthy type. The overall occupancy rate was almost side by side, and it was difficult to make progress, but we were able to maintain the status quo.

The operating situation for this fiscal year is almost as I have just explained.



Business Forecast for FY2021

RESORTTRUST GROUP

<Consolidated Targets> (Million yen)

	FY2020 results	FY2021 targets	Change
Net sales	167,538	158,200	(9,338)
Operating income	14,707	7,000	(7,707)
Ordinary income	17,647	6,700	(10,947)
Net income	(10,213)	4,700	+14,913
Net income per share (yen)	--	43.90	--
Annual Cash dividend (yen)	30	30	--

<Operating Income by Segment (before allocation)> (Million yen)

		FY2020 results	FY2021 targets	Change
Membership	Sales	66,523	35,300	(31,223)
	Operating income	22,951	10,000	(12,951)
Hotel and Restaurant	Sales	60,322	79,880	+19,558
	Operating income	(6,165)	100	+6,265
Medical	Sales	40,022	42,260	+2,228
	Operating income	6,341	5,450	(891)
Other	Sales	670	760	+90
	Operating income	531	610	+79
head office costs	Operating income	(8,952)	(9,160)	(208)
Total	Sales	167,538	158,200	(9,338)
	Operating income	14,707	7,000	(7,707)

<Net Sales / Operating Income >

·**Realization of revenue deferred in the previous year**
(realization of the deferred revenue recorded upon opening of facilities, excluding revenue deferred during the year)
FY2020: Net sales of 20.1 billion yen and operating income of 7.1 billion yen for Yokohama Baycourt Club
FY2021: None

·**Revenue deferred during the fiscal year (due to sales of unopened properties)**
FY2020: None
FY2021: Net sales of 10.2 billion yen fall and operating income of 3.6 billion yen fall for Takayama

·Differences from start-up costs associated with the opening
FY2020: Yokohama Baycourt Club KAHALA
FY2020: None

·Depreciation cost
Yokohama Baycourt Club KAHALA (following the opening), Decrease due to impairment loss, etc.

·Increase in membership fees and income from amortization of deposits
Yokohama Baycourt Club , increased membership of HM and XIV

·**Impact of changes in profit recognition standards**
HIMEDIC and Facilities for the elderly:
Net sales and operating income of 1.5 billion yen fall

·Fixed costs and other expenses incurred during the closure of the facilities will be recorded as extraordinary losses.
FY2020: 3.5 billion yen (facility fixed costs/fixed income including annual fees)
FY2020: None

<Non-operating and Extraordinary Items>
·FY2021: Subsidy income of 3.8 billion yen
FY2022: None
·FY2021: Fixed costs during closed periods, etc. 3.5 billion yen
FY2022: None
·FY2021: impairment loss of 22.0 billion yen
FY2022: None

15

In response, I would like to explain our approach to the plan for this fiscal year ending March 31, 2022.

Net sales in this segment will be JPY158.2 billion, down JPY9.3 billion YoY.

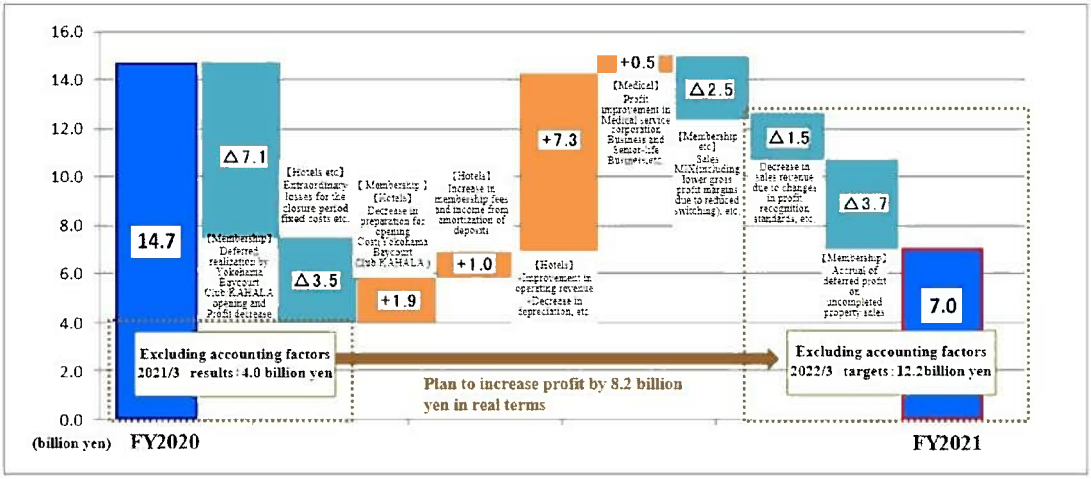
Operating income JPY7.0 billion, down JPY7.7 billion. Ordinary income JPY6.7 billion, down JPY10.9 billion.

Net income will be JPY4.7 billion, which is naturally up JPY14.9 billion YoY.

Business Forecast for FY2021
Operating Income (Effects of deferred revenue)

RESORTTRUST GROUP

- Lower profit was mainly due to deferred realization. (Hotel opening in the previous FY : Yokohama Baycourt Club ⇒ In this FY:nothing,change in accounting in this FY, etc.)
- If not for the above reasons, the profit is expected to increase.



※ Recording of the real estate portion of revenue from pre-opening sales of hotel memberships is deferred until the hotel's opening. Please refer to p.30-31 for details.

16

The bar graph on page 16 explains our thinking.

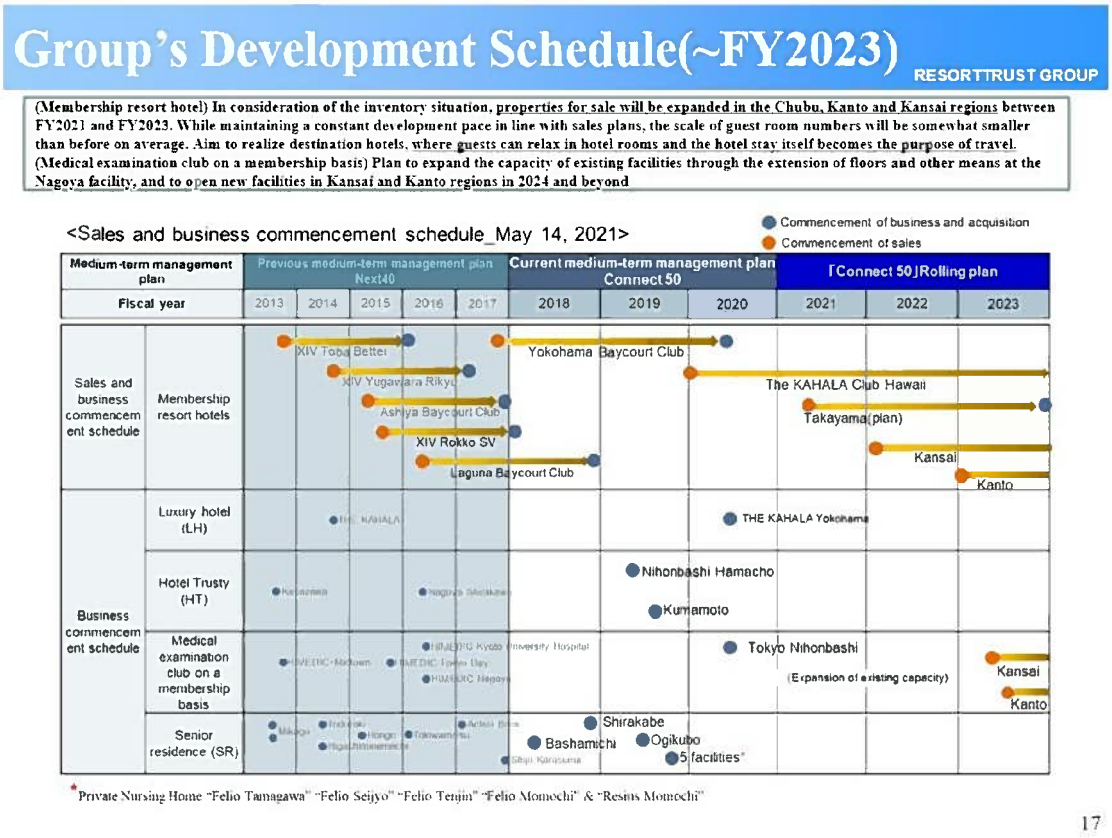
Although the actual amount was JPY14.7 billion in the previous fiscal year, there was actually JPY7.1 billion of the realization of deferred profit in Yokohama. This time, the portion of the subsidies, et cetera, transferred to special losses and others, as mentioned earlier, is JPY3.5 billion. So, the actual number of contracts, as I mentioned earlier, has not changed. It's almost as in the past. In terms of profit, we believe that we have achieved about JPY4 billion in actuality.

On the other hand, the orange areas show a decrease in opening expenses due to no new openings in the next fiscal year, an increase in annual membership fees, and, of course, an improvement in operating revenue. Other factors are positive.

And this time, the blue parts are the negative factors against the current fiscal year. There was a slight increase in expenses for advertising and publicity, including for the Resorttrust Ladies golf event, which had been suppressed in the previous fiscal year due to the COVID-19 pandemic. And there was also a negative impact from the cancellation of the switchover, which resulted in a slightly higher profit margin for the membership system in the previous fiscal year.

Also, as I will explain later, there will be a negative factor of approximately JPY1.5 billion in revenue recognition, mainly in medical, in the next fiscal year compared to the current fiscal year.

In addition, new products will be launched this fiscal year. Unlike the previous fiscal year, we have JPY3.7 billion in deferred profit from sales of properties that have not yet been completed. Therefore, currently, JPY7 billion is a firm number in terms of business performance. We believe that this continues to be the growth in real terms.



Next page, please.

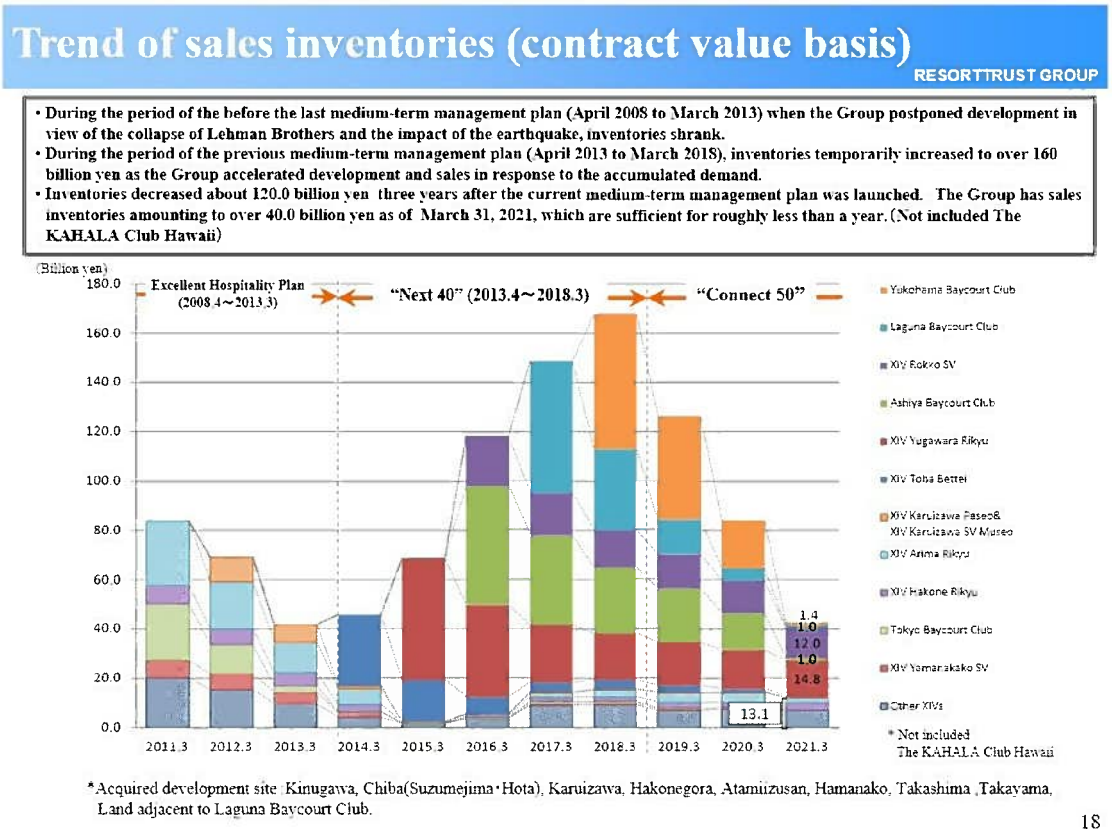
As for the pace of sales, Takayama is scheduled in this fiscal year. In fact, in FY2022 and FY2023, products in the Kansai and Kanto regions are finally realizing, so we believe that we will be able to proceed as planned.

As for the other schedule, we are almost ready to launch HIMEDIC in Kansai and Kanto regions in FY2023.

However, in contrast to the previous mid-term plan, we have suspended the plans for the Luxury hotel and Trusty in view of the current impact of COVID-19. The same is true for the senior residence.

This time, we also saw new challenges for the non-membership type.

For the future, we are considering new products, including some alliances with other companies.

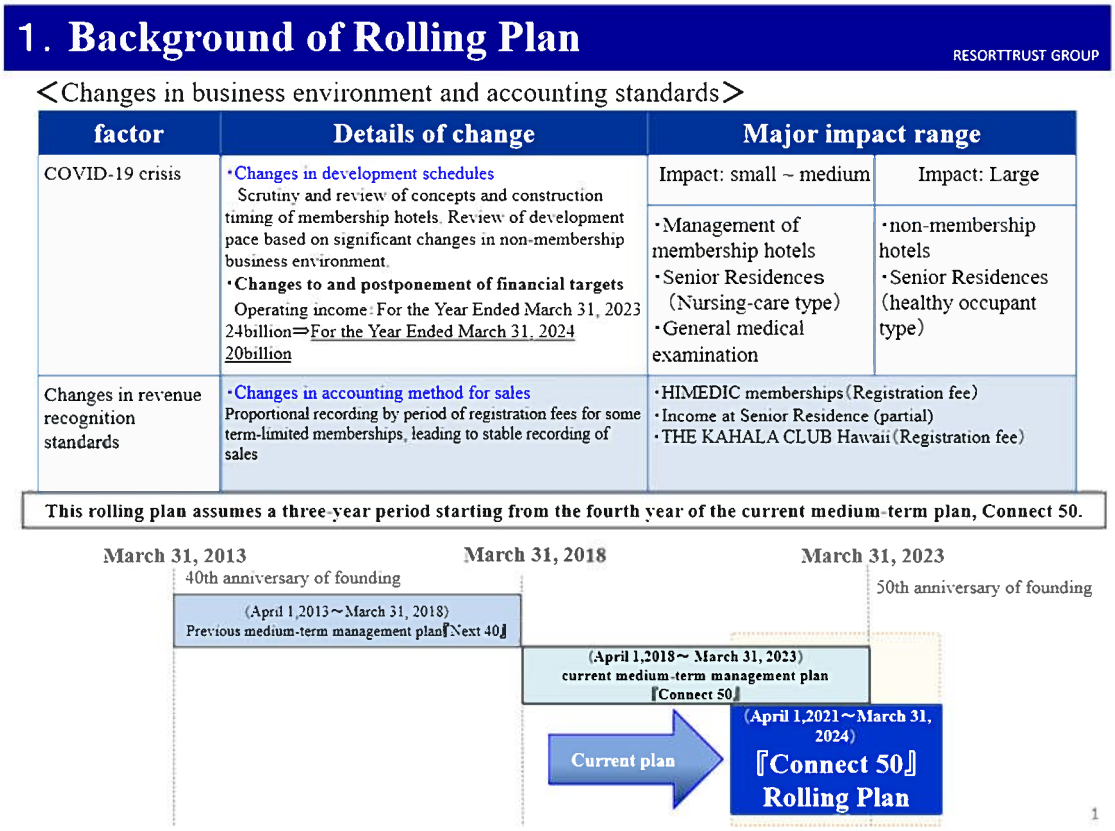


As for inventory, it has fallen to the lowest level ever this fiscal year.

A new product is scheduled to be launched in Q1 of this fiscal year.

This is a nationwide product, and we have established a schedule with each branch office that allows us to maintain a balance throughout the country, including some switching.

As for the inventory, we are almost at the last minute, but we think we can make progress with almost no problem.



Now, I would like to continue with a brief explanation of the rolling plan for the 3-year period, as we revised the medium-term management plan for the 5 year.

First of all, the background to the rollout is the change in the development schedule, but basically it was not only due to COVID-19. Of course, in the COVID-19 crisis, we also tried to reduce the inventory once as a measure. We had already sensed the change in customers' needs from Q1 of the previous year.

In terms of hardware, such as the size of the room, and it also related to the services, but it is important to improve the private space, including the room size, the dining room style for in-room dining, and the hot spring bath in the room.

Then the soft services that make the hotel a destination hotel. For example, in the case of Takayama, an art museum, is included in the project. We took the opportunity to review the overall software and other aspects of the project.

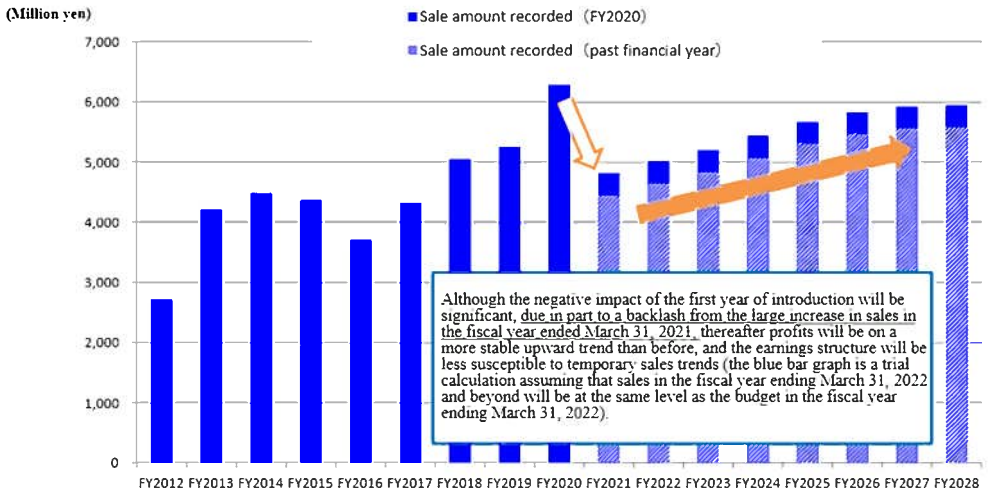
Also, as I mentioned earlier, we are going to make a firm decision on how to look at non-membership hotels and non-membership businesses over the next 3 years.

And of course, we plan to see the light by the end of this fiscal year. However, we have made it a 3-year plan this time, including changes in business format, with the figures as a stopping point.

＜Reference＞Effect of change in revenue recognition standard

RESORTTRUST GROUP

＜Effect of change in revenue recognition standard (HIMEDIC registration fees)＞
From the fiscal year ending March 31, 2022 onward, registration fees associated with sales will be pro-rated over a period of 8 years.
⇒The amount recorded for the year is recalculated by taking into account past sales over the most recent 8 years.
(As a result, the amount recorded in the fiscal year ending March 31, 2022 will be at the same level as the average of the sales amount for each single year from the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2022.)



32

In terms of revenue recognition, there was no impact on XIV and Baycourt, which we were concerned about, but there was an impact on HIMECDIC, Senior Residence, and Kahala.

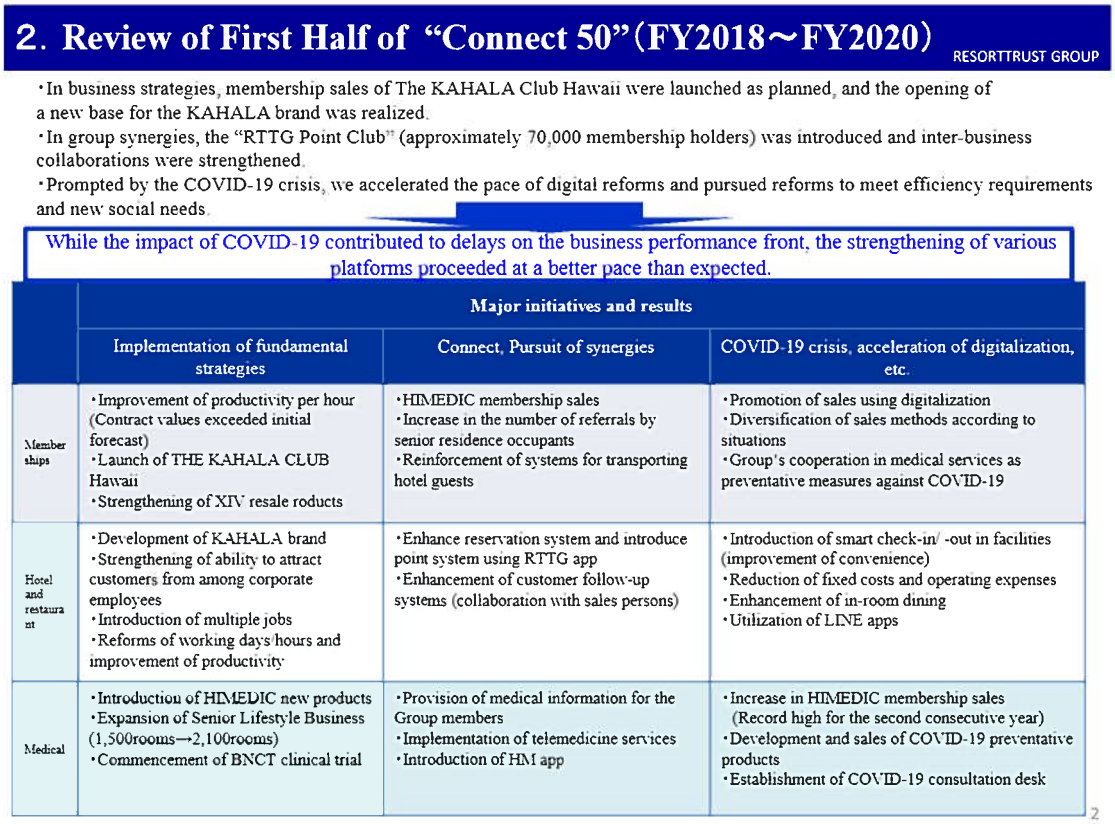
If the average registration fee for HIMEDIC has been JPY2.5 million up until now, JPY2.5 million would be recorded as a lump sum at the time of contract, but with the new revenue recognition, the standard is now 8 years. We are still continuing with HIMEDIC, so it is very difficult to say how many years the average membership has been held. But for now if it will be 8 years, this JPY2.5 million will be divided into 8 years.

So, for example, as a positive factor for this fiscal year, HIMEDIC is performing very well, but we will only be able to post an eighth of the total every year, which means that we will not be able to make up for it at once. Such a positive factor will disappear, but conversely, it will become a very stable form.

If you look at this graph, going back 8 years, you will see that the contract volume has increased considerably over the past 8 years. Therefore, while this is increasing, one-eighth of the annual accumulation will naturally increase as well, which means that the increase will be gradual, but on a firm and stable basis.

However, as you can see, during the period from 2020 to 2021, we were in the midst of a particularly strong performance by HIMEDIC. So in the next year, there will be a negative impact of JPY1.2 billion.

In the same way, the temporary occupancy fee for the senior residence and the Kahala Club will be assessed in the same manner, which will have a total impact of JPY1.5 billion in the next fiscal year.



This is a review of the previous fiscal year, as I mentioned earlier.

As for the business strategy, we launched the Kahala Club as originally planned.

Although we realized the base for the Kahala brand only in Yokohama, we were able to realize it.

Then, introduction of Point Club. The total number of people just mentioned is 200,000, and the number of members is about 70,000.

In addition to that, LINE currently has 80,000 users. I believe that we have solidified the digital base, including digitalization, so we can continue to accelerate this.

Page 4.

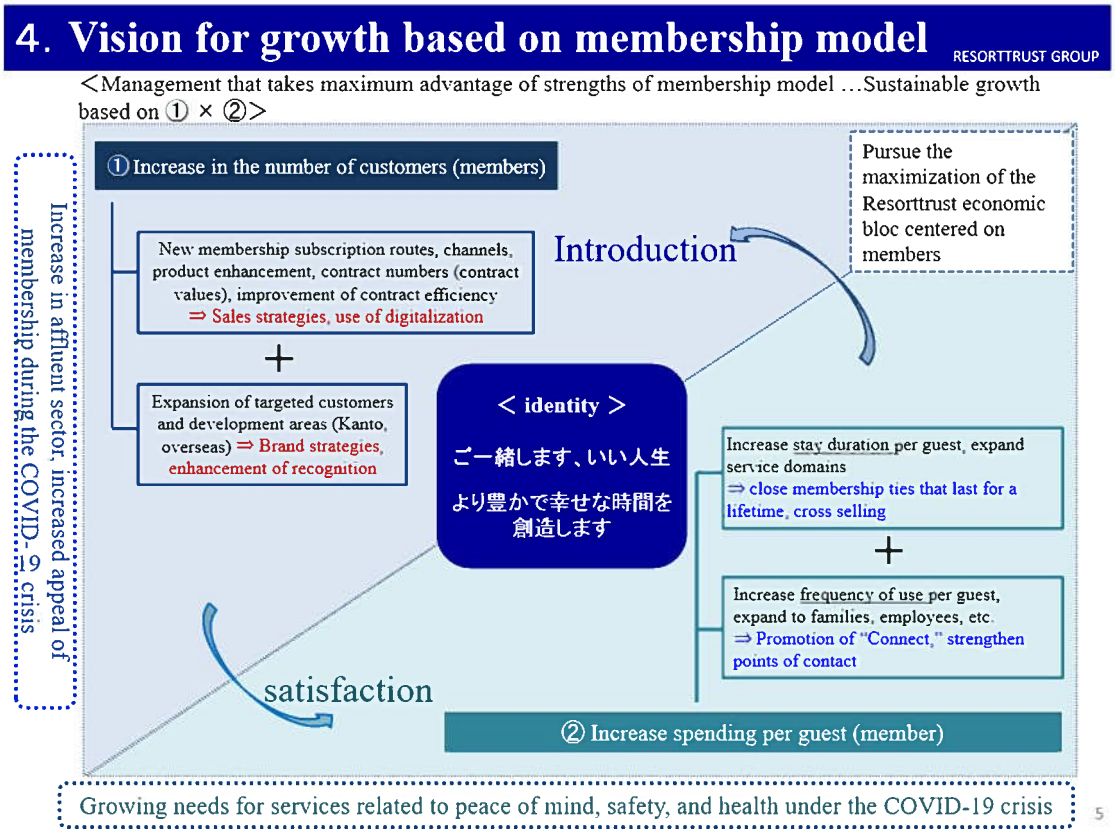
This time, this medium-term plan will be originally carried out under group management. This means that, first of all, we must know our group, and then let our customers know, so that we can provide them with more satisfactory services.

In other words, in order to firmly realize cross-selling, to firmly recognize and enhance the base of the group as a whole, with a focus on the nature of the membership system in the COVID-19 crisis, we have created a group identity.

This is "Together for a wonderful life." We will create a richer and happier time. In many ways, we are proposing to our customers to make them happy. It also means that we will have a lifelong relationship with them, including leisure time activities and various parts of their lives, including senior residences.

As a matter of fact, we used this shoulder phrase, "Together for a wonderful life," when Resorttrust was founded, and it is very familiar to our old employees. We have been discussing this for a year, and we would like to work together as one, including new employees, based on this.

This time, especially at a time like this, we have decided to formulate a strong identity.



Next page, please.

Based on this identity, of course, we will increase the number of customers and members in all businesses.

By increasing the amount of money spent per customer, we will be able to cross-sell and build lifelong relationships with our customers.

We would like to reaffirm the business model of the entire group, centering on the strength of the membership system that was demonstrated in this COVID-19 crisis.

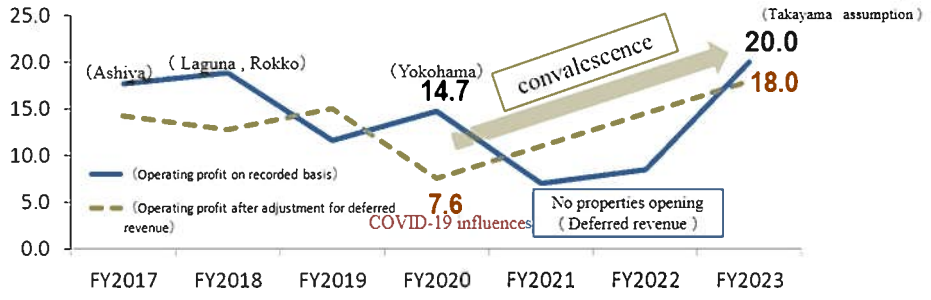
6. Quantitative Image (~FY2023)

RESORTTRUST GROUP

(billion yen)

index	3rd year of current medium-term management plan (FY2020)	Rolling Plan (Final FY2023)	Remarks
Net sales	167.5	190.0	Expect record high sales and profits.
Operating income	14.7	20.0	
(Operating profit after adjustment for deferred revenue)	7.6	18.0	
Ordinary income	17.6	20.0	
Net income attributable to owners of parent	(10.2)	13.0	
Dividend payout ratio	— ※final deficit	Approximate 40%	Expect record high dividend amount
ROE	(8.4)%	Approximate 10%	No change from the past

Anticipate recovery to levels exceeding pre-COVID times in the period of this rolling plan



7

Next page, please.

With the rolling plan, in FY2023, we will aim at JPY190 billion in net sales, JPY20 billion in operating income, and JPY20 billion in ordinary income, with an ROE of 10%.

It may seem different from the original Five-Year Plan, but basically, the membership base, as mentioned earlier, has not changed. The part of delay for BNCT is basically about JPY1.5 billion.

Also, we originally set aside about JPY2 billion for the Trusty business. Also, we have factored in the impact of revenue recognition of about JPY500 million to JPY1 billion for FY2023.

In terms of our core business, this is still our minimum goal, and we will steadily grow this. And we will firmly achieve the highest ever profit. That is all about the rolling plan this time.

This concludes my explanation.

Yagi: Thank you very much, President Fushimi.

Question & Answer

Yagi: We will now have a question-and-answer session. Please note that due to time constraints, we may not be able to answer all questions.

First, we will answer the questions we received in advance. Please note that names and other information will be omitted since we have received questions from several people. Now for the first question.

Regarding the occupancy rate of XIV and Baycourt, what kind of trend do you envision in their recovery? For the time being, will it be affected by the change in the number of infected people or the reopening of Go To Travel campaign? Do you have any new strategies to increase the occupancy rate?

Also, can we assume that the new type of membership starting from Takayama will work in the direction of increasing the occupancy rate of XIV and Baycourt?

If there are any changes in customer needs regarding resort memberships between before COVID-19 and now, please explain to the extent possible, including the concept of Takayama and the size of the property.

Fushimi: First of all, regarding the operation of the facilities, looking at the current situation in April and May, the cancellations preceded the declaration of the state of emergency as expected. However, the situation is not as bad as last year. Also, there is a matter of how far the vaccination will spread in this situation. For June and beyond, there have been almost no cancellations yet, so the potential needs in that area are naturally increasing.

The only thing I can say is that regarding the return of the current operation, there is a growing number of young owners in the neighborhood, in the prefecture and nearby prefectures. However, only with this, in Q3 of last year, we were almost at the same level as the previous year.

In fact, after this, there is still an atmosphere of self-restraint among corporate members, and employees of corporations say they cannot use the service easily. In addition, the number of older people, who are our main users, has not yet returned.

In Q2, we will see a return of 70% to 80%, the same as the previous year. Then, we believe that a full-scale operation return will start in Q3.

So, we are now working on providing products for the neighborhood and for seniors, looking at customers. Our sales staff are currently making individual proposals and plans one-on-one.

Among them, safety and security are the most important factors. In particular, we are trying to enhance our in-room dining. This includes a private dining room, which is a really closely served course. Or it could be something like a simple multi-tiered food box. To meet various needs of our customers, we are making something for them to enjoy in their rooms. First, we would like to promote this with a slogan that they are safer than your home.

As for the other new products, it has been difficult for us to match new recruitment and operational improvement in terms of the usability of XIV and the Baycourt. We believe that we have been able to design a product that can clear this area. We will solve this problem by sequentially introducing new products.

One more point. In the area of memberships, we showed earlier that the referrals from group employees and hotels are 200%. This time, we will introduce incentives for group-wide PR for referrals from users and for other potential customers.

For example, when you come to the golf course, you often talk about membership or use of the golf course in the cart. We can't sell memberships in the cart, but we can introduce, or promote event plans at the hotel. For such things, we introduce incentives for golf course employees, for example. It can be for medical checkups, and in the case of hotels, for golf courses as well.

The entire group is now working to create a system for mutual usage, not only soliciting memberships, but also promoting their use. We believe that we will be able to start during this Q1, so we would like to link this area to our group strength.

As for the change in needs, I mentioned a little earlier in the section on hardware and software. This is definitely happening, and there is no doubt that the difference from a regular hotel is further needed.

Our original idea was to pursue various usage scenarios and usability as an alternative to vacation home. By pursuing this area further, we will be able to make a strong appeal. That's all.

Yagi: Now the next question.

Hotel Trusty's outlook in the mid-term plan. Please tell us about your business strategy and new investments. How will you endure with the COVID-19 disaster? I think the long-term stay plan will have a certain effect, but I don't think it will be enough to turn a profit. Is it correct to assume that the basic strategy for the COVID-19 crisis is to keep costs as low as possible and endure?

Are there any other additional measures you are considering? Also, do you have any strategies for re-growth in the post-COVID-19 era?

Fushimi: First of all, I would like to reflect on the cost aspect. For example, in the business hotel or non-membership hotel industry as a whole, I think there was no problem before COVID-19, where the occupancy rate was 90% even if leaving things alone.

What are the strengths of our hotel in this COVID-19 crisis? For example, will we compete with APA HOTEL? Then will we really compete with the three- and four-star hotels? We believe that there was a very half-hearted approach. So, in this aspect, I believe that we were not pursuing the profit margin properly.

In terms of cost, this is depending on the hotel, but we will pursue this area again. For example, in XIV, we are now working on the check-out process, which can be handled by human resources, or smart check-out and smart check-in, et cetera, depending on the needs of the guests. In an extreme case, for example, it would be in the form of an unmanned system.

Not only business hotels but also non-membership hotels are doing this nowadays. We will be pragmatic in such a way. In addition, we will basically separate the treatment center part, for example. The area of cost needs to be carefully pursued and examined.

Another thing is that if we are going to do this, it is best for us to have our members use it. Until now, it has been a non-membership hotel, so the point system was all separate. For example, if you are a non-membership customer and accumulate points at Trusty, you can't use XIV because you are a non-membership customer.

This time, we would like our corporate members, millions of corporate employees, to use our hotel for business trips, et cetera, so that they can use the points for their own private use at XIV. By making it compatible, we would like them to use it firmly in the group first.

Applying to the group-wide incentives and cross-selling that I mentioned earlier, we will continue to do this firmly.

In addition, taking one step further, while talking to a lot of customers, we are thinking about a subscription type of membership for Trusty. We are currently looking into collaboration with resorts, but we know that there is a strong need for this area as one of our strengths. I hope that by the end of this fiscal year, we will have a clear idea of what Trusty should be and the direction it should take, taking into account these factors. That's all.

Yagi: Next question.

Please give us an image by segment about JPY20 billion of operating income in the medium-term plan. What is the difference of JPY4 billion from the initial plan, and what are the upside factors that you do not expect?

Fushimi: The difference of JPY4 billion is, as I mentioned earlier. Looking at the segments. Membership is almost in line with the plan at JPY24 billion. As I mentioned earlier, the BNCT portion and the Trusty portion of negative JPY2 billion. As for the others, as I mentioned earlier, there is a question of how far the original core group of people will return for the membership hotels. We also expect this as a negative figure of approximately JPY2 billion.

After that, I think there is room for growth in the medical business, et cetera, but it is difficult to make a sudden positive contribution because of the revenue recognition mentioned earlier. In terms of contract volume, the medical and hotel businesses can grow without problems.

In the hotels, there is also the question of how far the senior citizens will return. In terms of the number of members per room, we have hit the bottom and will be able to increase it to a high level until this Takayama opening. We believe that we will be able to increase the occupancy rate from this fiscal year. That's all.

Yagi: Next question.

Please explain the impact of the change in revenue recognition. Also, when will profits return to the same level as the previous accounting method in the next fiscal year ending March 2023 and beyond?

Fushimi: As I mentioned earlier, the impact on the next fiscal year will be about JPY1.5 billion. To get back on track, it's basically eight years, because it's eight years now in HIMEDIC. In addition, there are other areas of positive growth, so we expect that it will generally return in about three years. We believe that we can return to the current status.

Yagi: Now the next question.

As shown on page 18, the inventory of memberships sold decreased to JPY43.3 billion at the end of the fiscal year ended March 31, 2021. I don't think you will have any problem achieving your membership sales and plan for the fiscal year ending March 2022, but I get the impression that you will struggle to make sales figures from the fiscal year ending March 2023 onwards, as it is the changeover period. Will you be able to start selling the new project next to Takayama in time?

Fushimi: As you can see, we are currently preparing to start construction about every year. Takayama is in Q1 of this fiscal year. The Kansai project will be in the beginning of next fiscal year, FY2022, and the Kanto project, in 2023. For now, we will proceed as planned until Kansai. We are moving forward at a rapid pace on Kanto.

And from this time on, which is also related to the change in customer needs that I mentioned earlier, we are thinking of developing a slightly medium-scale development, with a volume of 130, or 150 to 160 facilities per facility, instead of the conventional 200 or more.

The completion will be on a pitch of almost one year. Takayama will be March 2023, and in the same way from 2024, we are currently working on a schedule seeing one facility open every year from now on. We have no problem in terms of inventory.

However, in Takayama, there is almost no Baycourt inventory, but XIV has been growing steadily in Q4. I'm not too worried about this, because Rokko is particularly high-priced in XIV. In Takayama, we will start accepting applications in the Tokyo, Nagoya and Osaka areas. We are in the midst of discussing the strategy of securing the inventory in the Tokyo, Nagoya and Osaka areas, including some switching, while also securing the overall increase. That's all.

Yagi: We will now move on to questions from the participants. The first question is from Ms. Watanabe, UBS Securities Japan Co., Ltd.

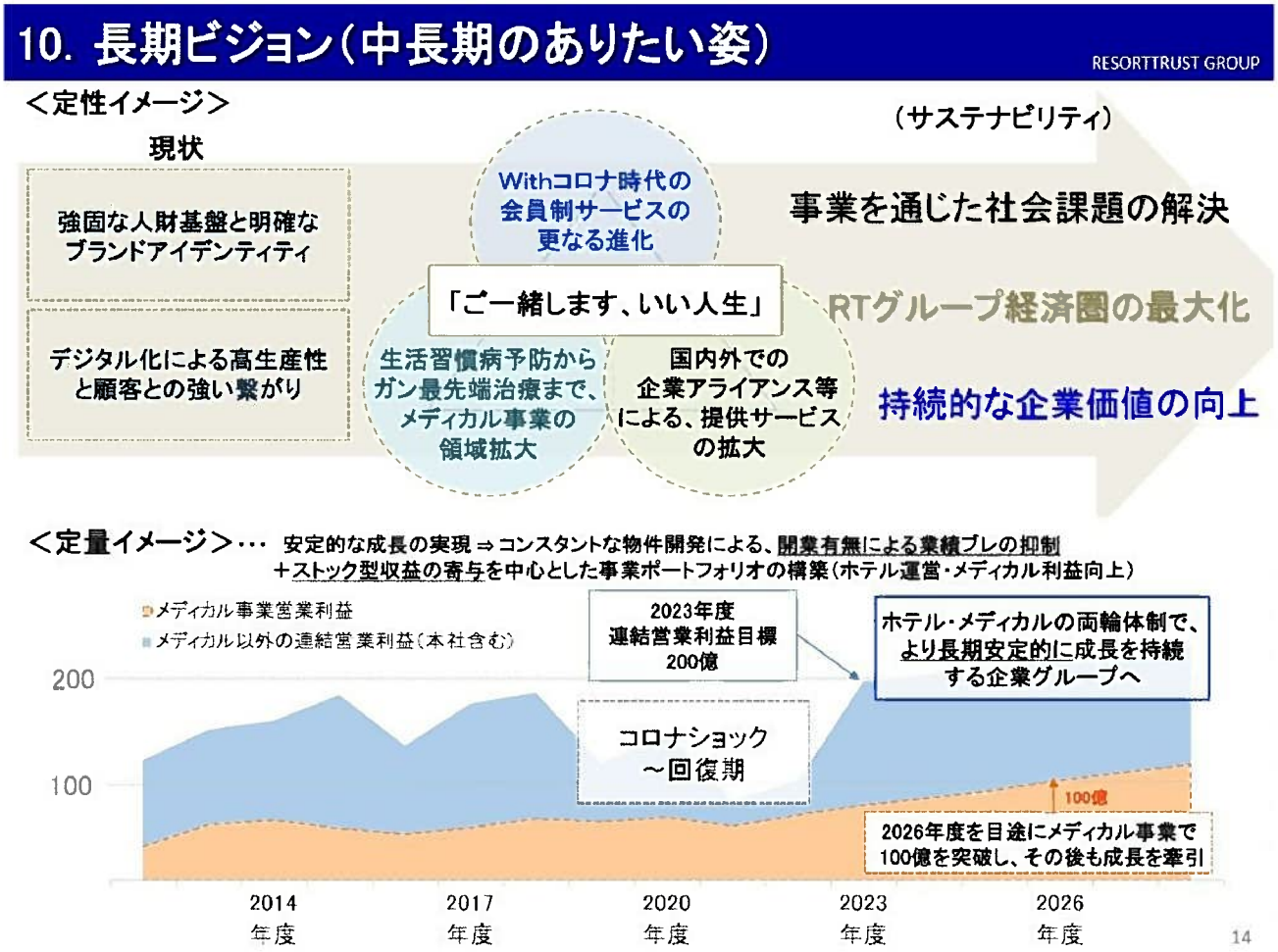
Watanabe: Thank you for your explanation. I would like to ask you about the cash flow in your medium-term management plan. What level of operating cash flow and investment do you expect in the final year? You have already acquired real estate for hotels, but is there any possibility of acquiring real estate for new hotels during the period of the medium-term management plan?

Fushimi: First of all, in FY2023, we expect cash flow to be approximately JPY20 billion. Capital investment so far has been about JPY15 billion to JPY20 billion. The rest, including the Kanto region as mentioned earlier, will amount to an investment of about JPY50 billion in total.

In terms of properties, there are some properties that we are currently purchasing next to the Kanto project. There are some properties that we have already purchased. And at a time like this, there is a possibility that we will purchase new properties, as well as respond to the changing needs that I mentioned earlier. That is yet to be determined.

Yagi: I see there are no other questions, so we will give you an explanation.

President Fushimi, please.



Fushimi: This is a long-term vision. We are now thinking of enhancing the group strength, as mentioned earlier, with a focus on medical. This has been extended again, but with the current content in medical, we have set one goal of JPY10 billion in FY2026.

I think we can continue with the current trend in this regard. In addition to this, I believe that we have yet to fully utilize the data we have in the area of product sales.

In this area, including AI partners, we are now moving forward with concrete measures to commercialize peripheral businesses, such as product sales, regardless of various management guidelines, in order to link them to purchases.

Conversely, the growth will be on a stable basis, as I mentioned earlier about the issue of revenue recognition.

As a whole, if the completion of the construction is delayed, there may be a slight positive or negative impact on the membership rights. With this medical business as a solid pillar, we would like to maximize the economic sphere of the entire group, which is what we see as the future of business after this rollout.

We will not be able to achieve all of these goals in the 3 years of the rolling plan, but we would like to show you the direction of development, including various alliances, by the end of this fiscal year. That is all.

Yagi: This concludes the briefing on the financial results for the fiscal year ended March 31, 2021 and the rolling plan for the medium-term management plan.

Thank you very much for taking time out of your busy schedule to join us today.

Fushimi: Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *This document has been translated by SCRIPTS Asia.*

Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2020 SCRIPTS Asia Inc. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.