

COMPANY RESEARCH AND ANALYSIS REPORT

VELTRA Corporation

7048

Tokyo Stock Exchange Growth Market Index

7-Nov.-2022

FISCO Ltd. Analyst

Yoichiro Shimizu



FISCO Ltd.

<https://www.fisco.co.jp>

Index

Summary	01
1. Overview of the 1H FY12/22 results	01
2. FY12/22 results forecasts	02
3. Medium- to long-term growth strategy	02
Company profile	03
1. History	03
2. Business overview	05
Results trends	07
1. Overview of the 1H FY12/22 results	07
2. Financial condition and management indicators	10
Outlook	12
Medium- to long-term growth strategies and topics	14
1. Expanding the business portfolio	15
2. Future growth strategy	15
3. Current state of progress	16
Shareholder return policy	18

Summary

Aiming to increase market share and maximize enterprise value through business diversification. Travel demand is recovering and results are also expected to recover

VELTRA Corporation <7048> (hereafter, also “the Company”) manages VELTRA, Japan’s largest online reservation website specializing in local-experience optional tours. The Company achieved growth as a specialty reservation site for experience-type optional tours worldwide by focusing on what can be experienced at travel destinations and reaping the benefits of expanded use of online services and increased demand for individualized travel. It adopted the VELTRA name to communicate that “VELTRA changes TRAVEL” by sharing information on experiences that are possible at destinations (in other words, altering the definition of travel to seeking destinations based on the experiences they offer).

1. Overview of the 1H FY12/22 results

In the 1H FY12/22 consolidated results*, operating revenue increased 97.0% year-on-year (YoY) to ¥355mn and the operating loss was ¥488mn (a loss of ¥612mn in the same period in the previous fiscal year). Revenue increased significantly as the Company captured the recovery in travel demand and in addition, the extent of the operating loss was reduced as a result of its thorough efforts to control costs. By business, operating revenue increased 149.1% to ¥295mn in the OTA business and decreased 3.2% to ¥59mn in the tourism IT business. Although it is still unclear as to when the global novel coronavirus pandemic (hereafter, COVID-19) will end, travel demand is recovering, particularly in Japan and North America, so results were strong for the domestic travel business and HawaiiActivities. The Company described the “Notes on the Premises for Being an Ongoing-concern Company” in its quarterly report for 3Q FY12/20, but determined that it did not recognize any important uncertainties relating to the premises for being an ongoing-concern company, so it removed this description from the 1H FY12/22 financial summary report. Also, in fund raising through the issue of stock acquisition rights, in the 1H FY12/22 period (hereafter, 1H) it raised funds of ¥699mn and significantly strengthened its financial condition, as demonstrated by an increase of cash and deposits by ¥745mn from the end of the previous period to ¥1,942mn.

* From FY12/22, the Company adopted the Accounting Standard for Revenue Recognition, etc. However, its impact on results is negligible, so the YoY values are the comparisons with the values before the adoption of this accounting standard.

Summary

2. FY12/22 results forecasts

For the FY12/22 consolidated results forecasts, the effects of COVID-19 on business activities remain unclear. Therefore, at the current time, the Company has not yet determined forecasts as it is difficult to calculate them reasonably, but it intends to disclose them quickly once calculation becomes possible. For the trends in the overseas travel market, as recovery scenarios for the number of Japanese people traveling overseas, the Company has set its own forecast values based on the travel-recovery scenario at the time that SARS broke out and calculated three cases. According to these scenarios, a delay will occur in the recovery period compared to initial estimates because of the spread of the Omicron variant, but going forward, it expects overseas travel to resume and gradually recover from the end of April 2022 onward. By strengthening investment in the domestic travel business and HawaiiActivities, it will steadily establish a revenue base, while in addition, by expanding the business portfolio, it will build a structure that can be expected to increase revenue and improve the operating profit margin after the recovery of overseas travel demand. With preparations being made for the recovery of travel demand, we at FISCO think that the recovery of the Company's results will continue through the results of the domestic travel business, in which product volume has strengthened and which has been driving results during the COVID-19 pandemic, and also as the Company plans to strengthen the product lineup in each recovery area with an eye on the recovery in demand for overseas travel and as it is advancing preparations for the recovery in inbound travel demand in the ticket platform business.

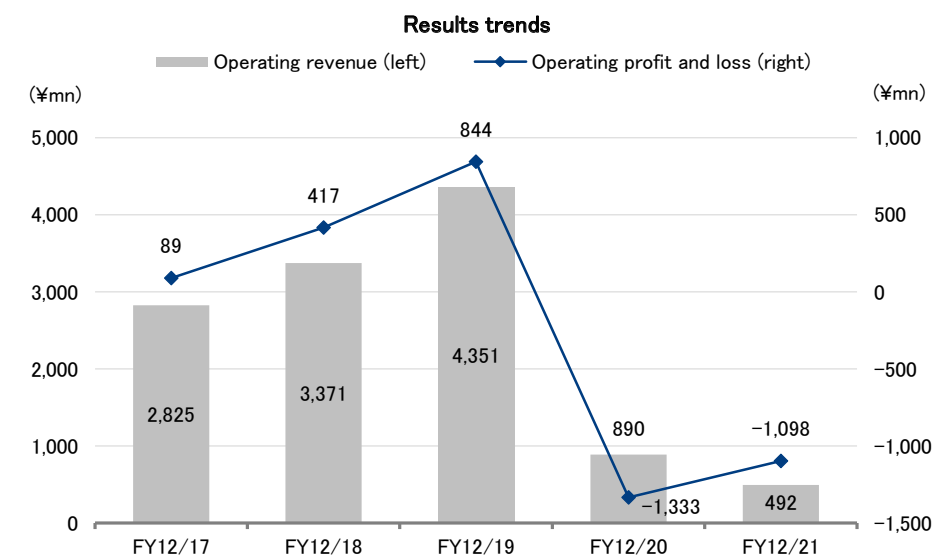
3. Medium- to long-term growth strategy

Since FY12/20, the Company has been working to rebuild and expand its business portfolio. As an online travel agent (OTA) for local experience tours, while expanding its businesses centered on VELTRA, the Company is aiming to further expand its market share and maximize its enterprise value by utilizing the management resources that are the source of its competitive advantages to the greatest possible extent and diversifying its businesses without being restricted to the travel industry. Specifically, in the OTA business, it has created a portfolio comprised of four business categories: the overseas business that it is reviewing, the domestic business that it is strengthening, VELTRA B2B (SaaS), and HawaiiActivities, while in the tourism IT business, it has created a portfolio comprised of three business categories: the media business, crowdfunding to support the tourism industry, and the ticket platform business (conducted by the subsidiary LINKTIVITY Inc.) and is developing policies for these portfolios. In 1H FY12/22, active developments were observed in each of these portfolios, so it can be said that the potential for topline growth after the end of the COVID-19 pandemic (hereafter, after-COVID-19 period) is steadily increasing. Also, on the axis of "travel," due to the development of services over a wide range that utilize technologies, the Company's business domains and corporate image appear to be gradually changing, and alongside this, we at FISCO expect that it will aim to increase opportunities to contact customers and to diversify revenue opportunities.

Key Points

- Operates VELTRA, Japan's largest online reservation website specializing in local-experience optional tours
- In 1H FY12/22, revenue increased significantly by capturing the recovery in travel demand, while the extent of the operating loss was reduced by controlling costs
- Has not set FY12/22 results forecasts, but travel demand is expected to continue to recover
- Aims to further expand market share and maximize enterprise value by utilizing its management resources to the greatest possible extent and diversifying businesses without being restricted to the travel industry

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

Operates VELTRA, Japan's largest online reservation website specializing in local-experience optional tours

1. History

The Company was established in 1991 by three members of the overseas business division of Nissan Motor <7201>, mainly to conduct automotive-related marketing. Overseas automobile manufacturers were seeking to expand into Japan at that time, and in response to an order from overseas, the Company conducted a survey of the Tokyo Motor Show event and other activities. However, it decided not to focus on just one business and instead to develop businesses in various directions. Among these multiple businesses, it started an online golf reservation (GORA) business in 2000, and this business grew rapidly and was sold to Rakuten (currently, Rakuten Group) <4755>. Using the proceeds from this sale, it started the current business in 2004. In the travel industry, sales related to accommodations and airline tickets had already moved to an online format, and only experiences at destinations were not available through online services. Furthermore, with a vast number of local-experience tours and activities the Company thought it could securely use the economies of scale benefits of e-commerce rather than offline and decided it made sense to start from zero.

On the launch of this business in 2004, the Company did not possess any expertise in the travel business, nor did it have any connections with companies conducting activities businesses. But in the same year, it acquired companies that conducted sales of activities, mainly offline, in Australia, Bali, and Hawaii. Current President and Representative Director and CEO Wataru Futagi, the Company's fourth president since its founding, assumed the role of President and Representative Director in 2015. He took over management from the founders for the purpose of addressing acceleration in technology advances, looking ahead to the IPO, and pursuing further growth.

VELTRA Corporation | 7-Nov.-2022 7048 Tokyo Stock Exchange Growth Market Index | <https://corp.veltra.com/en/ir/>

Company profile

However, when business initially began, it did not have a global online market and local business operators did not have direct contact points with customers to handle reservations online. It was also necessary to revise the business due to many hurdles between travelers and business operators, including differences in culture, language, values, and time zones among countries. For this reason, the Company redefined the method of how customers participate in local-experience tours in an online environment and concentrated business resources in this area. After this, the business grew, and the areas covered expanded to not only around beach resorts, but to other areas such as Asia, Europe, and the US.

Within this global business development, the Company launched an English-language website in 2012 and started a business for travelers visiting Japan. It also strengthened its structure for systems development, recruited engineers in Japan, established a development base in Malaysia, and shifted the systems company to completely in-house manufacturing. Then in 2015, it launched a Chinese-language (traditional and simplified) website. Moreover, the Company acquired all of the shares of City Discovery SAS in 2016, and in 2017, promoted global development by, for instance, launching a Korean-language website through a business alliance with 12CM Inc. of South Korea. (The Company has currently suspended multilingual initiatives in order to selectively focus business resources on the Japanese market).

In order to realize the expected synergies, in December 2020, the Company concluded a capital and business alliance with OpenDoor <3926>, which operates travel-related businesses, including the travel comparison website Travelko. Then in December 2021, its subsidiary LINKTIVITY conducted a capital increase through third-party allocation to Nippon Telegraph and Telephone West Corporation (NTT West Japan) and entered into a capital and business alliance. The Company also raises funds through the issue of stock acquisition rights, and raised ¥699mn through this method in FY12/22. Despite the severe business environment due to the effects of COVID-19, the Company can be highly evaluated for adopting both a defensive and offensive management approach, such as demonstrating active business and financial developments in anticipation of the after-COVID-19 period.

History

Year	Description
1991	Established Alan Co., Ltd. (currently, VELTRA Corporation) as a marketing-related consulting business
2003	Transferred the GORA business, a dedicated golf reservation website, to Rakuten (currently, Rakuten Group) <4755>
2004	Launched the Alan1.net (currently, VELTRA) site specializing in activities Acquired all of the shares of White Publishing, Inc. (currently, VELTRA Inc.), which managed the HawaiiActivities.com website for local tours in Hawaii for the North American market
2012	With the aim of global business development, changed the brand name from "Alan1.net" to "VELTRA" and the company name from Alan Co., Ltd. to VELTRA Corporation Launched an English-language site and started a business for travelers visiting Japan Established VELTRA Malaysia Sdn. Bhd. (Malaysia) as a system company in Kuala Lumpur, Malaysia
2015	Established a Chinese-language (traditional and simplified) site
2016	Acquired all of the shares of City Discovery SAS, which managed CityDiscovery.com, a local tours reservation site for the global market targeting English-speaking countries
2017	Changed the company name of the local Paris corporation to VELTRA SAS and made it a sales base of the VELTRA Group Changed the company name of the local Manila corporation to VELTRA Philippines and made it a CS base of the VELTRA Group Launched a Korean-language site through a business alliance with 12CM Inc. of South Korea Established LINKTIVITY PTE.LTD. in Singapore and started a full-scale business for B2B
2018	Listed on the Tokyo Stock Exchange (TSE) Mothers market
2019	Established VELTRA KOREA Inc.
2020	Established LINKTIVITY Inc.
2022	Following the Tokyo Stock Exchange's reorganization of market categories, listing was transferred to the Growth Market

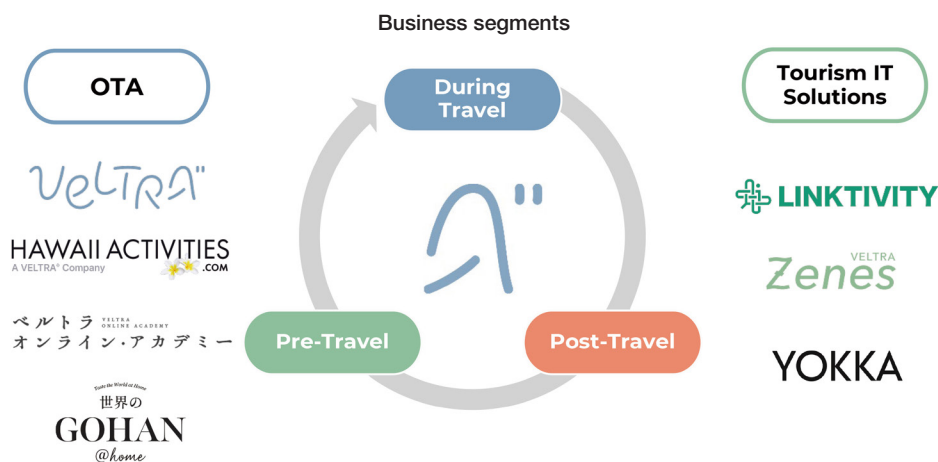
Source: Prepared by FISCO from the Company's securities report and results briefing materials

Company profile

2. Business overview

The Company goes beyond the framework of existing travel companies and provides solutions to encounter “inspirational experiences,”* from Japan to overseas, from before to after travel, and from online to offline. Its business areas are travel-related businesses that are categorized by revenue and consist of the OTA business and the tourism IT business.

* The Company considers “inspirational experiences” to be those in which people have true experiences that makes them feel real emotions and inspire them, such as the culture and nature around the world, and the splendor of the people who communicate them.



Source: The Company's results briefing materials

(1) OTA business

This business is comprised of the local experience tours online reservation websites (VELTRA and HawaiiActivities); VELTRA Online Academy, an online experience service; Sekai no GOHAN@home, a meal home delivery service; and the Corporate Service, which sells the Company's products on corporate websites. In addition to its overwhelming member base, it provides “inspirational experience” products not limited to only travel products.

VELTRA, which is the core business, is Japan's largest activity reservation website targeting Japanese people, on which more than 12,000 types of overseas optional tours in 150 countries around the world can be reserved. Also, HawaiiActivities is an English-language website that specializes in Hawaii as the venue of trips, and it provides services mainly for travelers in the U.S. For these services, businesses development is limited to the phases during travel. In the travel industry, sales related to accommodations and airline tickets had already moved to an online format, and only experiences at destinations were unavailable through online services. It also offers countless local experience tours and activities, and in consideration of the fact that these are not offline and can utilize scale merits on the internet, the Company is concentrating management resources and preparing a wide variety of local experiences and activities called “during travel” activities which include sightseeing tours for experiences at the travel destinations, shows and entertainment, world heritage sites, spas and beauty salons, cultural experiences, theme parks, cruises, nature tours, gourmet tours, water sports, and travel tools including airport transfers. Also, as a Japanese-language service available in 150 countries, it currently provides more than 12,000 types of local experience tours at the same prices as local prices. As users can reserve at the same price as locally whether reserving at the travel destination or reserving before departure, demand is increasing from people who prepare plans before they travel.

Company profile

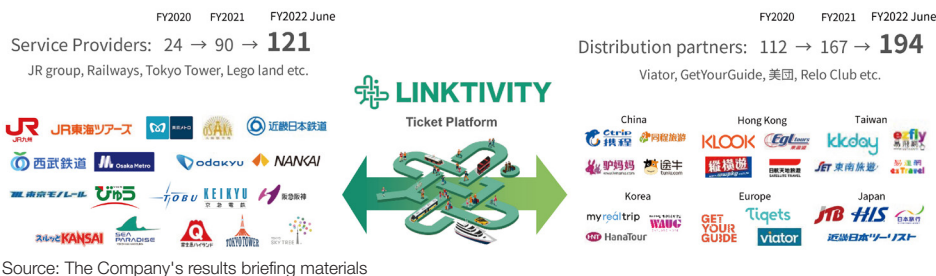
Meanwhile, since 2020, the Company has launched a series of services to respond quickly to the new normal during the COVID-19 pandemic. VELTRA Online Academy provides original online experiences by popular guides who are carefully selected from within a network of 150 countries around the world, and it enables users to have the feeling of traveling even while staying at home. Also, Sekai no GOHAN@home, which was launched as a fully-fledged service in March 2021 under the concept of “global cuisine travel,” is a meal home delivery service through which users can enjoy complete meals carefully prepared by popular restaurants while staying at home. These services correspond to the before and after travel phases, and the Company’s plans include planning and holding special events in VELTRA Online Academy to get the feeling of traveling while also enjoying meals delivered by Sekai no GOHAN@home.

(2) Tourism IT business

This business consists of providing IT infrastructure to tourism-related businesses, and also the ticket platform business conducted by the subsidiary LINKTIVITY.

The ticket platform business aims to seamlessly connect every transportation entity and tourism facility through the transportation entity and public facility ticket platform. The trend toward MaaS, which links various services, and electronic tickets is increasing, and amid these conditions, the Company is strengthening sales channels not only for inbound demand, but also for domestic demand. Based on domestic railway companies, prefectural facilities, and others, its number of sales agencies had steadily increased to 121 companies (as of the end of June 2022, 24 companies at the end of December 2020) and its number of customers to 194 companies around the world (same, 112 companies at the end of December 2020).

Transportation entity and public facility ticket platform



The tourism media business, which the Company has been strengthening since 2020, operates multiple forms of media in order to approach new customer groups and to maintain communication with existing customers. To give examples, in May 2020, it launched VELTRA Kite, which is travel information media that delivers the real world of “today” for the with-COVID-19 period (during the COVID-19 pandemic), while in March 2021, it launched YOKKA, a new online media that proposes new experiences and hobby ideas for people’s daily lives.

In May 2021, the Company launched the Zenes crowdfunding service specializing in tourism services for the new normal era. This is a crowdfunding service specializing in the tourism industry to provide reconstruction support toward the relaunch of tourism during the with-COVID-19 and after-COVID-19 periods, and opportunities for test marketing to create new tourism businesses and to develop products. The Company intends to conduct test marketing through the responses to projects, while popular projects can be added to its own tours, so it will be conducting marketing and planning through funding by investors and therefore it can be highly evaluated on the point of developing products at low costs.

Results trends

In 1H FY12/22, revenue increased significantly by capturing the recovery in travel demand, while the extent of the operating loss was reduced by controlling costs

1. Overview of the 1H FY12/22 results

In the 1H FY12/22 consolidated results, operating revenue increased 97.0% (YoY) to ¥355mn, the operating loss was ¥488mn (a loss of ¥612mn in the same period in the previous fiscal year), the ordinary loss was ¥435mn (a loss of ¥628mn), and the loss attributable to owners of parent was ¥464mn (a loss of ¥649mn). Revenue increased significantly as the Company captured the recovery in travel demand, while in profits, the extent of the operating loss was reduced as a result of its thorough efforts to control costs. The Company included a description of the “Notes on the Premises for Being an Ongoing-concern Company” in its quarterly report for 3Q FY12/20, but due to the elimination of important financing concerns from the implementation of fund raising, the improvement of the revenue base from the expansion of the business portfolio, and the increase in revenue from the gradually recovery of demand in the overseas travel business, it determined that it did not recognize any important uncertainties relating to the premises for being an ongoing-concern company, so it removed this description from the 1H FY12/22 financial summary report.

1H FY12/22 consolidated results

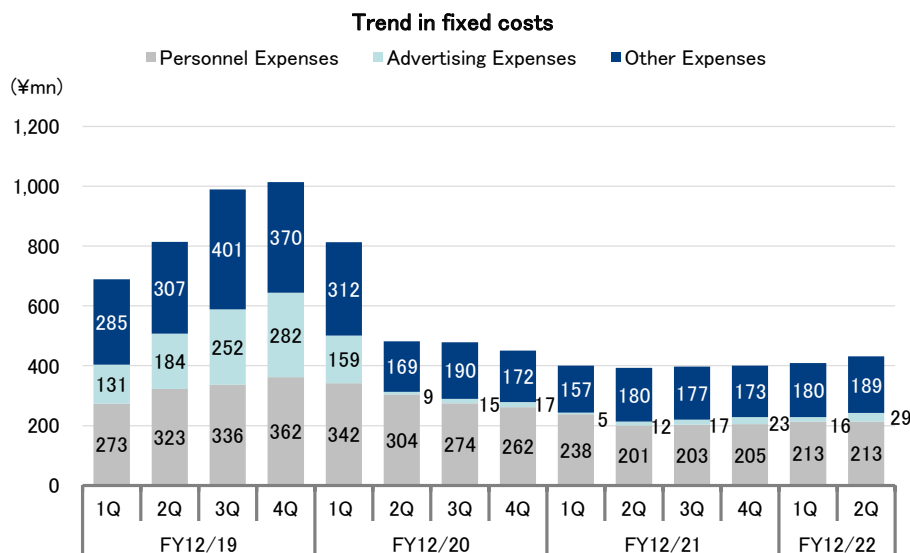
	1H FY12/21		1H FY12/22		Change	
	Results	Operating revenue ratio	Results	Operating revenue ratio	Amount	%
Operating revenue	180	-	355	-	175	97.0%
Operating expenses	792	439.2%	844	237.4%	51	6.5%
Operating profit and loss	-612	-339.2%	-488	-137.4%	123	-
Ordinary profit and loss	-628	-348.3%	-435	-122.5%	192	-
Extraordinary losses	16	9.0%	-	-	-16	-
Loss attributable to owners of parent	-649	-360.0%	-464	-130.7%	185	-

Note: From FY12/22, the Company adopted the Accounting Standard for Revenue Recognition, etc., so the 1H FY12/22 values are the values after the adoption of this accounting standard. Also, the 1H FY12/21 values are the values before the adoption of this accounting standard, and the increases and decreases are the comparisons with these values

Source: Prepared by FISCO from the Company's financial results

Since March 2020, when COVID-19 appeared around the world, the Company has been conducting a Company-wide review of costs, including greatly reducing advertising expenses and reducing executive remuneration. As a result, it has reduced fixed costs by around 60% compared to their level before COVID-19. Going forward, while maintaining a balance with profit recovery, it plans to invest in human resources depending on the recovery of the overseas travel market and to invest in growth toward increasing revenue in the medium to long term.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

The conditions in each business are described below.

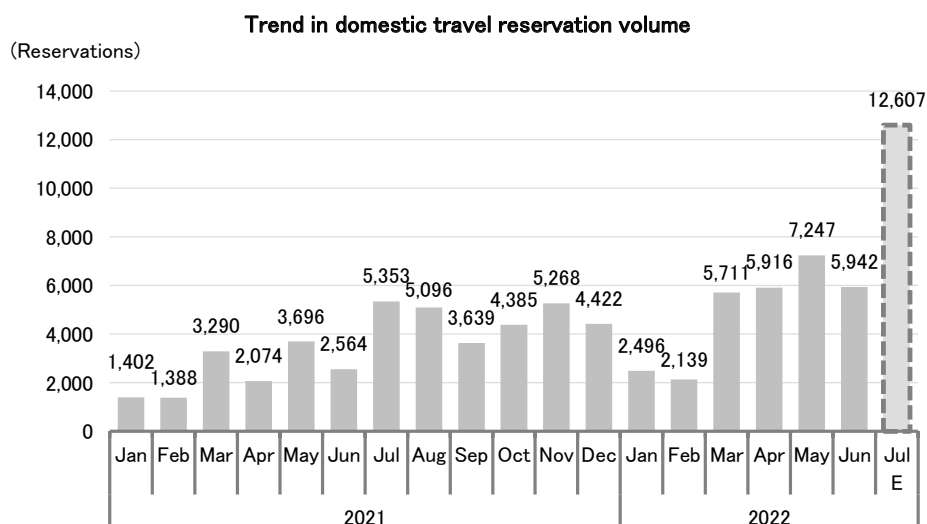
(1) OTA business

In the OTA business, operating revenue was strong, increasing 149.1% YoY to ¥295mn. The growth of revenue in the domestic travel business and HawaiiActivities contributed to results, while revenue also grew in the overseas travel business compared to the same period in the previous fiscal year. Therefore, operating revenue in July 2022 on a single-month basis was expected to exceed ¥100mn for the first time in 28 months since March 2020.

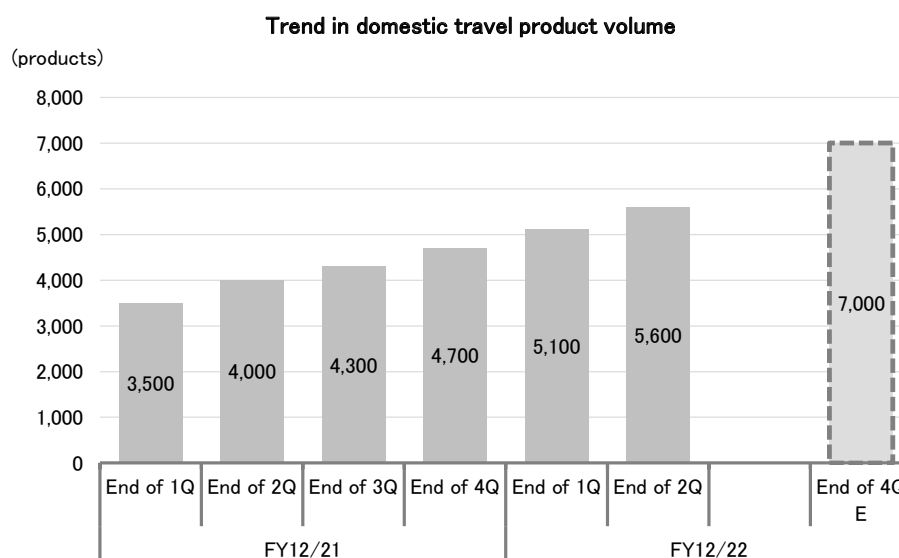
a) Domestic travel business

In the domestic travel business, operating revenue increased 186.1% YoY to ¥61mn. While it remains uncertain as to when the global COVID-19 pandemic will end, progress is being made in vaccination programs and the declarations of a state of emergency and the semi-state of emergency infection-prevention measures have been lifted, and against this backdrop, travel demand in Japan is recovering. For the domestic travel reservation volume, the effects of removing the restrictions on movement have appeared since March 2022 and became even stronger during the summer vacation season. In this sort of environment, the volume of domestic travel products, which the Company strengthened during the COVID-19 pandemic, increased by 900 from the end of the previous period to 5,600, contributing to the increase in revenue. The Company plans to increase the number of products up to 7,000 by the end of FY12/22, so the reservation volume is expected to further increase.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials



Source: Prepared by FISCO from the Company's results briefing materials and business plan documents

b) Overseas travel business

In the overseas travel business, operating revenue increased 764.3% YoY to ¥43mn. Apart from some countries and regions, it has become possible to enter a country with a negative test result regardless of whether the person has a vaccination certificate or not, and the number of people traveling overseas is increasing. The volume of overseas travel reservations has been increasing since March 2022, and the Company anticipates that it will recover even more in the future. In this sort of environment, it is resuming sales of products according to overseas travel recovery conditions and progressing acquisitions of new products. Conversely, as there are some products and services that were ended due to COVID-19, the product volume has declined temporarily, down by 250 from the end of the previous period to 8,450 products. Going forward, the Company plans to strengthen the product lineup for each recovery area.

Results trends

c) HawaiiActivities

In HawaiiActivities, operating revenue increased 119.4% YoY to ¥192mn. There has been a recovery in the number of travelers to Hawaii from the U.S. mainland, and compared to the period before COVID-19 in 2019, the Company's reservation volume recovery rate is 284%, which is significantly higher than the market's recovery rate (94%). Compared to the same period in the previous year in which demand started to recover in the U.S., the rate increased 38.4% and is trending strongly. In this sort of environment, the Company is accurately operating social media promotions specifically designed for Hawaii and also continuously strengthening relations with local event companies, which are contributing to results. HawaiiActivities are supported by travelers through the height of their appeal from "engaging staff members with highly specialized knowledge even compared to global companies, such as local experts specializing in Hawaii," "acquiring products that other companies have trouble offering through utilizing network communication only possible in the local area," and "proactively conducting promotions," and we at FISCO think that this is leading to the results growth. HawaiiActivities offers around 600 products during normal times.

(2) Tourism IT business

In the tourism IT business, revenue decreased 3.2% YoY to ¥59mn. Within this amount, the ticket platform business' operating revenue increased 230.0% to ¥21mn. The Company has expanded the sales product volume, built a direct-sales website, and strengthened services, including promoting MaaS, and as a result, the number of LINKTIVITY ticket sales agencies increased to 121 companies (up 31 companies from the end of the previous period), while the number of customers increased to 194 companies (up 27 companies). The Company has enhanced its structure toward increasing inbound travelers by strengthening its alliance with the NTT West Japan Group, while it is also strengthening its sales products and sales channels for domestic demand (Japanese travelers).

The exercise of stock acquisition rights and the reduction of the loss contributed to the increase in cash, and the financial foundation has been significantly strengthened

2. Financial condition and management indicators

At the end of 1H FY12/22, total assets had increased ¥911mn from the end of the previous period to ¥2,781mn. Current assets had risen ¥974mn to ¥2,389mn. This was mainly because cash and deposits increased ¥745mn following fund raising of ¥699mn from the exercise of stock acquisition rights, and also because trade accounts receivable increased ¥290mn. Non-current assets decreased ¥63mn to ¥392mn, due in part to a ¥72mn decline in software. Total liabilities increased ¥605mn to ¥1,300mn. Current liabilities rose ¥609mn to ¥1,300mn, mainly because of increases of ¥157mn of accounts payable and ¥471mn of advances received due to the increase in the reservation volume in the OTA business. Total net assets increased ¥305mn to ¥1,481mn, with the main items being that capital and the capital surplus both increased ¥351mn, partly due to the exercise of stock acquisition rights, and also a decrease in retained earnings. As a result of the above, the equity ratio was 52.5% (61.4% at the end of the previous period). Current liabilities rose because of the increases in purchase liabilities and advance payments due to the improved revenue, and as a result, the equity ratio fell 8.9 percentage points from the end of the previous period. However, cash flow contributed positively and the financial condition greatly improved, so at FISCO we think that the Company is maintaining its financial soundness.

VELTRA Corporation
7048 Tokyo Stock Exchange Growth Market Index

7-Nov.-2022
<https://corp.veltra.com/en/ir/>

Results trends

Consolidated balance sheet and management indicators

	End of FY12/21	End of 1H FY12/22	Change
(¥mn)			
Current assets	1,414	2,389	974
Cash and deposits	1,197	1,942	745
Non-current assets	455	392	-63
Total assets	1,870	2,781	911
Current liabilities	691	1,300	609
Interest-bearing debt	25	-	-25
Non-current liabilities	3	0	-3
Total liabilities	694	1,300	605
Total net assets	1,175	1,481	305
[Management indicators]			
Equity ratio	61.4%	52.5%	-8.9pt

Source: Prepared by FISCO from the Company's financial results

In 1H FY12/22, cash flows used in operating activities was ¥42mn, with the main increase factors including the increases of depreciation expenses of ¥100mn, trade payables of ¥134mn, and advances received of ¥446mn, while the main decrease factors included that trade receivables increased ¥245mn and that the loss before taxes, etc., was ¥435mn. Cash flows from investing activities were ¥6mn, with the main items being income of ¥50mn from the distribution from investments in silent partnerships, and expenditure of ¥44mn to acquire non-current assets. Cash flows from financing activities were ¥674mn, mainly from income of ¥699mn following the issues of shares. As a result, the balance of cash and deposits at the end of the fiscal quarter had increased by ¥745mn from the end of the previous period to ¥1,942mn. Cash flows significantly worsened from FY12/20 onward due to the impact of COVID-19, but in 1H FY12/22, cash flows from operating activities greatly improved, partly because advances received increased following the rise in the reservation volume in the OTA business and as the extent of the operating loss was reduced. Depending on how travel demand recovers in the future, at FISCO we think that operating cash flow will change direction and become positive alongside the recovery of profits.

Consolidated statement of cash flows

	1H FY12/21	1H FY12/22
(¥mn)		
Cash flows from operating activities	-199	-42
Cash flows from investing activities	-15	6
Cash flows from financing activities	798	674
Cash and cash equivalents at end of period	1,521	1,942

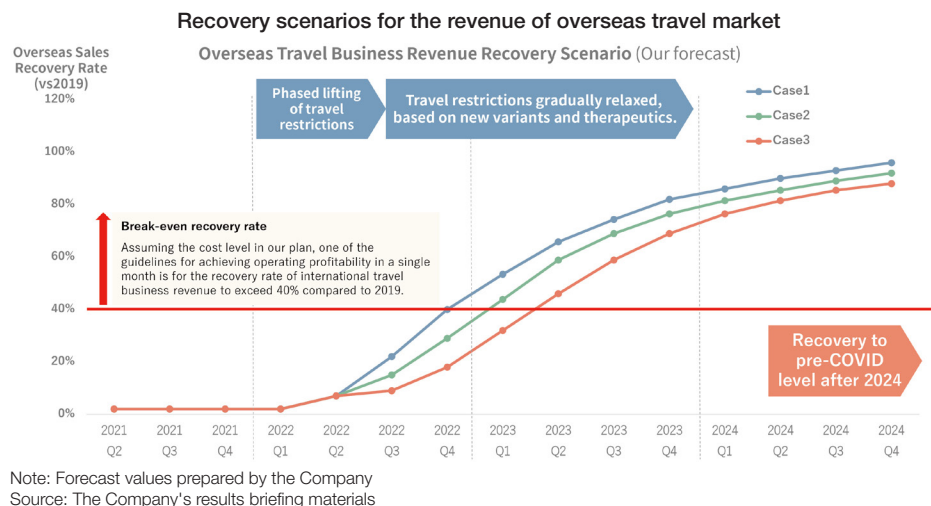
Source: Prepared by FISCO from the Company's financial results

■ Outlook

Has not yet determined the FY12/22 results forecasts, but travel demand is recovering. Is steadily establishing a revenue base through strengthening investment in the domestic travel business and HawaiiActivities

The Company has not prepared FY12/22 consolidated forecasts as a result of uncertainty regarding the impact of COVID-19 on business activities and an inability to compile reasonable targets at this point, but intends to disclose this information promptly once it is capable of calculating forecasts again.

For the trends in the overseas travel market, as the recovery scenarios for the number of Japanese people traveling overseas, the Company has set its own forecast values based on the travel-recovery scenario at the time that SARS broke out and calculated three cases. According to these scenarios, a delay will occur in the recovery period compared to that initially anticipated because of the spread of the Omicron variant. But in the 1H FY12/22, there was a movement for the incremental lifting of travel restrictions, such as shortening the isolation period, and in the future, overseas travel will resume due in part to third doses of vaccines and the approval of therapeutics, so it is expected to gradually recover from late April 2022. The current situation is that progress is being made on the level of Case 2, which is the middle level, but depending on the changes to the external environment, it is anticipated that conditions will improve to the higher level of Case 1, and the Company is building a structure for this.



Outlook

Initiatives for 2H FY12/22 are described below.

(1) Domestic travel business

To promote sustainable sightseeing tourism in the after-COVID-19 period, the Company is strengthening its product lineup, in particular with a focus on national parks. It has set “Product planning and sales promotion of ecotourism and adventure tourism,” “Promoting tourism in regional areas,” and “Peace tourism (tourism in disaster areas, war-stricken areas, etc.)” as its priority medium-term themes, and its policy is to realize sustainable growth in the domestic-experiences market with a focus on national parks that combine all of these elements. The Company intends to further expand the activity products it handles that can be experienced in all 34 national parks, and to achieve the largest scale domestically as an OTA website.

a) Product planning and sales promotion of ecotourism and adventure tourism

The Company will promote experience activities to encounter nature, such as mountain, sea, and river nature tours and activities, and sightseeing tours and experiences. As of the end of July 2022, it offered 2,162 national park-related activity products that covered 94% of the national parks, while it will gradually expand this coverage. Also, in March 2022, it was certified as a national park official partner by the Ministry of the Environment. Based on this certification, going forward, it will conduct sales promotions and product planning of eco tours and adventure tours with a focus on Japan's national parks, and it plans to develop products that create added value and that are highly sustainable.

b) Promoting tourism in regional areas

In order to have people visit the suburbs, the Company is discovering experiences and redistributing tourists who tend to be concentrated in urban areas and famous sightseeing sites, and it is encouraging them to visit regional areas. Some examples of initiatives include a tourism regional support project through promotions and crowdfunding focusing on remote islands and 10 islands throughout Japan, and a promotion that communicates the unknown charms of various regions in Japan.

c) Peace tourism

The Company is promoting tourism experiences so that tourists come to know the value and importance of coexisting with nature and living peacefully, particularly in regions that have suffered damage due to natural disasters and other factors.

(2) Overseas travel business

The Company is strengthening products tailored for the with-COVID-19 period while demand recovers, while it is also strengthening new products and services in anticipation of the after-COVID-19 period. Its policies are to increase mobility over a certain span of time, to analyze the needs required at the current stage, and to strengthen its focus on them. Based on these policies, the Company has analyzed the current trend during the COVID-19 pandemic to be “products with a strong purpose orientation, such as regions that people definitively want to visit, and popular outdoor- and charter-related products that take anti-infection measures into consideration,” and based on this it has set four steps, which are “Step 1: Strengthen experience products that have a strong purpose orientation,” “Step 2: Increase awareness opportunities,” “Step 3: Improve LTV (expand touch points),” and “Step 4: Develop sustainable experience products in anticipation of the after-COVID-19 period.” It will resume the customer-attraction promotions that it had previously frozen and increase the product lineup up to 10,000 products during FY12/22, focusing on the products best suited to the with-COVID-19 period. In addition, it will enhance products that can be reserved on the same day in order to improve the use value per customer. Moreover, results for Hawaii Activities are trending strongly due to the recovery of travel demand in North America, so its policy is to strengthen brand engagement based on the theme of sustainable tourism.

Outlook

(3) Ticket platform business (LINKTIVITY)

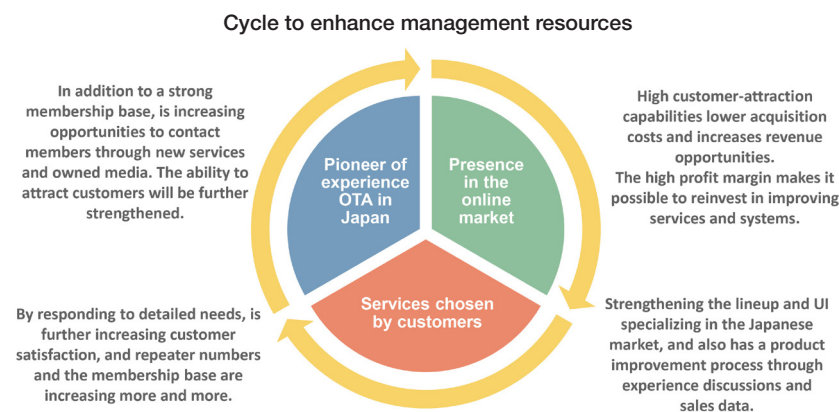
This business is positioned with a focus on railway and rail pass platforms for existing visitors to Japan, so the Company is accelerating growth by further expanding the product categories and sales channels. The topics include realizing distribution reforms by promoting DX for transportation and tourism. The Company provides DX solutions from paper tickets and analog to digital, and it is promoting transportation and tourism and revitalizing regions by providing convenience. Also, by promoting DX, it is increasing the productivity of the transportation and tourism industries and helping to resolve labor shortages.

Amid further recovery in travel demand, the Company strengthened product volume during the COVID-19 pandemic, which has been driving results in the domestic travel business, while it also plans to strengthen the product lineup for each recovery area in anticipation of the recovery of overseas travel. When considering this and other factors, we at FISCO think that the Company's results will continue to recovery, while we also have expectations for the ticket platform business. Alongside COVID-19, new lifestyles such as teleworking are becoming established, so in the transportation industry, it is unclear whether revenue will recover to the same levels as before COVID-19 once the pandemic has ended. Therefore, transportation operators are also starting to become aware of the importance of capturing travel demand and are progressing preparations for the recovery of inbound travel demand in the future.

Medium- to long-term growth strategies and topics

Aims to further increase market share and maximize enterprise value by utilizing its management resources to the greatest possible extent and diversifying businesses without being restricted to the travel industry

The Company's management resources include "networks in every region of the world and an overwhelming product lineup," and also "instantaneous and integrated marketing capabilities," and "the quality of the services that have been built." It is aiming to create new value, further increase market share, and maximize enterprise value by reinvesting in order to utilize these management resources.



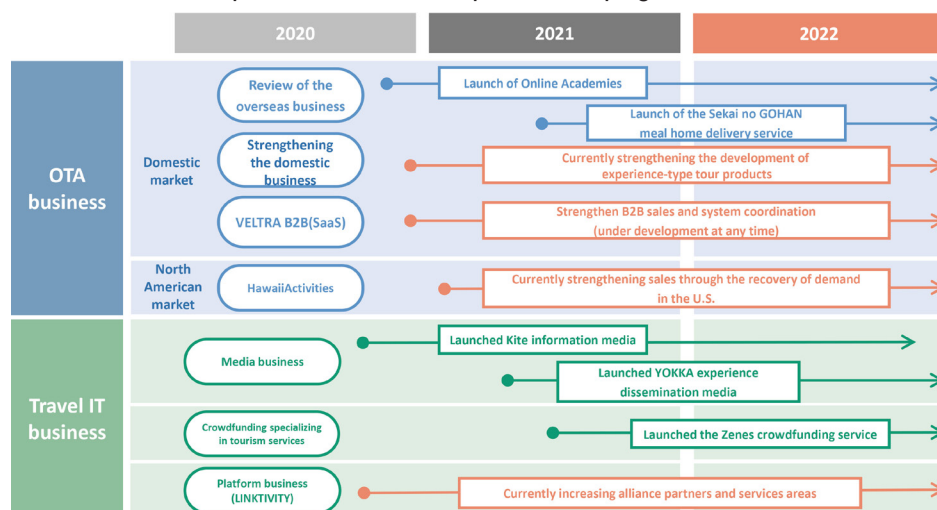
Source: Reprinted from "the Business Plan and Items relating to Sustainable Growth"

1. Expanding the business portfolio

Since FY12/20, the Company has been working on rebuilding and expanding its business portfolio. As OTA, or local experience tours, while expanding the business centered on VELTRA, it is strengthening the tourism IT business by utilizing the management resources that are the source of the Company's competitive advantages and diversifying its businesses without being restricted by business expansion as an OTA, and is aiming to maximize enterprise value on the twin axes of the travel recovery and the new tourism IT business. Specifically, in the OTA business, it has built a portfolio comprised of four business categories: the overseas business that it is reviewing, the domestic business it is strengthening, VELTRA B2B (SaaS), and HawaiiActivities, and in the tourism IT business, a portfolio comprised of three business categories of the media business, crowdfunding specializing in tourism services, and the ticket platform business (LINKTIVITY), and is developing policies for these portfolios.

Considering proactive advances in the various portfolio areas during 1H FY12/22 as well, the Company's top-line growth potential in the "after COVID-19" phase is steadily rising. By pursuing a wide range of services utilizing technology with a "travel" theme, the Company's business domains and overall image seems likely to change gradually. FISCO expects the Company to increase contacts with customers and diversify income opportunities in this process.

Expansion of the business portfolio and progress made



※The next disclosure of these materials is scheduled for mid-March 2023.

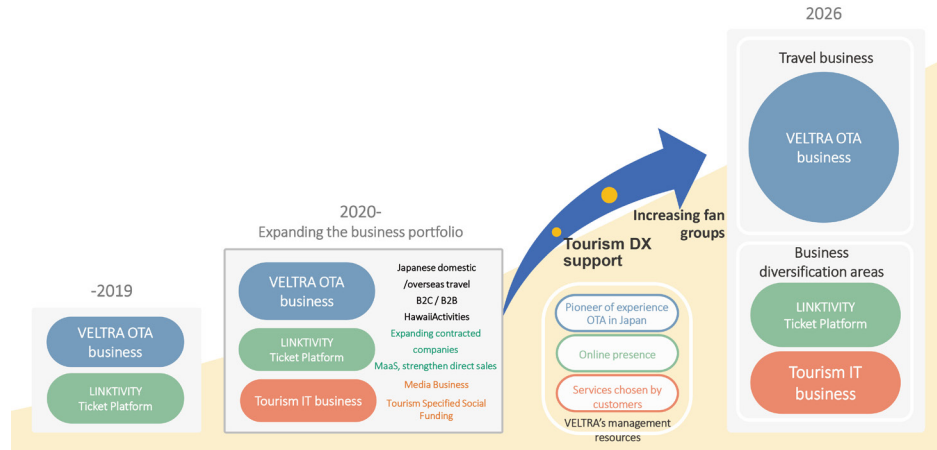
Source: Reprinted from "the Business Plan and Items relating to Sustainable Growth"

2. Future growth strategy

As its growth strategy for the period from FY12/22 to FY12/26, the Company is advancing "fan acquisition" and "tourism DX" by supplementing new services and touch points and establishing an overwhelming position toward being chosen by customers and markets at the times when the travel markets reopen. Moreover, while utilizing the management resources that are the source of its competitive advantages to the greatest possible extent, it is aiming to create new value, further expand market share, and maximize enterprise value by diversifying its businesses without being restricted to the travel industry. By providing new services that value international exchanges and the real connections between people, which is both the Company's mission and corporate philosophy, its policy is to grow sustainably together with all the people it is involved with and, based on its unique presence, to lead the tourism industry and international exchanges.

Medium- to long-term growth strategies and topics

Growth strategy from FY12/22 to FY12/26



Source: Reprinted from "Business Plan and Items relating to Sustainable Growth"

3. Current state of progress

(1) OTA business

In parallel with the overseas travel business that has prepared for the recovery of the travel market in the future, the Company is aiming to expand the revenue base by strengthening domestic travel services and services for English-speaking countries in order to respond to the current increase in demand.

a) Reviewing the overseas business

In anticipation of the lifting of the ban on overseas travel, the Company has updated its activity products page and is resuming sales. During FY12/22, product volume is forecast to recover to the same level as in FY12/19.

b) Strengthening the domestic travel business

The Company will continue to launch new products and strengthen the product lineup. It is providing highly theme-based experiences comparable even to those provided overseas, such as to Japan's remote islands and national parks.

c) VELTRA B2B (SaaS)

It is strengthening B2B sales and system coordination and conducting development as needed.

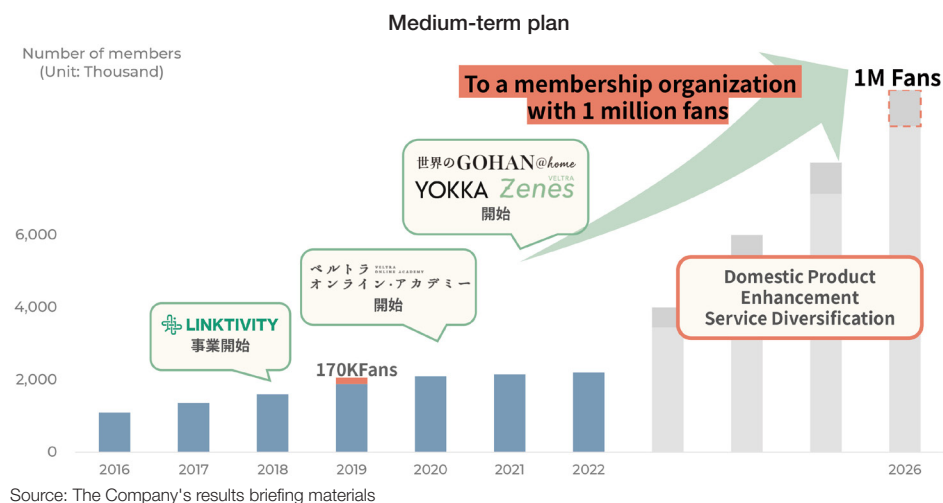
d) HawaiiActivities

Due to the recovery of travel demand in North America, HawaiiActivities recorded record-high profits in FY12/21. In the future, the Company intends to strengthen brand engagement based on the theme of sustainable tourism.

In these ways, based on market conditions, the Company's approach is to develop new services that combine its strengths and corporate image and to further enhance services in the future, and at FISCO, we consider that even during COVID-19, its potential to grow the topline has been increasing. As its medium-term plan, the Company is targeting a member organization of 1 million fans* in the OTA business by 2026. To achieve this target, it will increase customer touchpoints through supplementing domestic products and diversifying services and promote the increased activities of existing members and acquisitions of new fans. It considers that by increasing fans, the unit price per customer will rise and results will grow.

* Defined as customers who use the Company's services two or more times a year.

Medium- to long-term growth strategies and topics



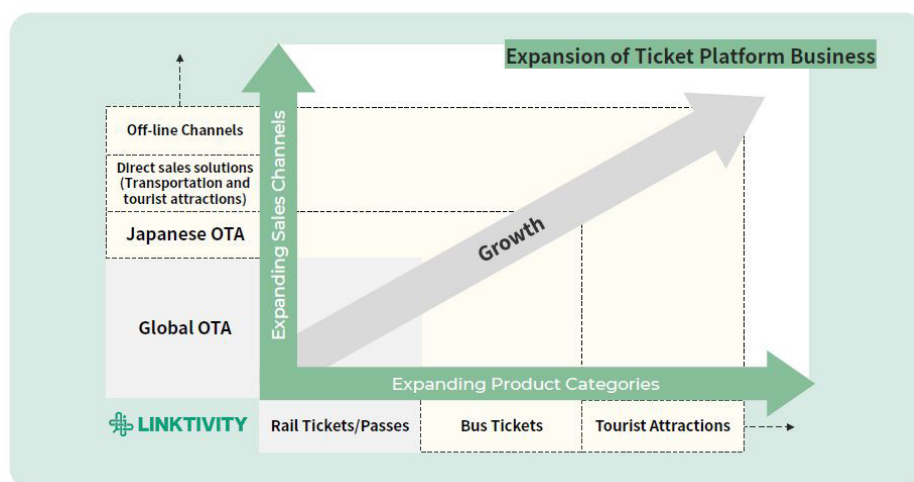
(2) Tourism IT business

In the ticket platform business, in the inbound market whose market scale is forecast to grow, the Company is aiming for the fully fledged generation of revenue from the demand recovery period and onwards. In addition, in the tourism IT business, in anticipation of the resumption of travel demand, it is aiming to realize business growth by continuing its ongoing relationships with customers via the media business.

a) Ticket platform business

Through the capital and business alliance with NTT West Japan, the number of alliance-partner companies is steadily growing, and the Company is promoting connections not only in urban areas, but also with railway and bus companies and travel companies nationwide. Going forward, it will accelerate growth by further expanding product categories and sales channels and widening TAM (Total Addressable Market), aiming for between 1,000 and 2,000 contracted companies in 2030 (120 contracted companies at the end of June 2022). By increasing the number of users through the recovery of the inbound market and expanding sales products, it is aiming for the fully fledged generation of revenue from the demand recovery period and onwards.

Growth strategy



Source: The Company's results briefing materials

Medium- to long-term growth strategies and topics

b) Media business

In order to generate revenue, the Company is sorting through the service content and strengthening this content. Through the media it operates, it expects to refer customers to its own services and to record advertising revenue, and we can expect the topline growth of existing services and acquisitions of new revenue sources.

c) Crowdfunding to support the tourism industry

Since the launch of Zenes in May 2021, customer acquisition has been trending strongly in every project. The Company will continue to further increase projects with the aim of establishing a unique position in Japan for crowdfunding specializing in tourism.

■ Shareholder return policy

Priority on investments to expand businesses for the time being

The Company recognizes future business advancement and long-term stability of the financial base as top priorities and hence maintains internal reserves for investments in business expansion and stabilization of the financial base to drive maximization of shareholder profits. From this perspective, it intends to increase internal reserves for the time being. Meanwhile, it is likely to have opportunities to leverage strength in local-experience optional tours in 150 countries in a shareholder benefit program.

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp