

Consolidated Financial Results for the First Quarter of Term Ending December 2021 (Based on J-GAAP)

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Stock code: 7048

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URL <https://corp.veltra.com>

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Term Ending December 2021 (from January 1, 2021 to March 31, 2021)

(1) Consolidated Results of Operations (cumulative)

(% indicates YoY changes)

	Operating revenue		Operating loss		Ordinary loss		Loss attributable to owners of parent	
First quarter of the term ending December 2021	Millions of yen 51	% (93.4)	Millions of yen (348)	% —	Millions of yen (385)	% —	Millions of yen (400)	% —
First quarter of the term ended December 2020	782	(15.8)	(29)	—	(37)	—	(206)	—

Note: Comprehensive income: First quarter of the term ending December 2021: -390 million yen (—%)

First quarter of the term ended December 2020: -230 million yen (—%)

	Profit per share	Fully diluted profit per share
First quarter of the term ending December 2021	Yen (12.31)	Yen —
First quarter of the term ended December 2020	(7.17)	—

Note: Fully diluted profit per share for the quarter is not stated, irrespective of the existence of dilutive shares, given that the period resulted in a net loss.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
First quarter of the term ending December 2021	Millions of yen 2,343	Millions of yen 1,673	% 71.2
Term ended December 2020	1,718	552	31.9

(Reference) Shareholders' equity: First quarter of the term ending December 2021: 1,668 million yen

Term ended December 2020: 547 million yen

2. Dividends

	Annual dividends				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
Term ended December 2020	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Term ending December 2021	—	—	—	—	—
Term ending December 2021 (forecasts)	0.00	—	—	0.00	0.00

(Note) Revisions of dividend forecast from recently announced figures: Not applicable

3. Consolidated Forecasts for the Term Ending December 2021 (from January 1, 2021 to December 31, 2021)

Financial results projections for the term ending December 2021 have not been established as the uncertain effects of the new coronavirus outbreak on business activities render the preparation of plausible calculations impracticable at this time. Financial results projections will be disclosed promptly as data become available.

* Notes

(1) Significant changes of subsidiaries during the consolidated cumulative current quarter (changes in specific subsidiaries involving changes in the scope of consolidation): Not applicable

New: — (company name), Excluded: — (company name)

(2) Adoption of specific accounting treatments to the preparation of consolidated quarterly financial statements: Not applicable

(3) Changes in accounting policies, changes in accounting estimates and restatements

- 1) Changes in accounting policies due to the revision of accounting standards: Not applicable
- 2) Changes in accounting policies other than 1): Not applicable
- 3) Changes in accounting estimates: Not applicable
- 4) Restatements: Not applicable

(4) Total number of issued shares (common stock)

- 1) Total number of issued shares at the end of the period (including treasury shares)
- 2) Total number of treasury shares at the end of the period
- 3) Average number of shares during the period (cumulative)

First quarter of the term ending December 2021	33,063,400 shares	Term ended December 2020	28,934,700 shares
First quarter of the term ending December 2021	97 shares	Term ended December 2020	97 shares
First quarter of the term ending December 2021	32,548,751 shares	First quarter of the term ended December 2020	28,797,281 shares

* These consolidated quarterly financial results are outside the scope of quarterly review by a certified public accountant or an audit firm.

* Explanation for the appropriate use of performance forecasts and other special notes

The statements regarding forecast of financial results in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication, and they are not meant to be a commitment by the Company. Therefore, there might be cases in which actual results differ significantly from forecast values. For conditions regarding assumptions used in projecting financial results and instructions to use projected financial results, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information" on page 3 of the appendix to this report.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Results of Operations

The Japanese economy in the period under review impacted by the protracted COVID-19 pandemic marked rapidly contracting corporate profits and personal consumption along with weakening employment, facing an uncertain outlook.

The travel industry, the principal market for the services of the Company, has been severely affected by the COVID-19 pandemic, with the number of outbound Japanese travelers between January and March 2021 falling 96.6% from the same period of the previous fiscal year to 0.1 million, in a steep decline caused by measures such as restrictions on travel and on people leaving their homes imposed by many countries. Likewise, the number of foreign visitors to Japan marked a steep decline from the same period of the previous fiscal year, falling 98.3% to 0.06 million (source: Japan National Tourism Organization (JNTO)). At present, in- and outbound travel bans, restrictions on people leaving their homes, and other measures continue to be implemented in countries around the world, leaving would-be travelers immobilized and commanding close attention to the effects of the COVID-19 pandemic both in Japan and abroad.

The Group operates Japan's largest online travel service specializing in sales of local experience tours in Japan and 150 countries around the world. Travel-related operations in the Group's business fields categorized by type of revenue comprise (1) online travel agent operations ("OTA") generating revenues from tour reservations through Group-operated online reservation sites for local experience tours (the Japanese language site "VELTRA" and the English language site "Hawaii Activities" specializing on locations in Hawaii) and (2) revenue generating operations other than OTA ("Tourism IT Operations"), such as service operations for providing IT infrastructure for tourism-related businesses, and the ticket platform operations of consolidated subsidiary LINKTIVITY Inc.

Amid this business environment, prospects for an end of the worldwide COVID-19 pandemic unfolding since March 2020 are not in sight, and restrictions on outbound travel continue. Moreover, with infection incidence on the rise again also in Japan, domestic and foreign travel demand remain in steep decline.

As a result, operating revenue in the period under review posted 51,834 thousand yen (-93.4% compared with the same period of the previous fiscal year). Operating revenue by revenue category posted 29,567 thousand yen at OTA operations (-96.1% compared with the same period of the previous fiscal year) and 22,267 thousand yen at Tourism IT Operations (-8.7% compared with the same period of the previous fiscal year).

In order to support profits, since the worldwide COVID-19 pandemic became apparent in March 2020, the Company has been working on exhaustive cost control through company-wide cost reviews, drastic reductions of advertising expenses, executive compensation cuts, and employee furloughs, among other measures. However, due to the sharp drop in operating revenue caused by the decreased number of reservations, results posted an operating loss of 348,150 thousand yen (compared with an operating loss of 29,649 thousand yen in the same period of the previous fiscal year), ordinary loss of 385,617 thousand yen (compared with an ordinary loss of 37,923 thousand yen in the same period of the previous fiscal year), and quarterly net loss attributable to owners of the parent of 400,689 thousand yen (compared with a net loss attributable to owners of the parent of 206,512 thousand yen in the same period of the previous fiscal year).

Also, as Our Group is the single segment of travel-related businesses, the Company has omitted statement of segment information.

(2) Explanation of Financial Position

(Current assets)

Current assets at the end of the period under review totaled 1,775,408 thousand yen, reflecting an increase of 677,350 thousand yen compared with the end of the previous fiscal year. This was mainly due to an increase of 713,788 thousand yen in cash and deposits from a capital increase instituted through a private placement.

(Non-current assets)

Non-current assets at the end of the period under review totaled 568,544 thousand yen, reflecting a decrease of 51,481 thousand yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 36,453 thousand yen in investments and other assets owing to a refund of leasehold deposits associated with the relocation of head office premises.

(Current liabilities)

Current liabilities at the end of the period under review totaled 668,745 thousand yen, reflecting a decrease of 467,593 thousand yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 487,590 thousand yen in short-term borrowings and a decrease of 24,480 thousand yen in the current portion of long-term borrowings.

(Non-current liabilities)

Non-current liabilities at the end of the period under review totaled 1,224 thousand yen, reflecting a decrease of 28,146 thousand yen compared with the end of the previous fiscal year. This is mainly due to a decrease of 25,019 thousand yen in long-term borrowings.

(Net assets)

Net assets at the end of the period under review totaled 1,673,983 thousand yen, reflecting an increase of 1,121,609 thousand yen compared with the end of the previous fiscal year. This was mainly due to increases of 754,400 thousand yen each in share capital and capital surplus through the issuance of new shares for a private placement, and a decrease in retained earnings due to a quarterly net loss attributable to owners of the parent in the amount of 400,689 thousand yen.

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information

The business environment remains hostile amid a fresh declaration of a state of emergency issued in April 2021 due to a new rise in COVID-19 infections, leaving the outlook uncertain. Against this background, consolidated financial results projections for the term ending December 2021 remain indeterminate, given that at present the end of the COVID-19 pandemic is inestimable and the preparation of plausible calculations is impracticable. Financial results projections will be disclosed promptly as data such as operating revenue become available.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous consolidated fiscal year (December 31, 2020)	Current consolidated first quarter (March 31, 2021)
Assets		
Current assets		
Cash and deposits	917,334	1,631,123
Trade accounts receivable	30,262	53,793
Other	150,460	90,491
Total current assets	<u>1,098,057</u>	<u>1,775,408</u>
Non-current assets		
Property, plant and equipment	18,043	23,899
Intangible assets		
Software	508,248	482,412
Software in progress	19,640	24,591
Other	216	216
Total intangible assets	<u>528,104</u>	<u>507,219</u>
Investments and other assets	73,878	37,424
Total non-current assets	<u>620,026</u>	<u>568,544</u>
Total assets	<u>1,718,084</u>	<u>2,343,952</u>
Liabilities		
Current liabilities		
Trade accounts payable	54,213	83,654
Short-term borrowings	611,384	123,793
Current portion of long-term borrowings	124,496	100,016
Accounts payable - other	76,469	39,803
Income taxes payable	1,397	2,137
Advances received	46,286	106,086
Provision for point card certificates	181,574	172,474
Other	40,516	40,778
Total current liabilities	<u>1,136,339</u>	<u>668,745</u>
Non-current liabilities		
Long-term borrowings	25,019	-
Other	4,352	1,224
Total non-current liabilities	<u>29,371</u>	<u>1,224</u>
Total liabilities	<u>1,165,710</u>	<u>669,969</u>
Net assets		
Shareholders' equity		
Share capital	537,608	1,293,128
Capital surplus	648,173	1,403,692
Retained earnings	(620,768)	(1,021,457)
Treasury shares	(70)	(70)
Total shareholders' equity	<u>564,943</u>	<u>1,675,292</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment	(16,966)	(7,188)
Total accumulated other comprehensive income	<u>(16,966)</u>	<u>(7,188)</u>
Share acquisition rights	4,397	5,879
Total net assets	<u>552,374</u>	<u>1,673,983</u>
Total liabilities and net assets	<u>1,718,084</u>	<u>2,343,952</u>

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly consolidated statement of income)

(Current consolidated first quarter)

(Thousands of yen)

	Previous consolidated first quarter (From January 1, 2020 to March 31, 2020)	Current consolidated first quarter (From January 1, 2021 to March 31, 2021)
Operating revenue	782,743	51,834
Operating expenses	812,393	399,984
Operating loss	(29,649)	(348,150)
Non-operating income		
Interest income	106	23
Foreign exchange gains	92	-
Subsidy income	2,280	13,697
Other	136	252
Total non-operating income	2,615	13,973
Non-operating expenses		
Interest expenses	640	1,133
Foreign exchange losses	-	979
Compensation expenses	10,166	-
Share issuance costs	-	49,325
Other	83	2
Total non-operating expenses	10,890	51,440
Ordinary loss	(37,923)	(385,617)
Extraordinary losses		
Impairment loss	14,075	-
Extra retirement payments	-	13,961
Total extraordinary losses	14,075	13,961
Loss before income taxes	(51,999)	(399,579)
Income taxes - current	3,081	1,132
Income taxes - deferred	157,028	(22)
Total income taxes	160,109	1,110
Loss	(212,109)	(400,689)
Loss attributable to non-controlling interests	(5,597)	-
Loss attributable to owners of parent	(206,512)	(400,689)

(Quarterly consolidated statement of comprehensive income)
 (Current consolidated first quarter)

(Thousands of yen)

	Previous consolidated first quarter (From January 1, 2020 to March 31, 2020)	Current consolidated first quarter (From January 1, 2021 to March 31, 2021)
Loss	(212,109)	(400,689)
Other comprehensive income		
Deferred gains or losses on hedges	(580)	-
Foreign currency translation adjustment	(17,319)	9,777
Total other comprehensive income	(17,899)	9,777
Comprehensive income	(230,009)	(390,911)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(222,229)	(390,911)
Comprehensive income attributable to non- controlling interests	(7,780)	-

(3) Notes on the Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

In the previous fiscal year, a sharp drop in operating revenue due to the escalating COVID-19 pandemic since March 2020 caused the Group to report a quarterly operating loss, ordinary loss, and net loss attributable to owners of the parent. Again, for the first quarter of the current fiscal year, consolidated results marked an operating loss of 348,150 thousand yen, ordinary loss of 385,617 thousand yen, and net loss attributable to owners of the parent of 400,689 thousand yen, reflecting sustained restrictions on overseas travel and a renewed rise in COVID-19 infections. With the current outlook suggesting that the impact of the COVID-19 pandemic on the real economy will be prolonged, operating revenue recognition in the second quarter and beyond is subject to uncertainty, implying conditions and circumstances that raise important questions concerning the going-concern assumption.

The Company, which is subject to quarterly consolidated financial reporting, will take the following measures to resolve this situation.

1) Exhaustive cost reductions

When the worldwide COVID-19 pandemic became apparent in early March 2020, the Company implemented company-wide cost reviews, as well as drastic reductions of advertising expenses, executive compensation cuts, suspension of bonus payments, and cost reductions through employee furloughs, among other measures. In addition, in the first quarter of the current fiscal year, fixed costs have been reduced by transferring head office functions and by promoting voluntary retirement. As a result, first-quarter operating expenses decreased by 412,408 thousand yen compared with the same period of the previous fiscal year. Additional cost control measures will be implemented also in and after the second quarter to align the cost structure with operating revenue.

2) Expansion of the business portfolio by establishing a new profit model

The Group owns a network of about 5,000 tour operators in Japan and overseas, built up over many years in the business of online sales of local experience tours, and offers over 15,000 high-quality activity products. Moreover, since the initiation of our operations, we have been striving to enhance customer satisfaction, resulting in a membership base of over 2 million people as of the end of March 2021. Going forward, by leveraging the full potential of assets such as our network with tour operators and our membership base, the Group will transcend the boundaries of travel operations through the transition to services utilizing technologies based on the concepts of "experience" and "interaction," and in this way will establish new profit models. In addition, we will strive to improve the profitability of the entire Group by strengthening the domestic travel business, which is expected to see recovering travel demand in the near future, and by expanding the business portfolio, which thus far has consisted mainly of the overseas travel business.

3) Secure finance

Cash and deposits at the end of the first quarter of the current fiscal year totaled 1,631,123 thousand yen, reflecting an increase of 713,788 thousand yen compared with the end of the previous fiscal year. Net assets totaled 1,673,983 thousand yen, reflecting an increase of 1,121,609 thousand yen compared with the end of the previous fiscal year. This was due to 1,508,800 thousand yen in own funds raised through a capital increase by a private placement in January 2021 with a view to maintaining investment in business growth when markets recover after the end of the COVID-19 pandemic as well as for preserving financial soundness. In addition, in order to improve the Company's financial position, part of the proceeds from the capital increase was allocated to the repayment of borrowings drawn under a 500,000 thousand yen commitment line initiated in September 2020. In addition, although the Company maintains overdraft agreements with its main banks for a total of 1,600,000 thousand yen, discussions are held with main banks to obtain continuous support while maintaining current relationships. At the end of the period under review, unused borrowing facilities of the Company consisted of 1,500,000 thousand yen in overdraft agreements.

By implementing the above countermeasures, we will work to stabilize the business and financial sides of our operations, and strive to resolve and improve the current situation. As to the financial side, with the capital increase from the above-mentioned private placement, we took steps to maintain the soundness of our financial base above a fixed level. However, on the business side, it remains unclear when the COVID-19 pandemic will end, and unless prospects emerge for a relaxation of the restrictions on overseas travel, the timing and extent of a recovery of operating revenues from the Company's main business in overseas local experience tours are highly uncertain. In addition, since the establishment of new profit models has only just started and the described countermeasures are still in the process of implementation, at present significant uncertainties exist regarding the going-concern assumption.

Notably, quarterly consolidated financial statements are prepared based on a going-concern assumption. Significant uncertainties affecting the going-concern assumption are not reflected.

Notes on Significant Changes in the Amount of Shareholders' Equity)

On January 12, 2021, the Company increased its share capital and legal capital surplus by 754,400 thousand yen each, reflecting proceeds from a payment by OpenDoor Inc. for a private placement of equity. In addition, due to the exercise of share acquisition rights (stock options), share capital and legal capital surplus increased by 1,119 thousand yen each. As a result, at the end of the first quarter of the current fiscal year, share capital amounted to 1,293,128 thousand yen and legal capital surplus to 1,403,692 thousand yen.

(Additional Information)

Due to the spread of the COVID-19 pandemic since March 2020, restrictions on travel and on people leaving their homes were enforced in various countries around the world, resulting in drastically reduced travel demand. As a consequence, operating revenue of the Group in the first quarter fell to 51,834 thousand yen (-93.4% compared with the same period of the previous fiscal year).

Depending on when these restrictions will be lifted, we expect that the Group's business activities and business performance will continue to be affected.

Assuming no prospects for a broad-based relaxation of overseas travel restrictions and continued uncertainty, the Group expects in the course of fiscal year 2021 a recovery of domestic travel to the level of the previous year, while overseas travel is seen to gradually recover as cross-border traffic slowly resumes beginning in the latter half of 2021. Based on the foregoing considerations, it is assumed that the Group's operating revenue will recover to the level of 2019 by the end of fiscal year 2023. Moreover, expectations are for operating profit to recover faster than operating revenue as the effects of the previously implemented cost control measures such as curbs on expenditure and a selective and focused investment stance remain partially in force, which is seen to result in enhanced productivity.

Group reviews surrounding impairment losses on non-current assets and the recoverability of deferred tax assets during the period under review are based on calculations of future profits and cash flows premised on the assumptions set forth above. Note that since the timing of the end of COVID-19 is uncertain, impairment losses on non-current assets may increase if the above assumptions cease to apply.

(Segment Information)**[Segment Information]****I. Previous consolidated first quarter (from January 1, 2020 to March 31, 2020)**

As the Group is the single segment of travel-related businesses, the Company has omitted statement of segment information.

II. Current consolidated first quarter (from January 1, 2021 to March 31, 2021)

As the Group is the single segment of travel-related businesses, the Company has omitted statement of segment information.

(Significant Subsequent Events)

Not applicable.

3. Other**Important Events, Etc., Concerning the Going Concern Assumption**

In the previous fiscal year, a sharp drop in operating revenue due to the escalating COVID-19 pandemic since March 2020 caused the Group to report a quarterly operating loss, ordinary loss, and net loss attributable to owners of the parent. Again, for the first quarter of the current fiscal year, consolidated results marked an operating loss of 348,150 thousand yen, ordinary loss of 385,617 thousand yen, and net loss attributable to owners of the parent of 400,689 thousand yen, reflecting sustained restrictions on overseas travel and a renewed rise in COVID-19 infections. With the current outlook suggesting that the impact of the COVID-19 pandemic on the real economy will be prolonged, operating revenue recognition in the second quarter and beyond is subject to uncertainty, implying conditions and circumstances that raise important questions concerning the going-concern assumption.

Details are stated in "2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes on the Quarterly Consolidated Financial Statements (Notes on the Going Concern Assumption)."