

Consolidated Financial Results for the Third Quarter of Term Ending December 2020 (Based on J-GAAP)

November 12, 2020

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Stock code: 7048

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Scheduled date to submit the Quarterly Securities Report: Friday, November 13, 2020

Scheduled date to commence dividend payments: —

Availability of supplementary briefing material on quarterly results: Available

Scheduled date of Quarterly Results Briefing Session: Not scheduled

Listing: Tokyo Stock Exchange

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

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Term Ending December 2020 (from January 1, 2020 to September 30, 2020) (1) Consolidated Results of Operations (cumulative) (% indicates YoY changes)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third quarter of the term ending December 2020	840	(74.5)	(933)	—	(875)	—	(1,098)	—
Third quarter of the term ended December 2019	3,294	33.6	802	188.4	739	265.9	498	577.7

(Note) Comprehensive income: Third quarter of the term ending December 2020: -1,136 million yen (—%)

Third quarter of the term ended December 2019: 505 million yen (590.1%)

	Profit per share	Fully diluted profit per share
Third quarter of the term ending December 2020	Yen (38.06)	Yen —
Third quarter of the term ended December 2019	17.48	16.76

(Note) Diluted profit per share for the third quarter of the term ending December 2020 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
	Millions of yen	Millions of yen	%
Third quarter of the term ending December 2020	2,124	1,015	46.7
Term ended December 2019	6,424	2,125	32.5

(Reference) Shareholders' equity: Third quarter of the term ending December 2020: 991 million yen

Term ended December 2019: 2,085 million yen

2. Dividends

	Annual dividends				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
Term ended December 2019	—	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Term ending December 2020	—	0.00	—		
Term ending December 2020 (forecasts)				0.00	0.00

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

3. Consolidated Forecasts for the Term Ending December 2020 (from January 1, 2020 to December 31, 2020)

Financial results projections for the term ending December 2020 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): Applicable

New: 1 company (company name) LINKTIVITY Inc., Excluded: — (company name)

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes on the Quarterly Consolidated Financial Statements (Significant changes of subsidiaries during the consolidated cumulative current quarter)" on page 7 of the appendix to this report.

(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)

Third quarter of the term ending December 2020	28,911,600 shares	Term ended December 2019	28,621,000 shares
Third quarter of the term ending December 2020	20 shares	Term ended December 2019	20 shares
Third quarter of the term ending December 2020	28,864,545 shares	Third quarter of the term ended December 2019	28,547,253 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

(Cautionary note on forward-looking statements)

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.

○Table of Contents of Appendix

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	2
(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information	3
2. Quarterly Consolidated Financial Statements and Principal Notes.....	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	5
Quarterly consolidated statement of income	
Current consolidated third quarter.....	5
Quarterly consolidated statement of comprehensive income	
Current consolidated third quarter.....	6
(3) Notes on the Quarterly Consolidated Financial Statements	7
(Notes on the Going Concern Assumption).....	7
(Notes on Significant Changes in the Amount of Shareholders' Equity).....	7
(Significant Changes of Subsidiaries during the Consolidated Cumulative Current Quarter).....	7
(Additional Information).....	7
(Segment Information)	7
(Significant Subsequent Events).....	7
3. Other.....	8
Important Events, Etc., Concerning the Going Concern Assumption	8

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Results of Operations

The Japanese economy in the period under review remained under the impact of adverse conditions brought on by the effects of the escalating new coronavirus spread ("COVID-19") including continuing large declines in corporate profits and weakness in employment.

In these economic conditions, the travel industry contracted strongly as many countries imposed travel restrictions and curfews, causing the number of outbound Japanese travelers between January and September 2020 to shrink 79.6% from the same period of the previous fiscal year to 3.07 million. Likewise, the number of foreign visitors to Japan marked a steep decline from the same period of the previous fiscal year, falling 83.7% to 3.97 million (source: Japan National Tourism Organization (JNTO)). Although worldwide the number of tourists in 2019 rose 3.8% from the same period of the previous fiscal year to 1.46 billion, the impact of the COVID-19 outbreak is expected to cause a large decline in 2020 (source: United Nations World Tourism Organization (UNWTO)).

The Group has traditionally been an online travel agent (OTA) company specializing in local experience tours, comprised of (1) an "Overseas section" that mainly provides services for Japanese overseas travelers, (2) an "Inbound section" that provides services for foreign tourists visiting Japan, and (3) a "Global section" that provides worldwide services for travelers around the globe. Among these operations, the Greater China Business (the Chinese site), part of the "Inbound section," and the Global Business (the Veltra English site), part of the "Global section," were closed in the second quarter due to the impact of COVID-19.

In this operating environment, although COVID-19 started to impact operations in January and February 2020, operating revenue during those two months was higher than in the same period of the previous fiscal year, yet the number of reservations had decreased significantly due to the spread of COVID-19 since March. Although domestic travel has been gradually recovering since June after the Japanese government lifted the previously declared state of emergency, due to the ongoing foreign travel restrictions severe conditions continue to dominate overseas travel.

As a result, operating revenue in the period under review posted 840,420 thousand yen (-74.5% compared with the same period of the previous fiscal year). Operating revenue breaks down into 791,999 thousand yen at the Overseas section (-74.4% compared with the same period of the previous fiscal year), 25,990 thousand yen at the Inbound section (-56.7%), and 22,430 thousand yen at the Global section (-83.8%).

Earnings posted an operating loss of 933,024 thousand yen (compared with operating income of 802,689 thousand yen in the same period of the previous fiscal year), an ordinary loss of 875,713 thousand yen (compared with ordinary profit of 739,423 thousand yen in the same period of the previous fiscal year), and a net loss attributable to owners of the parent company of 1,098,581 thousand yen (compared with a net profit of 498,940 thousand yen in the same period of the previous fiscal year). This result was due to a steep fall in operating revenue due to lower reservations and a large number of cancellations eclipsing company-wide cost control reviews implemented in early March 2020 when the global spread of COVID-19 became apparent, with operating expense cuts centering on advertising expenses.

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 1,435,301 thousand yen, reflecting a decrease of 4,056,081 thousand yen compared with the end of the previous fiscal year. This decrease was mainly due to 2,744,069 thousand yen lower cash and deposits and 1,212,085 thousand yen lower trade accounts receivable, accounting for the reduced number of reservations and a large number of cancellations following the COVID-19 outbreak.

(Non-current assets)

Non-current assets at the end of the period under review totaled 688,828 thousand yen, reflecting a decrease of 244,398 thousand yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 165,599 thousand yen in investments and other assets due to the reversal of deferred tax assets.

(Current liabilities)

Current liabilities at the end of the period under review totaled 1,058,651 thousand yen, reflecting a decrease of 3,090,250 thousand yen compared with the end of the previous fiscal year. This decrease was mainly due to 1,696,572 thousand yen lower trade accounts payable and 1,511,673 thousand yen lower advances received, accounting for the reduced number of reservations and a large number of cancellations following the COVID-19 outbreak.

(Non-current liabilities)

Non-current liabilities at the end of the period under review totaled 50,266 thousand yen, reflecting a decrease of 99,448 thousand yen compared with the end of the previous fiscal year. This is mainly because of a decrease of 99,497 thousand yen in long-term borrowings.

(Net assets)

Net assets at the end of the period under review totaled 1,015,212 thousand yen, reflecting a decrease of 1,110,781 thousand yen compared with the end of the previous fiscal year. Main factors comprised 11,333 thousand yen increase in share capital from the issuance of new shares associated with the exercise of stock options, a 11,333 thousand yen increase in capital surplus, a decrease in retained earnings reflecting the period's net loss attributable to shareholders of the parent company of 1,098,581 thousand yen, and a 17,741 thousand yen decrease in foreign currency translation adjustments.

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

As announced in the "Notice Concerning Revision of Earnings Forecast" released on March 23, 2020, consolidated financial results projections for the term ending December 31, 2020, have not been established given that the end of the COVID-19 infection spread is inestimable. In April 2020, the Japanese government declared a state of emergency which continued until the end of May, resulting in strongly adverse business conditions due to the ensuing loss of demand for both domestic and overseas travel. This reflected in the second quarter in a large decrease in consolidated operating revenue to 10,553 thousand yen. Subsequently, with business performance bottoming in the second quarter amid a gradual recovery of domestic travel demand starting in July, operating revenue for the third quarter posted 47,123 thousand yen, marking a moderate upwards trend thanks also to contributions to revenues and earnings from the online academy and other new services. In addition, aided by the government's "Go To Travel" program and with the COVID-19 spread in Japan to some extent contained, expectations are for domestic travel to recover about 50 to 70% year-on-year after October.

However, with overseas travel bans among major countries including the US remaining in force in popular Japanese tourist destinations and with the COVID-19 spread escalating again in Europe and the US, operating revenues in the fourth quarter and later are at present overshadowed by numerous uncertainties. Consequently, consolidated financial results projections for the term ending December 2020 remain indeterminate given that the preparation of plausible calculations is impracticable at this time. Financial results projections will be disclosed promptly as data become available.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous consolidated fiscal year (December 31, 2019)	Current consolidated third quarter (September 30, 2020)
Assets		
Current assets		
Cash and deposits	3,978,040	1,233,971
Trade accounts receivable	1,292,347	80,261
Other	220,995	121,068
Total current assets	5,491,383	1,435,301
Non-current assets		
Property, plant and equipment	148,467	104,828
Intangible assets		
Software	532,913	509,105
Software in progress	27,810	16,459
Other	216	216
Total intangible assets	560,940	525,780
Investments and other assets	223,819	58,219
Total non-current assets	933,226	688,828
Total assets	6,424,610	2,124,129
Liabilities		
Current liabilities		
Trade accounts payable	1,760,270	63,697
Short-term borrowings	-	511,637
Current portion of long-term borrowings	197,996	148,996
Accounts payable - other	339,984	51,192
Income taxes payable	8,723	395
Advances received	1,569,244	57,571
Provision for point card certificates	176,728	188,849
Other	95,954	36,310
Total current liabilities	4,148,901	1,058,651
Non-current liabilities		
Long-term borrowings	149,515	50,018
Other	199	248
Total non-current liabilities	149,714	50,266
Total liabilities	4,298,616	1,108,917
Net assets		
Shareholders' equity		
Share capital	525,374	536,707
Capital surplus	635,765	647,098
Retained earnings	926,486	(172,094)
Treasury shares	(25)	(25)
Total shareholders' equity	2,087,600	1,011,686
Accumulated other comprehensive income		
Deferred gains or losses on hedges	580	-
Foreign currency translation adjustment	(2,722)	(20,464)
Total accumulated other comprehensive income	(2,141)	(20,464)
Share acquisition rights	-	2,882
Non-controlling interests	40,535	21,107
Total net assets	2,125,994	1,015,212
Total liabilities and net assets	6,424,610	2,124,129

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly consolidated statement of income)

(Current consolidated third quarter)

(Thousands of yen)

	Previous consolidated third quarter (From January 1, 2019 to September 30, 2019)	Current consolidated third quarter (From January 1, 2020 to September 30, 2020)
Operating revenue	3,294,642	840,420
Operating expenses	2,491,952	1,773,445
Operating profit (loss)	802,689	(933,024)
Non-operating income		
Interest income	199	201
Subsidy income	-	65,492
Other	541	3,862
Total non-operating income	741	69,557
Non-operating expenses		
Interest expenses	2,351	1,658
Foreign exchange losses	57,028	309
Compensation expenses	-	10,166
Other	4,626	111
Total non-operating expenses	64,007	12,245
Ordinary profit (loss)	739,423	(875,713)
Extraordinary losses		
Impairment loss	-	70,471
Extra retirement payments	-	45,798
Total extraordinary losses	-	116,270
Profit (loss) before income taxes	739,423	(991,983)
Income taxes - current	71,414	4,140
Refund of income taxes	-	(36,696)
Income taxes - deferred	170,488	156,739
Total income taxes	241,903	124,183
Profit (loss)	497,519	(1,116,166)
Loss attributable to non-controlling interests	(1,420)	(17,585)
Profit (loss) attributable to owners of parent	498,940	(1,098,581)

(Quarterly consolidated statement of comprehensive income)

(Current consolidated third quarter)

(Thousands of yen)

	Previous consolidated third quarter (From January 1, 2019 to September 30, 2019)	Current consolidated third quarter (From January 1, 2020 to September 30, 2020)
Profit (loss)	497,519	(1,116,166)
Other comprehensive income		
Deferred gains or losses on hedges	2,377	(580)
Foreign currency translation adjustment	5,764	(19,583)
Total other comprehensive income	8,141	(20,164)
Comprehensive income	505,661	(1,136,330)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	507,082	(1,116,903)
Comprehensive income attributable to non-controlling interests	(1,420)	(19,427)

(3) Notes on the Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

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

Not applicable.

(Significant Changes of Subsidiaries during the Consolidated Cumulative Current Quarter)

LINKTIVITY Inc. was newly established and included in the consolidation since the first quarter of the current fiscal year. LINKTIVITY Inc. is a specific subsidiary of the Company.

(Additional Information)

(Impact of the COVID-19 spread on accounting estimates)

In the light of the escalating COVID-19 spread until the third quarter, including the time horizon for COVID-19 to be neutralized, we have reviewed our assumptions stated in the "Additional Information" on the "Impact of the COVID-19 spread on accounting estimates" in the Consolidated Financial Results for the Second Quarter of Term Ending December 2020.

As for the third quarter, with no widespread relaxation of overseas travel restrictions in sight and assuming a further protracted period of continued uncertainty, we expect domestic travel in Japan to recoup the previous level in the course of fiscal year 2021, while overseas travel should see a gradual recovery from April 2021 toward the end of the year. As a result, compared with the level in the term ended December 2019, we expect the recovery of overseas travel demand to mark 30% in 2021, then gradually recover, and 100% in the terms ending December 2023. Moreover, we anticipate operating income to recover faster than operating revenue as the effects of the previously implemented cost control measures such as cost cutting and a selective and focused investment stance remain partially in force.

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. Impairment loss recognition on non-current asset has been judged unnecessary except for the operations, etc., determined to be discontinued. Regarding the recoverability of deferred tax assets, based on careful consideration, a corporate tax adjustment of 156,739 thousand yen was recognized due to the reversal of deferred tax assets.

Given the uncertainty over when the COVID-19 spread will end and whether the above assumptions will remain valid, the corporate tax adjustment amount may increase or decrease due to impairment losses on non-current assets and the reversal of deferred tax assets.

(Segment Information)

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

While the Group in the previous fiscal year recorded black figures for operating-, ordinary-, and net income attributable to owners of parent, for the period under review the Group posted an operating loss of 933,024 thousand yen, an ordinary loss of 875,713 thousand yen, and a 1,098,581 thousand yen net loss attributable to owners of the parent. This result is due to the COVID-19 outbreak causing a sudden steep fall in operating revenues starting in March, in a sharp turn from operating revenues in January and February 2020 which were higher than in the same period of the previous fiscal year. In addition, although domestic travel demand is gradually recovering, given that the impact of COVID-19 on the real economy is seen to be prolonged, the extent of operating revenue recognition from the fourth quarter remains unclear, with a possibility that accounts will reflect a widening of operating loss, ordinary loss, and net loss attributable to owners of the parent.

While these events have created circumstances and conditions that may put the going concern assumption into doubt, the Company has in anticipation of these developments initiated measures to resolve the seriousness of the situation and improve operations.

1) Exhaustive cost reductions

At the beginning of March 2020, when the worldwide spread of COVID-19 became apparent, we reviewed company-wide costs and made significant reductions centered on advertising costs. In addition, we have been implementing sweeping cost reductions with expense cuts in excess of 1 billion yen compared with the previous term through exhaustive cost control measures such as reductions of executive compensation, suspension of bonus payments, suspension of new hiring, furloughing of employees, drastic reductions of travel-, meeting-, and entertainment expenses, as well as lower outsourcing fees and reviews of commission expenses. Furthermore, from the fiscal year 2021 onward, we will implement additional cost reductions so that the cost structure will be commensurate with operating revenue.

2) Closure of some investment operations

Among the Group's investment operations, it has been decided to close the Global Business and Greater China Business in favor of a more selective and focused investment stance, as the COVID-19 outbreak is expected to cause significant delays compared with original plans, and based on the judgment that the subject operations' growth under the current plan will not be attainable. In this way, the Company will implement flexible organizational management and take measures for future cost reductions and rising profit margins when business conditions begin to recover.

3) Establishment of new earnings models

The Group has a network of about 5,000 tour operators in Japan and overseas, built up over many years in the business of online sales of experience tours. By leveraging the full potential of this network, 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 earnings models.

4) Secure funding

As of the end of the third quarter of the term ending December 2020, the Company had cash and deposits of 1,233,971 thousand yen, reflecting sufficient funding to continue operations for the foreseeable future. In the period under review, the Company borrowed funds under a previously contracted 500 million yen commitment line. Additionally, the Company maintains overdraft agreements with its major transaction banks for an aggregate total of 1.5 billion yen. In this way, by securing readily available, stable funding, the Company has increased liquidity on hand and improved management stability, enabling the Company to maintain a sufficient level of working capital for the operations of the Group. At the end of the period under review, unused borrowing facilities of the Company consisted of 1.5 billion yen in overdraft agreements.

Based on the foregoing, in the judgment of the Company no significant uncertainty exists regarding the going concern assumption.