

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

August 13, 2020

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Stock code: 7048

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Listing: Tokyo Stock Exchange
URL <https://corp.veltra.com>

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Term Ending December 2020 (from January 1, 2020 to June 30, 2020)

(1) Consolidated Results of Operations (cumulative)

(% indicates YoY changes)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Second quarter of the term ending December 2020	Millions of yen 793	% (59.0)	Millions of yen (500)	% —	Millions of yen (505)	% —	Millions of yen (715)	% —
Second quarter of the term ended December 2019	1,934	—	432	—	387	—	263	—

(Note) Comprehensive income: Second quarter of the term ending December 2020: -743 million yen (—%)

Second quarter of the term ended December 2019: 264 million yen (—%)

	Profit per share	Fully diluted profit per share
Second quarter of the term ending December 2020	Yen (24.81)	Yen —
Second quarter of the term ended December 2019	9.24	8.86

(Note) 1. The Company first initiated quarterly financial disclosure beginning with the second quarter of the term ended December 2019 due to the listing of the Company's shares on the TSE Mothers exchange on December 25, 2018. Changes in the second quarter of the term ended December 2019 compared with the same year-earlier period are therefore not stated.

2. Diluted profit per share for the second 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
Second quarter of the term ending December 2020	Millions of yen 2,063	Millions of yen 1,405	% 66.6
Term ended December 2019	6,424	2,125	32.5

(Reference) Shareholders' equity: Second quarter of the term ending December 2020: 1,374 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 —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Term ending December 2020	—	0.00	—	0.00	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 (4) Notes on the Quarterly Consolidated Financial Statements (Significant changes of subsidiaries during the consolidated cumulative current quarter)" on page 8 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)

Second quarter of the term ending December 2020	28,898,000 shares	Term ended December 2019	28,621,000 shares
Second quarter of the term ending December 2020	20 shares	Term ended December 2019	20 shares
Second quarter of the term ending December 2020	28,843,095 shares	Second quarter of the term ended December 2019	28,525,735 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.

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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 proceeded on a gradual recovery trend at the beginning of the year thanks to improvements in employment and household income environments. However, subsequently the outbreak of the new coronavirus ("COVID-19") caused a steep downturn in economic activity, leaving the outlook uncertain.

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 June 2020 to shrink 68.7% from the same period of the previous fiscal year to 2.99 million. Likewise, the number of foreign visitors to Japan marked a steep decline from the same period of the previous fiscal year, falling 76.3% to 3.94 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," have been closed in the period under review under 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.

As a result, operating revenue in the period under review posted 793,297 thousand yen (-59.0% compared with the same period of the previous fiscal year). Operating revenue breaks down into 744,093 thousand yen at the Overseas section (-59.1% compared with the same period of the previous fiscal year), 21,651 thousand yen at the Inbound section (-39.4%), and 27,552 thousand yen at the Global section (-65.4%).

Earnings posted an operating loss of 500,893 thousand yen (compared with operating income of 432,734 thousand yen in the same period of the previous fiscal year), an ordinary loss of 505,302 thousand yen (compared with ordinary profit of 387,649 thousand yen in the same period of the previous fiscal year), and a net loss attributable to owners of the parent company of 715,607 thousand yen (compared with a net profit of 263,549 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

1) Assets, liabilities, and net assets

(Current assets)

Current assets at the end of the period under review totaled 1,299,547 thousand yen, reflecting a decrease of 4,191,835 thousand yen compared with the end of the previous fiscal year. This decrease was mainly due to 2,771,261 thousand yen lower cash and deposits and 1,276,717 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 763,542 thousand yen, reflecting a decrease of 169,684 thousand yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 164,305 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 582,338 thousand yen, reflecting a decrease of 3,566,563 thousand yen compared with the end of the previous fiscal year. This decrease was mainly due to 1,744,442 thousand yen lower trade accounts payable and 1,491,505 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 75,205 thousand yen, reflecting a decrease of 74,508 thousand yen compared with the end of the previous fiscal year. This is mainly because of a decrease of 74,498 thousand yen in long-term borrowings.

(Net assets)

Net assets at the end of the period under review totaled 1,405,546 thousand yen, reflecting a decrease of 720,447 thousand yen compared with the end of the previous fiscal year. Main factors comprised 10,803 thousand yen increase in share capital from the issuance of new shares associated with the exercise of stock options, a 10,803 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 715,607 thousand yen, and a 16,078 thousand yen decrease in foreign currency translation adjustments.

2) Cash flows

Cash and cash equivalents ("Cash") at the end of the period under review totaled 1,206,779 thousand yen, which is 2,771,261 thousand yen lower than at the end of the previous fiscal year.

Cash flows in the period under review and their underlying factors developed as follows.

(Cash flows from operating activities)

Net cash used in operating activities in the period under review totaled 2,563,509 thousand yen (962,115 thousand yen in the same period last year). This was mainly due to (providing cash) a decrease in trade receivables of 1,275,528 thousand yen, and (using cash) a decrease in trade payables of 1,742,512 thousand yen, a decrease in advances received of 1,491,037 thousand yen, and a loss before income taxes of 564,994 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities in the period under review totaled 124,378 thousand yen (206,299 thousand yen in the same period last year). This was due to expenditure of 124,378 thousand yen for the acquisition of non-current assets.

(Cash flows from financing activities)

Net cash used in financing activities in the period under review totaled 65,487 thousand yen (66,961 thousand yen in the same period last year). This was mainly due to 21,606 thousand yen in proceeds from issuance of shares, and 98,998 thousand yen in expenditure for repayment of long-term borrowings.

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

The consolidated financial results projections for the term ending December 2020, as announced in the "Notice Concerning Revision of Earnings Forecast" released on March 23, 2020, were not established given that the end of the COVID-19 infection spread was inestimable and the preparation of plausible calculations impracticable at that time. During the second quarter of the current consolidated fiscal year, the Japanese government issued an emergency declaration in April 2020 which continued until the end of May, causing a loss of demand not only for overseas travel but also for domestic travel. As a result, the operating revenue of the Group for the second quarter of the current consolidated fiscal year decreased significantly to 10,553 thousand yen.

On the other hand, domestic travel demand has been gradually recovering since July, and travel restrictions to countries around the world have been gradually lifted. It is expected that Q2 will be the bottom of the downtrend and that operating income will gradually recover after the third quarter. However, due to continued restrictions on travel in major countries such as the United States, which has many Japanese travelers, and the increasing numbers of COVID-19 in Japan, operating income from the third quarter onward is uncertain at this time. As the consolidated financial forecast for the fiscal year ending December 31, 2020 cannot be reasonably calculated, we will continue to leave it undecided. 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 second quarter (June 30, 2020)
Assets		
Current assets		
Cash and deposits	3,978,040	1,206,779
Trade accounts receivable	1,292,347	15,629
Other	220,995	77,138
Total current assets	5,491,383	1,299,547
Non-current assets		
Property, plant and equipment	148,467	121,410
Intangible assets		
Software	532,913	546,945
Software in progress	27,810	35,456
Other	216	216
Total intangible assets	560,940	582,618
Investments and other assets	223,819	59,514
Total non-current assets	933,226	763,542
Total assets	6,424,610	2,063,090
Liabilities		
Current liabilities		
Trade accounts payable	1,760,270	15,828
Short-term borrowings	-	11,851
Current portion of long-term borrowings	197,996	173,496
Accounts payable - other	339,984	52,159
Income taxes payable	8,723	10,037
Advances received	1,569,244	77,739
Provision for point card certificates	176,728	191,360
Other	95,954	49,866
Total current liabilities	4,148,901	582,338
Non-current liabilities		
Long-term borrowings	149,515	75,017
Other	199	188
Total non-current liabilities	149,714	75,205
Total liabilities	4,298,616	657,543
Net assets		
Shareholders' equity		
Share capital	525,374	536,177
Capital surplus	635,765	646,568
Retained earnings	926,486	210,878
Treasury shares	(25)	(25)
Total shareholders' equity	2,087,600	1,393,599
Accumulated other comprehensive income		
Deferred gains or losses on hedges	580	-
Foreign currency translation adjustment	(2,722)	(18,800)
Total accumulated other comprehensive income	(2,141)	(18,800)
Share acquisition rights	-	1,367
Non-controlling interests	40,535	29,380
Total net assets	2,125,994	1,405,546
Total liabilities and net assets	6,424,610	2,063,090

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly consolidated statement of income)

(Current consolidated second quarter)

(Thousands of yen)

	Previous consolidated second quarter (From January 1, 2019 to June 30, 2019)	Current consolidated second quarter (From January 1, 2020 to June 30, 2020)
Operating revenue	1,934,856	793,297
Operating expenses	1,502,121	1,294,190
Operating profit (loss)	432,734	(500,893)
Non-operating income		
Interest income	91	149
Subsidy income	-	7,289
Other	207	624
Total non-operating income	298	8,062
Non-operating expenses		
Interest expenses	1,634	1,188
Foreign exchange losses	43,662	1,035
Compensation expenses	-	10,166
Other	86	81
Total non-operating expenses	45,383	12,472
Ordinary profit (loss)	387,649	(505,302)
Extraordinary losses		
Impairment loss	-	14,070
Extra retirement payments	-	45,621
Total extraordinary losses	-	59,692
Profit (loss) before income taxes	387,649	(564,994)
Income taxes - current	5,184	2,916
Income taxes - deferred	118,915	156,859
Total income taxes	124,099	159,776
Profit (loss)	263,549	(724,771)
Loss attributable to non-controlling interests	-	(9,163)
Profit (loss) attributable to owners of parent	263,549	(715,607)

(Quarterly consolidated statement of comprehensive income)

(Current consolidated second quarter)

(Thousands of yen)

	Previous consolidated second quarter (From January 1, 2019 to June 30, 2019)	Current consolidated second quarter (From January 1, 2020 to June 30, 2020)
Profit (loss)	263,549	(724,771)
Other comprehensive income		
Deferred gains or losses on hedges	(69)	(580)
Foreign currency translation adjustment	999	(18,069)
Total other comprehensive income	929	(18,649)
Comprehensive income	264,479	(743,420)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	264,479	(732,266)
Comprehensive income attributable to non- controlling interests	-	(11,154)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous consolidated second quarter (From January 1, 2019 to June 30, 2019)	Current consolidated second quarter (From January 1, 2020 to June 30, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	387,649	(564,994)
Depreciation	72,289	115,169
Impairment loss	-	14,070
Increase (decrease) in provision for point card certificates	24,717	14,692
Subsidy income	-	(7,289)
Extra retirement payments	-	45,621
Interest income	(91)	(149)
Interest expenses	1,634	1,188
Foreign exchange losses (gains)	10,834	7,065
Share-based remuneration expenses	-	1,367
Decrease (increase) in trade receivables	(170,280)	1,275,528
Decrease (increase) in other assets	(38,641)	145,246
Increase (decrease) in trade payables	54,852	(1,742,512)
Increase (decrease) in accounts payable - other	(38,422)	(292,436)
Increase (decrease) in advances received	746,235	(1,491,037)
Increase (decrease) in other liabilities	23,830	(57,409)
Other	1,293	1,674
Subtotal	1,075,900	(2,534,205)
Interest received	91	149
Interest paid	(1,534)	(1,102)
Proceeds from subsidy income	-	7,289
Extra retirement payments	-	(36,752)
Income taxes (paid) or refunded	(112,342)	1,112
Cash flows from operating activities	962,115	(2,563,509)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,005	-
Expenditure for purchase of non-current assets	(160,664)	(124,378)
Expenditure for payment of leasehold deposits	(46,640)	-
Cash flows from investing activities	(206,299)	(124,378)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	-	11,904
Repayments of long-term borrowings	(98,998)	(98,998)
Proceeds from issuance of shares	165,959	21,606
Cash flows from financing activities	66,961	(65,487)
Effect of exchange rate change on cash and cash equivalents	(15,072)	(17,886)
Net increase (decrease) in cash and cash equivalents	807,704	(2,771,261)
Cash and cash equivalents at beginning of period	3,170,888	3,978,040
Cash and cash equivalents at end of period	3,978,593	1,206,779

(4) 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)

Due to the COVID-19 spread, operating revenue dropped sharply beginning in March 2020, leaving operating revenue for the period under review at 793,297 thousand yen (-59.0% compared with the same period of the previous fiscal year). In addition, although domestic travel demand has been on a gradual recovery trend, due to the continued travel restrictions imposed by countries around the world, including popular Japanese tourist destinations, prospects for acquiring operating revenue remain uncertain also from the third quarter onward.

Given that the end of the COVID-19 spread and the lifting of travel restrictions to countries around the world are not foreseeable, the outlook today is for the current situation to continue until the end of fiscal year 2020. However, based on the 19.5% and 7.6% declines in the number of outbound Japanese travelers respectively in the aftermath of the SARS epidemic and the global financial crisis of 2008, while projections are for a low recovery rate in the first quarter of fiscal year 2021, a gradual rebound in demand toward the end of the fiscal year is expected to emerge in the second quarter. Operating revenue in fiscal year 2021 should recover to around 73% of the level seen in fiscal year 2019 and to 100% in fiscal year 2022. We also foresee a recovery of the business growth rate, etc. Meanwhile, operating profit is expected to recover faster than operating revenue as the effects of the previously implemented operating expenses 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 determined to be discontinued.

Regarding the recoverability of deferred tax assets, based on careful consideration, a corporate tax adjustment of 156,859 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 500,893 thousand yen, an ordinary loss of 505,302 thousand yen, and a 715,607 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. Although domestic travel demand has been on a gradual recovery trend, current expectations are for a prolonged impact of COVID-19 on the real economy from continued travel restrictions to countries around the world, clouding the outlook for the acquisition of operating revenue also from the third quarter onward and leaving the possibility that operating loss, ordinary loss, and net loss attributable to owners of the parent company may increase.

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

As of the beginning of March 2020, when the global spread of COVID-19 became apparent, a Company-wide cost review was conducted, followed by a significant reduction in advertising costs. In addition, the Company is implementing sweeping cost reductions with expense cuts in excess of 1 billion yen compared with the previous fiscal year 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.

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 4,000 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 second quarter of the term ending December 2020, the Company had cash and deposits of 1,206,779 thousand yen, reflecting sufficient funding to continue operations for the foreseeable future. Moreover, in addition to a pre-existing 500 million yen commitment line, the Company concluded overdraft agreements with its main transaction banks for a total amount of 1.5 billion yen, thereby securing readily available stable funding to strengthen the Company's liquidity and reinforce management stability, underscoring the Company's ability to maintain a sufficient level of operating funds for the Group's business also in the current business environment. At the end of the period under review, the Group had balance of unexecuted loans under commitment lines and overdraft agreements totaling 2 billion yen.

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