

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

November 11, 2021

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Stock code: 7048

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Scheduled date of Quarterly Results Briefing Session: Not applicable

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 2021 (from January 1, 2021 to September 30, 2021)

(1) Consolidated Results of Operations (cumulative)

(% indicates YoY changes)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Third quarter of the term ending December 2021	Millions of yen 355	% (57.7)	Millions of yen (834)	% —	Millions of yen (842)	% —	Millions of yen (884)	% —
Third quarter of the term ended December 2020	840	(74.5)	(933)	—	(875)	—	(1,098)	—

Note: Comprehensive income: Third quarter of the term ending December 2021: -871 million yen (—%)

Third quarter of the term ended December 2020: -1,136 million yen (—%)

	Profit per share	Fully diluted profit per share
Third quarter of the term ending December 2021	Yen (26.89)	Yen —
Third quarter of the term ended December 2020	(38.06)	—

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
Third quarter of the term ending December 2021	Millions of yen 1,870	Millions of yen 1,198	% 63.6
Term ended December 2020	1,718	552	31.9

(Reference) Shareholders' equity: Third quarter of the term ending December 2021: 1,189 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 0.00	Yen —	Yen 0.00	Yen 0.00
Term ending December 2021	—	0.00	—	—	—
Term ending December 2021 (forecasts)	—	—	—	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): Yes

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

(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 9 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)	Third quarter of the term ending December 2021	33,081,400 shares	Term ended December 2020	28,934,700 shares
2) Total number of treasury shares at the end of the period	Third quarter of the term ending December 2021	97 shares	Term ended December 2020	97 shares
3) Average number of shares during the period (cumulative)	Third quarter of the term ending December 2021	32,897,978 shares	Third quarter of the term ended December 2020	28,864,545 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 September 2021 falling 97.6% from the same period of fiscal year 2019 to 360,000, 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 fiscal year 2019, falling 99.2% to 190,000 (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 since March 2020 are not in sight, and restrictions on outbound travel continue. Moreover, with a state of emergency declared until the end of September, which mainly impacted the Tokyo metropolitan area, domestic and foreign travel demand remain in a subdued state.

As a result, operating revenue in the period under review posted 355,676 thousand yen (-57.7% compared with the same period of the previous fiscal year). Operating revenue by revenue category posted 257,822 thousand yen at OTA operations (-67.7% compared with the same period of the previous fiscal year) and 97,853 thousand yen at Tourism IT Operations (50.2% 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 834,151 thousand yen (compared with an operating loss of 933,024 thousand yen in the same period of the previous fiscal year), ordinary loss of 842,709 thousand yen (compared with an ordinary loss of 875,713 thousand yen in the same period of the previous fiscal year), and quarterly net loss attributable to owners of the parent of 884,612 thousand yen (compared with a net loss attributable to owners of the parent of 1,098,581 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

1) Assets, liabilities, and net assets

(Current assets)

Current assets at the end of the period under review totaled 1,374,943 thousand yen, reflecting an increase of 276,885 thousand yen compared with the end of the previous fiscal year. This was mainly due to an increase of 323,645 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 495,205 thousand yen, reflecting a decrease of 124,280 thousand yen compared with the end of the previous fiscal year. This was mainly due to a 97,437 thousand yen decrease in software and a 42,344 thousand yen decrease in investments and other assets.

(Current liabilities)

Current liabilities at the end of the period under review totaled 667,891 thousand yen, reflecting a decrease of 468,447 thousand yen compared with the end of the previous fiscal year. This was mainly due to an increase of 80,722 thousand yen in advances received, while short-term loans payable decreased by 599,641 thousand yen.

(Non-current liabilities)

Non-current liabilities at the end of the period under review totaled 3,668 thousand yen, reflecting a decrease of 25,702 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 1,198,588 thousand yen, reflecting an increase of 665,214 thousand yen compared with the end of the previous fiscal year. This was mainly due to increases of 755,636 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 884,612 thousand yen.

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

As a result of a resurgence of COVID-19 cases in April 2021, a state of emergency was declared from July to the end of September. As a result, the outlook for the future remains 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 Third quarter (September 30, 2021)
Assets		
Current assets		
Cash and deposits	917,334	1,240,980
Trade accounts receivable	30,262	75,848
Other	150,460	58,113
Total current assets	1,098,057	1,374,943
Non-current assets		
Property, plant and equipment	18,043	19,544
Intangible assets		
Software	508,248	410,810
Software in progress	19,640	33,099
Other	216	216
Total intangible assets	528,104	444,126
Investments and other assets	73,878	31,534
Total non-current assets	620,026	495,205
Total assets	1,718,084	1,870,148
Liabilities		
Current liabilities		
Trade accounts payable	54,213	186,218
Short-term borrowings	611,384	11,742
Current portion of long-term borrowings	124,496	50,018
Accounts payable - other	76,469	42,860
Income taxes payable	1,397	32,244
Advances received	46,286	127,009
Provision for point card certificates	181,574	187,793
Other	40,516	30,004
Total current liabilities	1,136,339	667,891
Non-current liabilities		
Long-term borrowings	25,019	-
Other	4,352	3,668
Total non-current liabilities	29,371	3,668
Total liabilities	1,165,710	652,559
Net assets		
Shareholders' equity		
Share capital	537,608	1,293,830
Capital surplus	648,173	1,404,394
Retained earnings	(620,768)	(1,505,381)
Treasury shares	(70)	(70)
Total shareholders' equity	564,943	1,192,772
Accumulated other comprehensive income		
Foreign currency translation adjustment	(16,966)	(3,387)
Total accumulated other comprehensive income	(16,966)	(3,387)
Share acquisition rights	4,397	9,203
Total net assets	552,374	1,198,588
Total liabilities and net assets	1,718,084	1,870,148

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Consolidated Financial Results for the Third Quarter of Term Ending December 2021

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly consolidated statement of income)

(Current consolidated first quarter)

(Thousands of yen)

	Previous consolidated Third quarter (From January 1, 2020 to September 30, 2020)	Current consolidated Third quarter (From January 1, 2021 to September 30, 2021)
Operating revenue	840,420	355,676
Operating expenses	1,773,445	1,189,827
Operating profit (loss)	<u>(933,024)</u>	<u>(834,151)</u>
Non-operating income		
Interest income	201	40
Subsidy income	65,492	40,810
Other	3,862	2,195
Total non-operating income	<u>69,557</u>	<u>43,046</u>
Non-operating expenses		
Interest expenses	1,658	1,556
Foreign exchange losses	309	723
Compensation expenses	10,166	-
Share issuance costs	-	49,325
Other	111	0
Total non-operating expenses	<u>12,245</u>	<u>51,604</u>
Ordinary profit (loss)	<u>(875,713)</u>	<u>(842,709)</u>
Extraordinary losses		
Impairment loss	70,471	-
Extra retirement payments	45,798	14,074
Loss on liquidation of subsidiaries and associates	-	2,195
Total extraordinary losses	<u>116,270</u>	<u>16,269</u>
Profit (loss) before income taxes	<u>(991,983)</u>	<u>(858,979)</u>
Income taxes - current	4,140	6,486
Refund of income tax	(36,696)	-
Income taxes - deferred	156,739	146
Total income taxes	<u>124,183</u>	<u>6,633</u>
Profit (loss)	<u>(1,116,166)</u>	<u>(884,612)</u>
Profit (loss) attributable to non-controlling interests	(17,585)	-
Profit (loss) attributable to owners of parent	<u>(1,098,581)</u>	<u>(884,612)</u>

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

(Thousands of yen)

	Previous consolidated Third quarter (From January 1, 2020 to September 30, 2020)	Current consolidated Third quarter (From January 1, 2021 to September 30, 2021)
Profit (loss)	(1,116,166)	(884,612)
Other comprehensive income		
Deferred gains or losses on hedges	(580)	-
Foreign currency translation adjustment	(19,583)	13,578
Total other comprehensive income	(20,164)	13,578
Comprehensive income	(1,136,330)	(871,034)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(1,116,903)	(871,034)
Comprehensive income attributable to non- controlling interests	(19,427)	-

(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 834,151 thousand yen, ordinary loss of 842,709 thousand yen, and net loss attributable to owners of the parent of 884,612 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 Fourth 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 583,617 thousand yen compared with the same period of the previous fiscal year. Additional cost control measures will be implemented also in and after the Third 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 September 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 1,240,890 thousand yen, reflecting an increase of 323,645 thousand yen compared with the end of the previous fiscal year. Net assets totaled 1,198,588 thousand yen, reflecting an increase of 665,214 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 1,600,000 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 1,821 thousand yen each. As a result, at the end of the Third quarter of the current fiscal year, share capital amounted to 1,293,830 thousand yen and legal capital surplus to 1,404,394 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 third quarter fell to 355,676 thousand yen (-57.0% 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 September 30, 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 September 30, 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 Third quarter of the current fiscal year, consolidated results marked an operating loss of 834,151 thousand yen, ordinary loss of 842,709 thousand yen, and net loss attributable to owners of the parent of 884,612 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 fourth 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 (4) Notes on the Quarterly Consolidated Financial Statements (Notes on the Going Concern Assumption)."