Resorttrust, Inc.

2Q Financial Results Briefing for the Fiscal Year Ending March 31, 2024

November 13, 2023

Event Summary

[Company Name]	Resorttrust, Inc.
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[Venue]	Dial-in
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[Participants]	
[Number of Speakers]	3

Ariyoshi Fushimi	President
Takeshi Makino	Sustainability Promotion Department, Investor and Public Relations Department Director
Hirotaka Honda	Investor and Public Relations Division Manager, Sustainability Promotion Department

[Analyst Names]* Hirofumi Oda — SMBC Nikko Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Moderator: Hello, everyone. Thank you for participating in Resorttrust, Inc.'s telephone conference today. President Ariyoshi Fushimi will be participating in today's telephone conference; Takeshi Makino, Sustainability Promotion Department, Investor and Public Relations Department Director; Hirotaka Honda, Sustainability Promotion Department, Investor and Public Relations Department Division Manager.

President Ariyoshi Fushimi will now provide the financial results presentation for Q2 of the fiscal year ending March 2024, followed by a question-and-answer session. The entire conference is scheduled to last approximately 60 minutes. The announcement materials are posted on our website, so please refer to them.

Before we begin the telephone conference, I would like to bring one point to your attention. Although this presentation may include forecasts based on current expectations, they are all subject to risks and uncertainties. We would like to remind everyone in advance that actual results may differ from our forecasts.

Now please begin the presentation, Mr. Fushimi.

Fushimi: My name is Fushimi of Resorttrust. Thank you very much for participating in our financial results presentation today. I will now explain the financial results for Q2 of the fiscal year ending March 2024. The explanation will be based on the financial statements that you currently have.

Let me begin with a brief summary. First, please look at page one.

First, if you look at number one, consolidated net sales for H1 2023 were JPY89.4 billion and consolidated operating profits were JPY7.7 billion, representing an increase in both revenues and profits. In particular, consolidated net sales reached a record high. The details include membership sales, hotel segment, and medical services. Each of them performed well, surpassing the previous year's record sales of JPY84 billion.

Therefore, number two of this report shows that the contract volume for membership sales reached an all-time high in H1 of a fiscal year, with JPY43.7 billion for hotels and JPY3.9 billion for medical services. Each of these is an all-time high. In the hotel segment, the SANCTUARY COURT series is performing favorably like the one in Takayama, especially for the Nikko branch. Medical also reached an all-time high for H1.

If you refer to number one once more, the hotel and restaurant segment also increased by 44% YoY in terms of operating profits. The medical business also achieved a 19% increase YoY, with medical segment profits also reaching an all-time high, contributing significantly to an overall increase in revenues and profits.

As a result, we have revised our full year earnings forecast upward, as shown in number three. Consolidated net sales and consolidated operating profits are expected to reach JPY202 billion and JPY21 billion respectively, both of which are predicted to significantly exceed the all-time high sales profits and break the record.

As we break the past all-time high, we have also increased our year-end dividend forecast by JPY4 and announced a year-end dividend of JPY29.

Financial Highlights 2Q FY2023 (April to September) RESORTTRUST GROUP

【Financial Highlights 2Q FY2023】

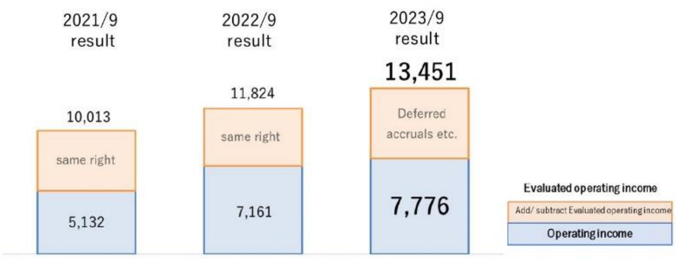
*Published values for 14 July 2023. (Million yen)

	2022/9 results	2023/9 results	YoY Difference	2023/9 revision targets	vs. revision targets
Net Sales	84,016	89,428	6.4%	89,000	+0.5%
Operating Income	7,161	**7,776**	8.6%	6,500	+19.6%
Ordinary Income	7,442	7,969	7.1%	6,500	+22.6%
Net Income	12,144	6,084	(49.9%)	5,200	+17.0%
Evaluated net sales	100,514	107,897	+7.3%	106,500	+1.3%
Evaluated Operating Income	11,824	**13,451**	+13.8%	11,700	+15.0%

*Income attributable to owners of parent is labelled as "Net income" in this document.

・ **Membership sales and facility operations were both off to a good start.**
(Sanctuary Court sales, membership hotel operation, senior residence occupancy rate, etc.)
・ **Measures to improve compensation (up by 5%) including across-the-board pay increases were implemented as planned** and the increase in sales absorbed the costs. **Prices of hotel memberships were also revised in June.**
・ Currently, energy costs have not risen to the expected levels. Certain costs including building and repairing expenses will be deferred to the second half of the year.
・ **Evaluated operating income for the first half of the year reached a record high.**
・ Approximately 1.5 billion yen in gain on redemption of foreign bonds was recorded under extraordinary income.
Net income alone decreased, **as a gain on sales of non-membership hotels of approximately 9.0 billion yen was reported in the previous fiscal year**.

【First Half of the Year Historical 3-Year Trends in Evaluated Operating Income】
* Figures in blue graphs are operating income on a recorded basis.



(Reference)
* Evaluated net sales/Evaluated operating income:
In the pre-opening hotel membership sales, accounting figures for the real estate cost of the membership fee is deferred until the opening of the hotel as the revenue is realized in a lump sum at the time of opening. Evaluated operating income represents income assuming that such income to be deferred had been recorded during the current fiscal year.
In addition, it is used as a management indicator of real performance during the current fiscal year, taking into account the effect of Accounting Standard for Revenue Recognition for medical memberships, etc.

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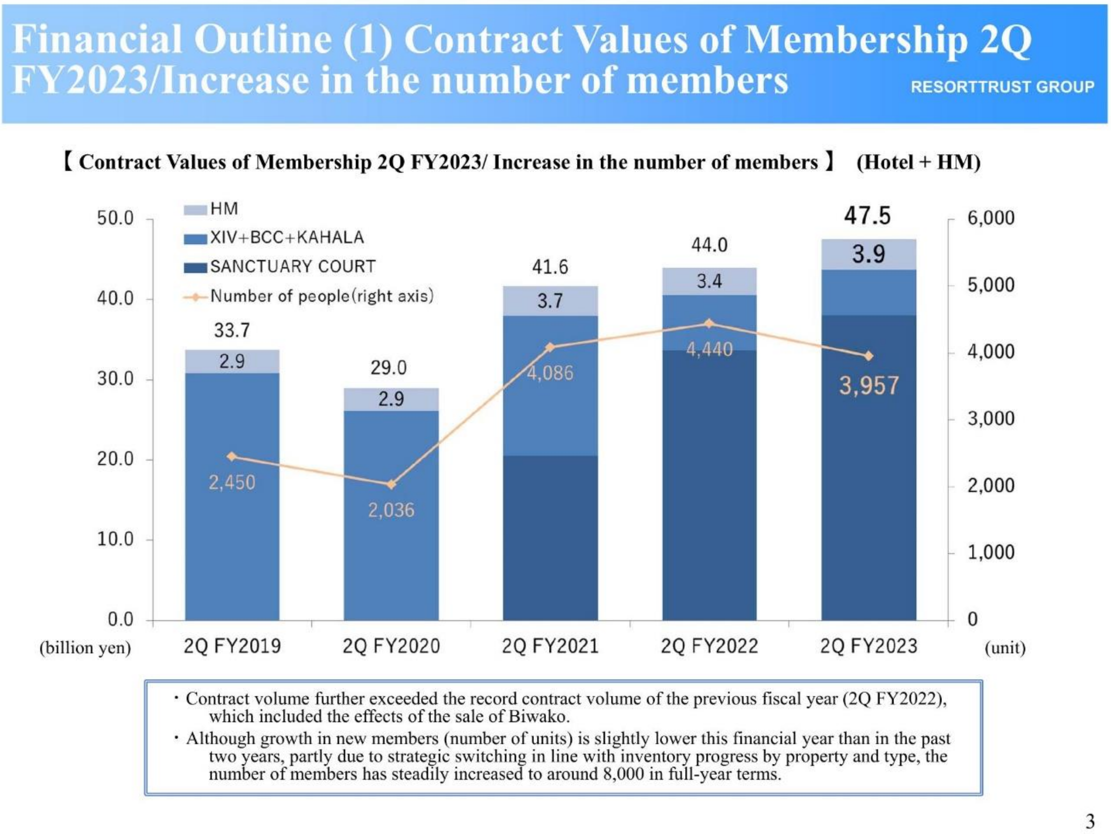
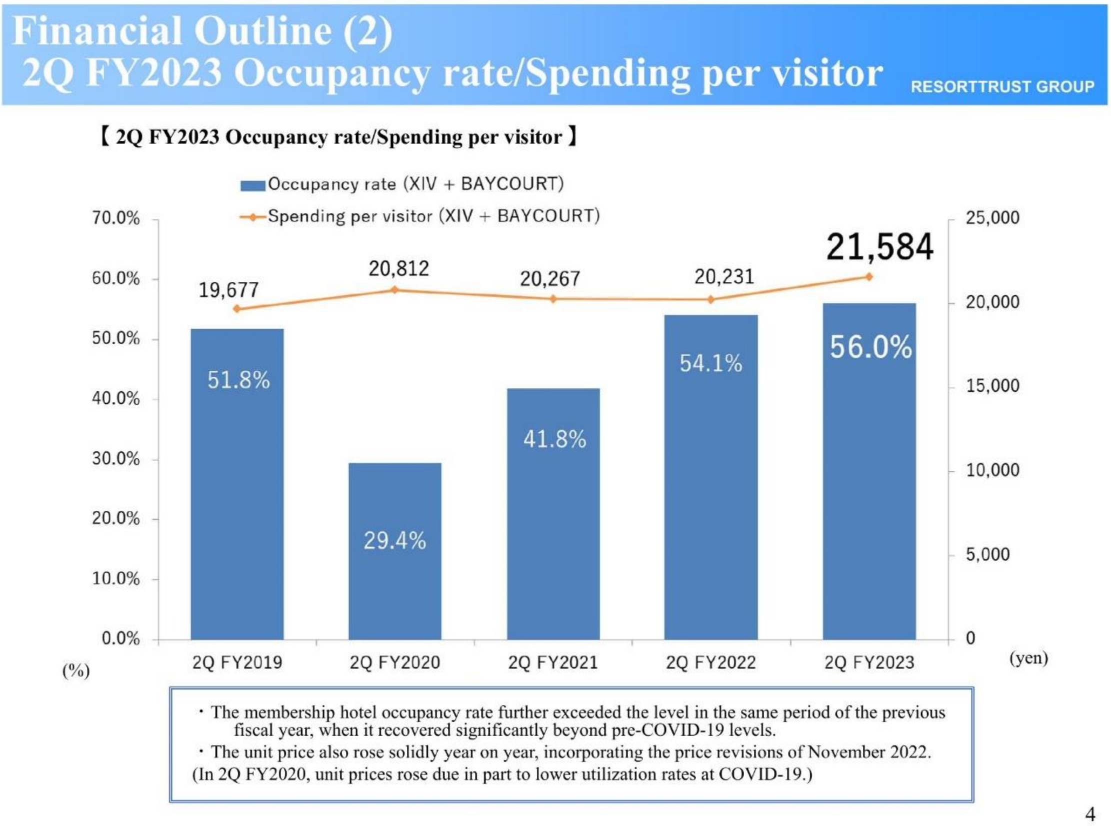
Next, is page two. As usually mentioned, net sales were JPY89.428 billion, an increase of 6.4% YoY and an increase of 0.5% from the revised plan. Operating profits were JPY7.77 billion, an increase of 8.6% YoY and an increase of 19% from the revised plan. Ordinary profits were JPY7.969 billion, an increase of 7.1% YoY and an increase of 22% from the revised plan. Current net profits were JPY6 billion, a decrease of 49.9% YoY and an increase of 17% from the plan.

We experienced a gain of approximately JPY9 billion from the sale of our trustee series hotels for the general public in the previous fiscal year, which resulted in a negative figure. Substantially, we achieve all-time highs for all categories until the current net profits. Therefore, we have adopted evaluated net sales and evaluated operating profits as our internal evaluation standards, both of which are aimed at eliminating the annual difference of deferred real estate. Although these figures are based on performance, I am confident that we have made steady progress toward sales and profits.



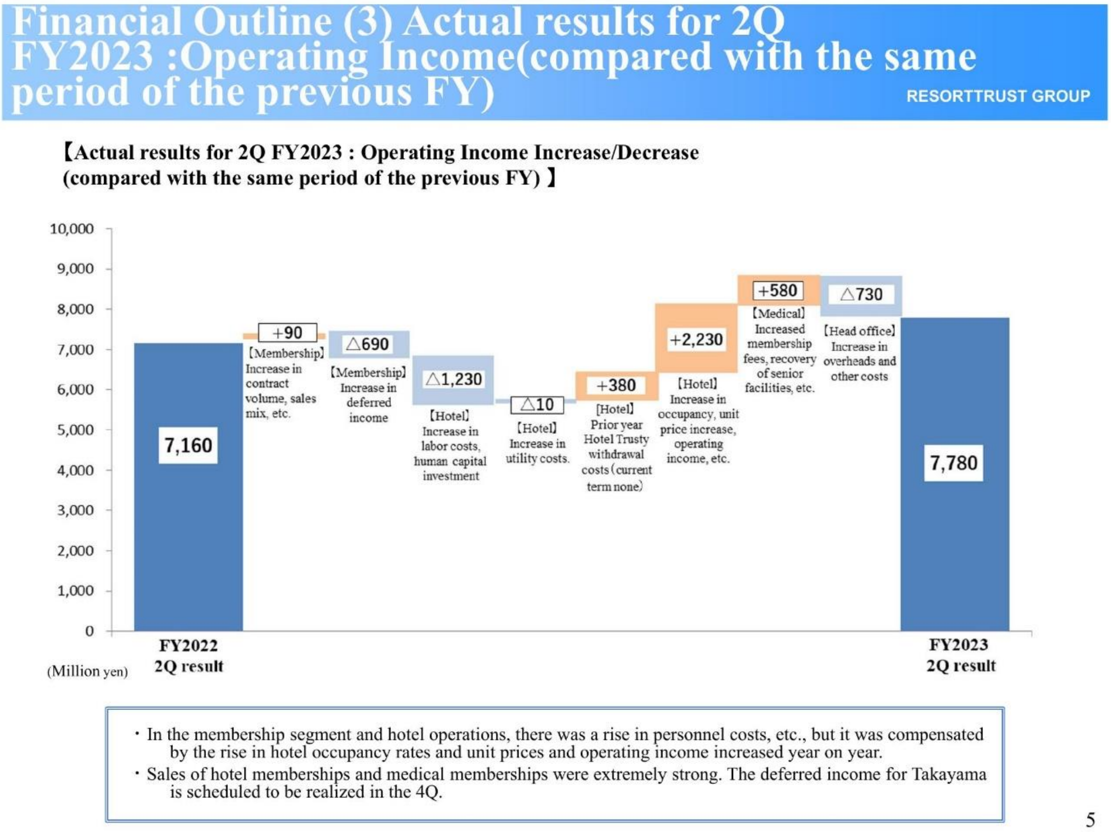
Continuing on page three, here is the status of contract volume and membership growth.

As I mentioned earlier, contract volume grew steadily to JPY47.5 billion. However, the net increase in membership for this fiscal year was 3,957, which did not reach the 4,400 level of the previous fiscal year. However, this drop in net increase is attributed to inventory-related matters and how we've been undergoing a strategic switch and we don't see any issues.



Please refer to page four. These are occupancy rate and consumption unit price, which are major indicators of our operation.

The occupancy rate was 56%, which has already recovered to pre-COVID-19 levels in the previous fiscal year. This means that we managed to further achieve growth of 56%. For consumption unit price, as we have revised the room rates and meal prices for each hotel in the last fiscal year, I understand that the strong growth in occupancy rate coupled and consumption unit price has led to the overall good performance.

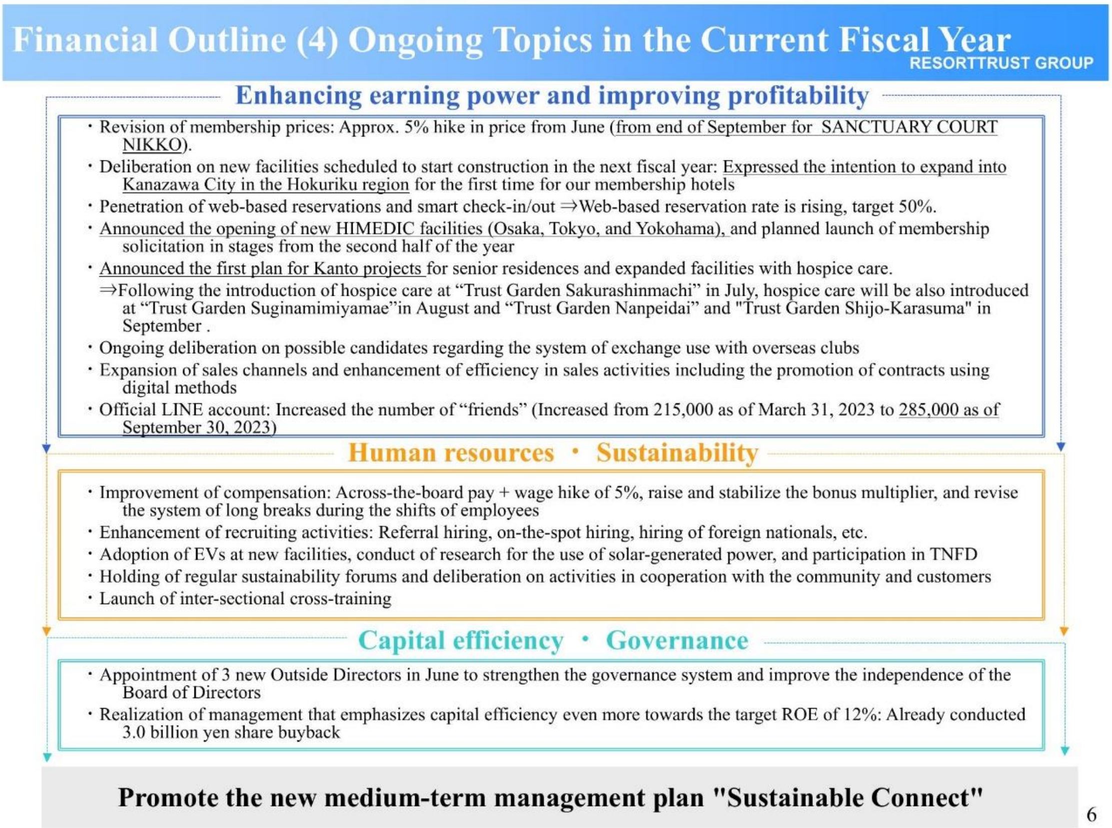


Please refer to page five. This chart indicates changes in operating profits from the previous year.

In the fiscal year ending September 2022, the far-left figure is JPY7.16 billion, while this fiscal year's figure shows an increase of 0.9, whereas operating profits show an increase of JPY90 million due to an increase in contract volume. We also have a decrease in deferred revenues. This negative figure is due to a further increase in the contract amount for uncompleted properties since last year, resulting in a further increase in deferred profits compared to last year.

The hotel section comprises the largest part at a decrease of JPY1.23 billion, which accounts for the overall wage raises and investment in human resources for workstyle reform, including disintermediation. For utilities, which showed positive results and something we considered a major factor, we managed to keep them to nearly the same levels as the previous year despite the minor decrease. In addition, as I mentioned earlier, no costs were incurred for selling our hotels or withdrawing from the market last year, which resulted in an increase. The largest increase factor is attributed to an increase in hotel occupancy, short-term sales, and an increase in operating revenues due to higher unit prices, which totaled a JPY2.2 billion increase.

Then there was a JPY580 million revenue increase in the medical business. Additionally, the head office also reported a JPY730 million decrease in overhead expenses for the sales division, which includes personnel expenses. These are factored into the JPY7.78 billion for this H1's performance.



I will now explain the current topics on page six before moving on to each segment.

First of all, as I mentioned earlier, we reviewed the membership fees this fiscal year to boost profit potential and improve profitability. We have reviewed the prices of the SANCTUARY COURT series from June and have raised them by approximately 5%. SANCTUARY COURT NIKKO has already raised its prices by 5% at the end of September to reflect these price revisions, despite a slight delay because it has just started sales.

Although our current inventory continues to experience a shortage, we have also announced that we have almost decided to expand our services to Kanazawa and start construction of a new facility in Kanazawa in the next fiscal year.

In addition, with the penetration of web-based reservations and smart check-in/check-out, the web-based reservation rate has reached nearly 40%, while we will strive to improve productivity by increasing the efficiency of our operations with a target of 50%.

In the medical business, we have also issued a press release regarding our new HIMEDIC facilities in Osaka, Tokyo, and Yokohama, and will begin seeking membership in H2 of this fiscal year.

We have also announced plans for the first nursing home in collaboration with Mitsubishi Estate to establish a new brand, and we will announce details as soon as they are finalized. For others, contracts that utilize digital technology and LINE registrations have been favorable.

Next, in the area of human resources and sustainability, we are aiming to improve employee satisfaction and turnover rate by raising the bonus multiplier this fiscal year, in addition to the 5% wage hike in terms of compensation.

Although the industry is indeed experiencing difficult times in terms of hiring, we introduced a referral hiring system last year where our employees refer other people to us. We have part-time employment for transient positions, such as through Timee. We have started efficient operations for this. In addition, we have been recruiting foreigners, mainly from Myanmar and surrounding areas, by inviting applicants from each country who then receive Japanese language, hotel service training, and other programs for about six months. Once they fulfill certain criteria, we invite them to Japan. We already have 60 people working with us for this fiscal year. We noticed that this is a very solid level and are currently conducting hiring activities in each country to increase the number of these foreign employees from the current 200 to 300 people for the next fiscal year.

As we are newly opening hotels one after another starting next year under these circumstances, we are now in the process of reviewing the overall branding along with our businesses to make efforts in our hiring process in various areas, as well as preventing resignations.

For capital efficiency and governance, three new external directors were appointed in June. To achieve our ROE target of 12%, we are making efforts with management practices that prioritize capital efficiency.

Segment Sales and Operation Income 2Q FY2023
3 main business segments
(April to September) RESORTTRUST GROUP

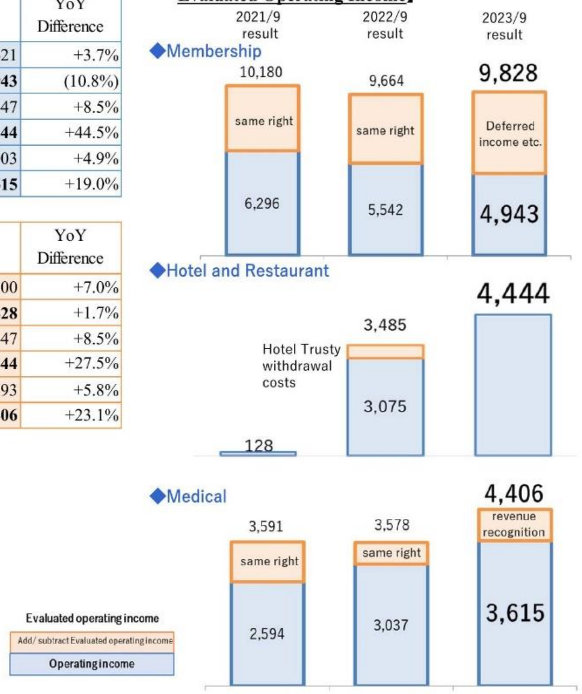
【Segment Sales and Operation Income 2Q FY2023】 (Million yen)

		2022/9 results	2023/9 results	YoY Difference
Membership	Sales	17,953	18,621	+3.7%
	Operating Income	5,542	**4,943**	(10.8%)
Hotel and Restaurant	Sales	43,748	47,447	+8.5%
	Operating Income	3,075	**4,444**	+44.5%
Medical	Sales	21,939	23,003	+4.9%
	Operating Income	3,037	**3,615**	+19.0%

		2022/9 results	2023/9 results	YoY Difference
Membership	Evaluated net sales	33,910	36,300	+7.0%
	Evaluated Operating Income	9,664	**9,828**	+1.7%
Hotel and Restaurant	Evaluated net sales	43,748	47,447	+8.5%
	Evaluated Operating Income	3,485	**4,444**	+27.5%
Medical	Evaluated net sales	22,480	23,793	+5.8%
	Evaluated Operating Income	3,578	**4,406**	+23.1%

(Reference)
* Evaluated net sales/Evaluated operating income:
In the pre-opening hotel membership sales, accounting figures for the real estate cost of the membership fee is deferred until the opening of the hotel as the revenue is realized in a lump sum at the time of opening. Evaluated operating income represents income assuming that such income to be deferred had been recorded during the current fiscal year.
In addition, it is used as a management indicator of real performance during the current fiscal year, taking into account the effect of Accounting Standard for Revenue Recognition for medical memberships, etc.

【First Half of the Year Historical 3-Year Trends in Evaluated Operating Income】



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From page seven, I will briefly explain the segments.

Although sales of membership grew steadily, as mentioned earlier, operating profits decreased YoY, which is not a problem for the full year whatsoever. In H1, the increase in personnel expenses, along with internal and external commissions, amounted to JPY200 million. This is due to a significant increase in successful referral rates. The main factor lies in the JPY200 million for incentive payments, whose effects paid off in H1 while only operating profits posted slightly negative results.

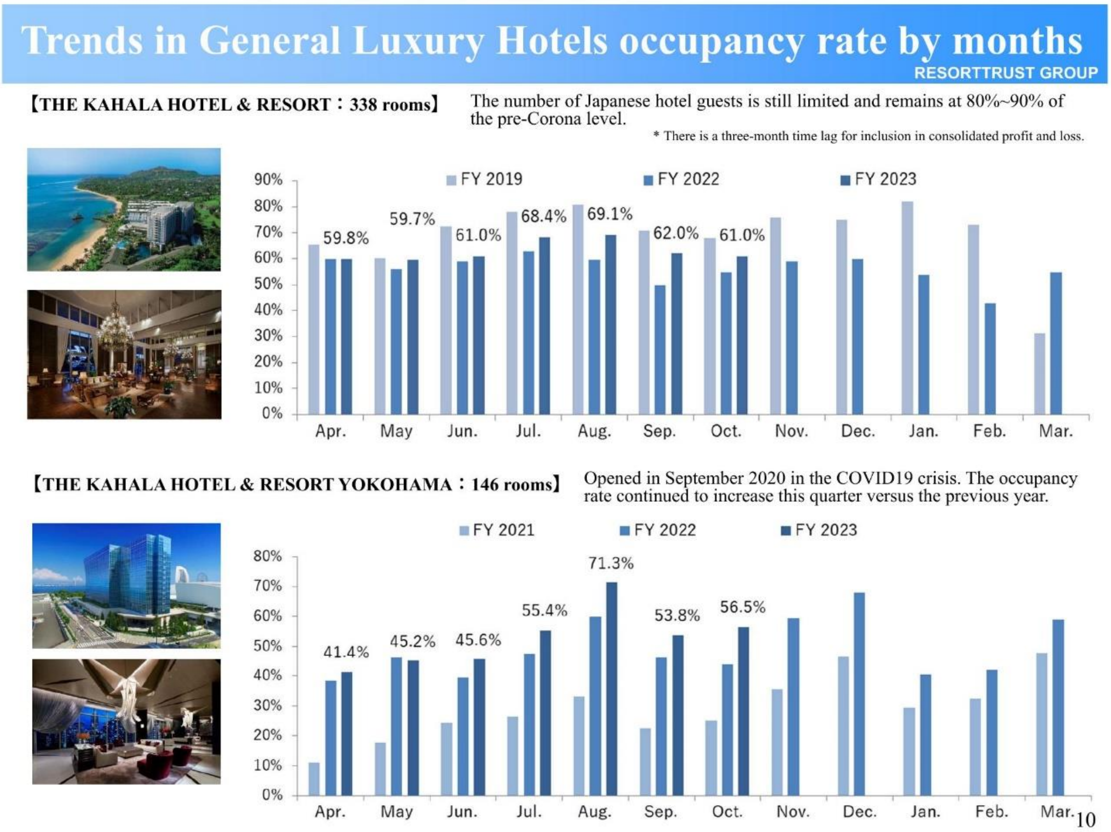
Both sales and operating profits for the hotel/restaurant and medical divisions experienced no problems and achieved growth as mentioned earlier. In the medical sector in particular, the significant growth in occupancy rate and profit rate for nursing homes was a major factor and it wasn't only for HIMEDIC.

Therefore, although the membership business also appears to show negative results, as I mentioned earlier, the orange section below indicates evaluated sales and evaluated operating profits, we can achieve progress and growth throughout all businesses.

Page eight shows the details mainly for the membership business. As mentioned earlier, the contract details describe SANCTUARY COURT NIKKO at JPY22 billion, which focuses on Lake Biwa and Takayama at JPY10.6 billion and JPY5.4 billion respectively. This comprises almost entirely of the contract volume for the three hotels of the SANCTUARY COURT series.

We are also seeing steady growth in digital utilization, which has been shown as a new indicator. The financial institutions and hotel referrals have also been growing steadily, which have been incurring the commission that I mentioned earlier.

Next, pages 9 and 10 explain the overview of the hotel sector, and I will describe the operation status. For EXIV, I can assure you that it has been growing steadily not only for last year but also for the year before it. If you look at the lower section of page nine for Baycourt in particular, although it has shown slow recovery in operation due to its proximity to urban areas, it has seen an overall recovery from this fiscal year.



Page 10 explains the general luxury hotel category. Although Kahala in Hawaii has grown from last year, it has not yet recovered to pre-COVID-19 levels. However, in terms of the breakdown of visitors, 70% of them are from the US mainland, less than 10% from Oceania, and the remaining 20%-something are from Asian countries, mainly from Japan. Although Japanese customers accounted for approximately 20% of the entire clientele before COVID-19, the current level still stands at 2%, meaning a negative factor associated with the lack of Japanese people not returning. We expect this to improve in the next fiscal year, given that the number of flights will increase from next January, despite some issues with the foreign exchange rates.

Below that is Yokohama Kahala. Kahala started operations during the COVID-19 pandemic and has been achieving steady growth. Although foreign tourism is still weak in comparison to Tokyo, conventions and other events are starting to take place, so we can expect further growth in operations.

Please refer to page 11. This is the medical segment.

The top row shows the number of HIMEDIC units sold. As we managed to achieve an all-time high performance for Q1 and Q2 and see new products being introduced for Q3 and Q4, we can expect to see an all-time high at the full year level.

The lower level indicates nursing homes. As we see a recovery in operations, reviews for product pricing and membership prices overall and restructuring of our management system, the ratio has changed from 1.5:1 to 2:1. This is not to say that the quality of care has declined, but rather that the introduction of the hospice has meant that we can provide good care to those who need it. We have implemented these measures so we can efficiently operate to cater to people who don’t require such care. Additionally, by introducing routine procedures and other measures to review the level of care, we are significantly improving profitability and can expect all-time high profits in terms of the full year for the nursing home business.

Revised Business Forecast for FY2023

*Upward Revision of Full-Year Earnings Forecasts (November 10, 2023) RESORTTRUST GROUP

<Consolidated Targets> (Million yen)

	FY2022 results	FY2023 revision targets (As of Nov.)	Change	FY2023 revision targets (As of Jul.)
Net sales	169,830	**202,000**	+32,169	201,000
Operating income	12,270	**21,000**	+8,729	19,000
Ordinary income	13,247	**21,200**	+7,952	19,000
Net income	16,906	**15,000**	(1,906)	14,000
Evaluated Operating Income	22,358	**22,300**	(58)	19,380

<Operating Income by Segment (before allocation)> (Million yen)

		FY2022 results	FY2023 revision targets (As of Nov.)	Change	FY2023 revision targets (As of Jul.)
Membership	Sales	34,945	**60,610**	+25,664	58,400
	Operating income	11,182	**18,400**	+7,217	16,800
	Evaluated Operating Income	19,861	**20,190**	+329	17,870
Hotel and Restaura	Sales	89,747	**94,130**	+4,382	95,490
	Operating income	4,167	**5,180**	+1,012	4,640
	Evaluated Operating Income	4,577	**5,180**	+602	4,640
Medical	Sales	44,422	**46,590**	+2,167	46,480
	Operating income	6,053	**6,930**	+876	6,220
	Evaluated Operating Income	7,461	**7,840**	+379	6,920
Other	Sales	714	**670**	(44)	630
	Operating income	687	**780**	+93	750
Head office costs	Operating income	(9,820)	**(10,290)**	(469)	(9,410)
	Sales	(10,230)	※ **(11,690)**	(1,460)	(10,800)
Total	Sales	169,830	**202,000**	+32,169	201,000
	Operating income	12,270	**21,000**	+8,729	19,000
	Evaluated Operating Income	22,358	**22,300**	(58)	19,380

*Preparation for opening cost for Hotel Membership: 1.4 billion yen included in head office costs for evaluated income purpose.

<Net Sales / Operating Income >

・Hotel membership Contract value
FY2022: 82.6 billion yen (Biwako: Launched in March 2022, Nikko : Launched in October 2022.)
FY2023: 86.2 billion yen (Effect of higher contract volume due to launch: None)

・Contract Values of HIMEDIC
FY2022: 7.2 billion yen FY2023: 7.0 billion yen

・Deferred Realization (Account for the portion of the sale completed by the first semester.)
FY2023: Deferred income +7.4 billion yen (Takayama)

・Revenue deferred during the fiscal year (due to sales of unopened properties)
FY2022: Deferred income of (8.3) billion yen (Takayama, Biwako, Nikko.)
FY2023: Deferred income of (7.4) billion yen (Biwako, Nikko.)

・Opening-related expenses
FY2023: (1.4) billion yen (Takayama 1.2billion yen, Biwako ※ preparation room 0.2billion yen)

・Operating and maintenance costs (including dormitories)
FY2022: (2.6) billion yen FY2023: (3.0) billion yen

・Hotel occupancy rate
XIV・・・FY2022: 54.1% FY2023: 54.6%
BCC・・・FY2022: 47.0% FY2023: 52.0%

＜Extraordinary Items ＞
・FY2022: Gain on sale of 7 Hotel Trusty facilities 9.0 billion yen (extraordinary income)
・FY2023: 1.5 billion yen gain on sale of foreign bonds. (extraordinary income)

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Finally, please refer to page 12. As I mentioned earlier, we have revised our full year plan for the current fiscal year upward, with net sales to JPY202 billion, operating profits to JPY21 billion, ordinary profits to JPY21.2 billion, and current net profits to JPY15 billion.

I believe that we will manage to close the current fiscal year with sales and operating profits achieving targets for all segments. That concludes my summary.

Moderator: That concludes the presentation.

Question & Answer

Moderator [M]: We would now like to move on to the question-and-answer session. The question-and-answer session will be conducted under the operator's instructions.

Operator [M]: We will now move on to the question-and-answer session. When it is your turn to ask a question and the moderator calls your name, please mention your company name and your surname, followed by your question. Please note that we will limit the number of questions to two per person at a time.

Now let's begin the question-and-answer session. Let's start with Mr. Oda from SMBC Nikko Securities. Please go ahead with your question.

Oda [Q]: Hello. My name is Oda from SMBC Nikko Securities. I have two questions. Please answer one question at a time. Since I think your performance for this fiscal year is very strong, I see that you started a partnership with DeNA to create Well Compass as you envision the near future. I think it has been about a year and a half since your partnership and I would like to know what the current situation is, including in terms of quantitative and qualitative aspects. I would also like to know when you plan for future expansion and monetization in terms of revenues. That is my first question. Thank you.

Fushimi [A]: First of all, for the Well Compass project with DeNA, one of our goals is to make new proposals based on usage data, such as eventually attracting customers to the hotel as a group.

Another one includes a major goal to cross-sell each other's products, as our group members and products, along with DeNA's products and customers, account for hundreds of thousands of people for health management.

In the current situation, customer satisfaction for the medical examination division and examination consultation, as well as improvement and standardization of doctor's diagnoses are agendas for the medical department. We have created and shared a model pattern and introduced it to improve overall satisfaction.

Another is the proposal of tailor-made supplements based on the results of medical examinations, which we have already introduced. Although it's not so significant in terms of overall performance, it is growing steadily. Rather than for new services, we are seeing results with successful contracts eventually doubling for online shopping, so while we conduct tests on these in various formats, we are considering how we can utilize them throughout our group.

In quantitative terms, although we still don't have anything to announce, we can see to some extent where it is heading.

Oda [Q]: If it's possible to add more details, could you describe the span or duration it might take to achieve profitability? I understand that it's incurring costs because it's in the developmental phase. Also, for the direction that you mentioned, what direction do you predict it to be heading? I would appreciate it if you could give me an estimate in years or a timeline of events if possible. I would be grateful for such details.

Fushimi [A]: Although we can achieve profits in three years, I cannot predict the extent of the prevalence among all the hotels that I mentioned earlier, but I believe it would take approximately five years to show some effect.

Oda [Q]: When you mentioned three years, you mean since the start of the partnership, correct?

Fushimi [A]: That's right, from the third year.

Oda [Q]: You see the effects paying off from FY2025, right?

Fushimi [A]: Exactly. Okay.

Oda [Q]: I see. Thank you.

Medium-term Management Plan Numerical Targets(2023.4-2028.3)

RESORTTRUST GROUP

＜Five-year common targets＞

Overall index	2023.4～2028.3
Operating income to net sales	10% or more
Operating income growth rate	10% or more per annum on average * 2024.3 Plan as starting point.
ROE	Aim for 12% above 10%.
Return policy	Provides stable returns with a payout ratio of 40% or more.
Consolidated contract values	2028.3: 10% growth (vs. initial plan for 2024.3)
Hotel occupancy rate (Total of all brands)	2028.3: 60% growth (+5 points vs. initial plan for 2024.3)

＜Numerical targets for the Next Three Years＞

(Billions of yen)	FY2022	FY2023 (New medium-term plan first year)		FY2024 (2nd year)	FY2025 (3rd year)
Index	Previous year results	Initial plan	Revised Plan (as of Nov.)	(Reference) Target	Target
Net Sales	169.8	200.0	202.0	215.0	230.0
Operating Income	12.2	18.0	21.0	Initial target 20.0 Current target 22.0	23.0
Operating income growth rate	+41.2%	+46.7%	+71.1%	-	-
Ordinary Income	13.2	18.0	21.2	Initial target 20.0	23.0
Net Income	16.9	12.0	15.0	Initial target 13.0	15.0
ROE	15.4%	9.9%	12.2%	-	11.0%
Evaluated Operating Income	22.3	Property opening assumed each fiscal year, expecting the amount which is about the same level as that of operating income			

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The second question, although there was no mention in today's presentation, I believe you have revised the forecast upward for the next fiscal year due to favorable performance for this fiscal year, shown on the medium-term management plan's targets on page 14 of the materials.

Of course, I am well aware that this is the performance for the next fiscal year, so it probably doesn't have very precise estimates, but if we look at the profit increase from the current fiscal year to the next one, it will have positive effects to a certain extent, whether for hotels or HIMEDIC, not to mention some deviations, such as deferred profits from membership. However, I personally suspect a little more potential growth in the current performance.

This may be slightly early, but if you have any thoughts regarding the next fiscal year, please let me know what they are. That is my second question.

Fushimi [A]: My first point is a slight concern over the product inventory, but as I mentioned earlier regarding the Kanazawa hotel being a domestic project, we can advertise in the Tokyo, Nagoya, Osaka regions. If we consider the current inventory based on these situations, I believe we can achieve results that perform at least on par with this fiscal year's.

Also, in the operation division, I am not concerned about the operation itself. Although the annual membership and other fees won't show any effects in the next fiscal year, they will pay off from H2 or the end of the next fiscal year. We are also considering another price review, which may have only a slight effect on the next fiscal year, but I think it will be a positive factor. We have been focusing on hiring foreigners to prepare for the next fiscal year's opening, as mentioned earlier. As we see difficulties hiring new graduates, we are concerned about how much personnel costs will incur.

In the medical division, we can see the situation of our human resources to some extent, thanks to our efforts to review various management systems mentioned earlier. Therefore, I do not think there is any major cause for concern here, but rather a positive factor for this fiscal year. The greatest part overall lies in how much growth we can achieve. In terms of the operation division costs, we see some uncertainties.

Oda [Q]: I'm sorry to ask you while you're providing additional details, but aside from what you're explaining, I believe you have factored in the expense increase for this fiscal year's bonuses, wage raises, and disintermediation, while certainly estimating bonuses and wage raises. I see that you managed to invest in human resources for the disintermediation of hotels to some extent as planned and wanted some insight into whether they are utilized as investments or otherwise.

Fushimi [A]: To be honest, our goal is to achieve zero disintermediation throughout this fiscal year, which progressed less than half at the time of H1. The realization rate is about 40%, but to achieve 40%, we must not forget that the costs to address such disintermediation are already calculated into H1 of the fiscal year. These are not expected to suddenly incur at the start of the next fiscal year.

We are now planning to definitely achieve 90% in H2 of the fiscal year, and of course, we have expected these costs in the H2 forecast of the current fiscal year. Therefore, we do not expect the cost to suddenly surge in the next fiscal year.

Oda [Q]: In that case, would it be correct to assume that you won't work on the situation during H2 of this fiscal year?

Fushimi [A]: That's right, so that includes new facilities.

Oda [Q]: I can see that.

Fushimi [A]: Yes, that's the big part of it.

Oda [M]: I understand. Thank you very much for the detailed explanation. That's all from me.

Moderator [M]: Thank you. Next, Mr. Kuwana of Mizuho Securities, please go ahead with your question.

Kuwana [Q]: Hello. My name is Kuwana of Mizuho Securities. Thank you for your explanation. I would like to ask two questions.

First, let me ask you about your thoughts regarding passing on costs. The prices have been raised by about 5% since June of this year, and I understand that this is a move to reflect the prices with the increase in construction costs. With individual construction costs continuing to rise afterward, I was wondering what percentage of price hikes you think are necessary. Also, looking at the contract volume after this significant price hike, I want to know how you view the possibility of passing the costs to an extent that exceeds the increase in construction costs. That is my first question. Please answer my first question.

Fushimi [A]: Regarding passing on the costs, the individual construction costs for the SANCTUARY COURT series in Takayama, Lake Biwa, and Nikko have certainly changed considerably, but as I may have explained earlier, we have considered switching or cross-utilization to absorb raw costs without implementing price hikes to some extent, resulting in a slight decrease in gross profit margin.

That is why we implemented this 5% hike overall. However, as you mentioned, there are still some areas where raw costs are rising, so we plan to conduct another price review for Kanazawa in the next fiscal year and beyond. However, in terms of price hikes to meet rising raw costs, we are considering the general feasibility of price limits within the market. We must consider these price limits when setting the fees for membership rights.

I will also explain medical services. We have also reviewed the price of memberships for HIMEDIC several times in the past and we are currently considering a price review early next year to coincide with the timing. However, we still haven’t factored that into the next fiscal year. I hope you understand.

Kuwana [Q]: I see. Thank you.

My second question is, in terms of the joint development of nursing homes with Mitsubishi Estate, what is the status of your contract? What kind of benefits do you expect in your partnership with Mitsubishi Estate, such as the case where you operate the property they own, acquire properties with very favorable location conditions by partnering with them, or how they can introduce customers to you? That is my second question.

Fushimi [A]: Since we have been focusing on resorts, the largest benefit lies in acquiring information regarding good properties in such urban regions. For nursing homes in particular, when considering purchasing apartments, there are not many advantages over condominiums in terms of profit rates toward initial investments from a short-term perspective. If there are condominiums that sell poorly due to conditions, such as poor access to roads or the distance from nearby stations, they would be ideal for nursing homes. One of our greatest advantages is that we can receive such information in a broad perspective and a timely manner.

Another factor is that since Mitsubishi Estate has a major brand, they are an attractive presence in the market when it comes to development and they offer reliability. Although we basically consider a residence catering to our group members, Mitsubishi Estate has formed a group of clientele based on their expertise and we believe it would be significantly advantageous in terms of marketing if this clientele further expands.

Mitsubishi Estate will be involved in operations, which we will continue to bear responsibility for. Therefore, I cannot disclose any details regarding development, since several factors haven’t been determined yet. However, we intend to develop property by deciding on our respective roles and let Mitsubishi Estate sell them eventually. I believe this will lead to generating a certain amount of profit.

However, we do not intend to end this project with the sale of the property and hope to discuss with Mitsubishi Estate on how to operate them, such as through trusts or third parties, for which we already have a partner candidate. We are planning a press release under a partnership with Mitsubishi Estate and hope to determine specific locations and concepts that meet such locations, specifying brand targets that we plan to work together on for the second phase. We hope to fill you in on these details once we can determine the right time for a press release for this second phase.

Kuwana [M]: I see. Thank you.

Moderator [M]: Thank you. Next, Mr. Sekine of Daiwa Securities, please go ahead with your question.

Sekine [M]: My name is Sekine of Daiwa Securities. Can you hear me?

Fushimi [M]: Yes, I can hear you.

Sekine [Q]: I have two questions for you.

The first one is regarding the hotel pipeline. I understand that Nikko has been selling well in advance of schedule and that you plan openings in Kanazawa and another one next year. Considering the current operation status, I suspect there are some limitations in the future for acquiring staff by only leveraging your pipeline. That is how I see your membership business.

I believe that you are planning to increase the number of memberships in the future on an annual basis in advance. Is it correct to assume that human labor plays the most important role in terms of limitations for membership? Or do you have enough manpower to take about two per year?

Fushimi [A]: First of all, the pipeline for Kanazawa has already been decided, whereas potential locations in the Tokyo, Nagoya, Osaka are also decided. We have four locations that have specific designs and contract details. Therefore, I think that we can introduce several properties in the next fiscal year and the year after that to some extent.

Regarding manpower in the membership business, as mentioned earlier, new channels have been established for advertising membership, and productivity is improving. Therefore, I believe we can fully absorb the growth from here. However, the problem lies in management and we need to prioritize efficient operation in the future and proceed to another phase in design.

One of the things we are trying to do is to reduce the turnover rate, which is also the same for hiring. Our turnover rate in the hotel division stands at an annual 10%, which is very well within the industry. Depending on the region in particular, it is 5% for regional employees and there is potential for this to further decrease. There are various criteria for regional employees and we hope to expand them. Other than the wage raises and bonuses mentioned earlier, we are investing in various areas, including dormitories. Once we implement these measures, I believe we can lower the turnover rate to 3% or 4%.

Regarding the employment of foreigners mentioned earlier, another factor is the issue that lies in our overall branding, which focuses on the elderly among rich and some middle-class clients and hope to change our marketing strategies toward certain targets through advertising activities while monitoring costs in the future. That is how we are planning for the next fiscal year.

Sekine [Q]: I see. The other is about capital efficiency. You have set a target level of 12% for ROE and believe you have achieved sufficiently high levels of profitability just for this fiscal year. If you consider your future plans, your performance far exceeds the medium-term management plan that you issued at the start of the year, even if you include buybacks as you improve capital efficiency. In that sense, in addition to the areas that are included in the plan, could you please explain how you envision your company?

For example, since you run a business where you utilize your assets, I understand that you invest in costs and make use of your balance sheet. Please let me know if you have any particular strategies in mind, such as starting a business type that doesn't require any assets for the mid to long term, or your desire to improve profit rates. That's all.

Fushimi [A]: Regarding ROE, the previous figure was also 12.2%, which exceeded our initial target. Although there will be some fluctuations in the future, we are basically aiming for at least 10% and aim for 12% or 13% while improving capital efficiency.

In terms of assets, the current payback from investments for medical services regarding memberships, HIMEDIC, and nursing homes is not as great as hotel memberships. However, the HIMEDIC business, when combined with membership, would take roughly two years to complete payback. One of our goals is to achieve profitability in operation in roughly five or six years. Conventional nursing home-type residences will become asset-forming businesses in the future. That is how I see the current trends.

I believe that capital efficiency can be further improved by introducing various schemes, such as the trust scheme I mentioned earlier, or switching to those trust schemes for group members, Specifically, if you want to know if I have a personal goal, I don't have specific ones right now.

Sekine [Q]: I see. In that sense, just like with the share buybacks in Q1 of this fiscal year, is it correct to assume that you will continue to strengthen shareholder returns if business conditions permit? That is what I wanted to confirm.

Fushimi [A]: We would like to implement this when we have such opportunities.

Sekine [M]: I see. Thank you.

Operator [M]: Thank you.

We are currently accepting questions. If you have any, please let us know. Although we still have some time left, we will conclude the question-and-answer session, as there are no further questions.

Moderator [M]: That concludes Resorttrust, Inc.'s financial results presentation for Q2 of the fiscal year ending March 2024. Thank you very much for your participation.

Fushimi [M]: Thank you.

Moderator [M]: Thank you.

[END]

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