March 5, 2021
Invincible Investment Corporation

Q&A regarding Financial Results for the Fiscal Period Ended December 2020

Q: Regarding the memorandum of understanding (MOU) to change the lease agreement with the MyStays Group (MHM), the main tenant, what was the calculation method used when determining the level of fixed rent after the change (July-September 2020: JPY 800 million; October-December 2020: JPY 806 million)? To what level will the fixed rent be controlled in light of MHM's revenues in future?

A: There is no formula to calculate the fixed rent after the change. The ratio of the fixed rent for original contract for each period was gradually raised: the fixed rent for July-September was about 21% of the fixed rent set forth in the original agreement, while the fixed rent for October-December was about 30% of the fixed rent set forth in the original agreement. Based on MHM's GOP forecast, INV wants to set the fixed rent as high as possible, but as the earnings outlook continues to be uncertain, it is necessary to set it at a level that can be paid by MHM with a high probability, which was the basis to conclude negotiations. In both the original agreement and the MOU after the change, if the GOP exceeds the fixed rent amount, INV receives all the remaining amount after deducting the management fee as the variable rent, and INV received a certain amount of variable rent last year. In this respect, it is fair to say that the rate of rent versus GOP for MHM is high.

Q: How was MHM's competitiveness and MHM's hotel performance compared to the market in the period from the lifting of the State of Emergency in May 2020 to the end of 2020?

A: MHM's strengths in revenue management and direct corporate sales have been leveraged in the COVID-19 pandemic, and MHM has made various efforts as evidenced by initiatives such as the provision of a telework environment. MHM has also been actively working to capture demand for voluntary quarantine by returners, and is acquiring demand not only in the vicinity of Narita and Haneda airports, but also in hotels around the Tokyo metropolitan area. The positive effect has been seen in areas such as the district on the east side of Tokyo (Ueno, Asakusa) too, where demand from inbound tourists had been high but has fallen due to COVID-19 infections. We recognize that the profit margins of MHM's limited service hotels are higher than those of our competitors and that they are highly competitive.

Q: "Provide a telework environment" was introduced as a measure to capture new demand on page 17 of the Financial Results presentation. Can these efforts underpin future business performance?

A: Efforts such as the provision of a telework environment have contributed to some extent as a source of revenue during the COVID-19 pandemic, but compared to normal accommodations, the level of ADR is limited and is not sufficient to fully make up for the decline in demand for accommodations.

Q. The recent refinancing's have been for 12 months, have you seen a change in attitudes of banks to force you to use 12 months or is it to take advantage of lower rates?

A. Our key focus today is to secure refinancing at the cheapest rates possible. The longer the duration, the higher the financing costs, so currently we are focusing on getting as cheap a loan as possible to ensure timely refinancing.

Q: In the fiscal period ended December 2020, INV sold properties and secured a gain on sale. Are you in breach of financial covenants such as DSCR as a result of the sale of properties? Also, is there a risk of violating the financial covenants if you sell more properties in the future?

A: We have not violated the financial covenants due to the sale of properties. In addition, the majority of proceeds from the sale of properties in December 2020 were used to repay a portion of existing borrowings in January 2021, further reducing the risk of violating financial covenants and improving financial soundness. We will consider the sale of properties in the future to the extent that it would not violate financial covenants.

Q: When will INV announce its earnings forecast for the fiscal period ending June 2021?

A: We would like to refrain from mentioning the timing at the moment. There are many uncertainties that affect business performance such as the effect of the State of Emergency, the amount and timing of vaccine supply from overseas and the progress of inoculation, changes in the public's appetite for travel, the timing and content of the resumption of the Go To travel campaign, and whether or not the Olympics will be held and in what capacity they will be held. It is difficult to make a forecast for even one to two months ahead.

Q: Are you aggressive or cautious for property sales? Also, what about property acquisitions?

A: We are investigating a potential sale of properties for each asset type (hotel, residence, retail facilities), and we may consider to execute a property sale under good terms and conditions. With regard to acquisitions, the occupancy rates of resort and local hotels are currently declining, but some Tokyo area properties that succeeded in obtaining demand even under the current environment are maintaining high occupancy rates. We believe that hotel revenues will recover if tourism demand increases in the future, and we would like to consider the opportunity to acquire properties after the end of COVID-19 pandemic if there are good properties to buy. However, in the short term, rather than acquiring properties through debt or equity financing, we would like to consider acquiring by way of asset recycling, using proceeds from the sale as mentioned above.