March 7, 2022

Invincible Investment Corporation

Q&A regarding Financial Results for the Fiscal Period Ended December 2021

Q: Hotel performance was severe in 2021, but from October to December, COVID-19 settled down and INV's hotel RevPAR recovered. Where did the demand come from and did you see a recovery in price (ADR) at this time? Will the hotel performance recover if COVID-19 is contained?

A: As COVID-19 calmed down, demand for accommodation gradually recovered, and from October to December, leisure demand recovered first in locations such as Nasu and Hirosaki. Based on 75 properties which is the same base used for the monthly disclosure, ADR for October to December 2021 was 6,803 yen, 7,438 yen, and 8,207 yen, respectively, and ADR returned to a level close to 85% of the same month in December 2019.

Q: Fixed rents from MHM were 30% of the original contract in the fiscal period ended December 31, 2021, but to what level is the recovery progressing this fiscal period?

A: The original contract is based on the GOP forecast at the time when INV acquired properties. Fixed rent was set at an amount equivalent to about half of the estimated GOP, and the remaining half, excluding operator fees, was set as variable rent. Before COVID-19, we never expected GOP to fall below 50% of its forecast, but it did occur from spring 2020. In the midst of the uncertainty caused by COVID-19, we concluded a short-term MOU under which fixed rent was set at an amount that MHM can surely pay, and any amount exceeding such fixed rent was set as variable rent (excluding operator fees), based on GOP forecasts of 3 or 6 months. We are currently in discussions with MHM regarding the fixed rent for this fiscal period, as the rent for January 2022 is due by mid-March. The hotel recovery progressed in the fourth quarter of 2021. While there are expectations for a further recovery in hotel performance since Omicron appears to be peaking out, the impact of the mutant BA.2 is unknown. Therefore, the level of fixed rent for this fiscal period has not been decided yet.

Q: I would like to ask about break-even levels. Is it still correct to understand when RevPAR for the hotels operated by MyStays (MHM) reaches 50% of 2019 RevPAR,

INV's net income will become in the black, and full fixed rent based on the original leasing contract can be received at the level of 60% of 2019 RevPAR? Also, RevPAR for the October-December 2021 quarter was 50% compared to 2019, so is it fair to say that this is the break-even level for INV's net income?

A: There are no changes from the explanation previously made. If RevPAR exceeds about half of the level achieved in 2019, INV's net income will turn positive, and if it exceeds 60% of the level achieved in 2019, MHM will be able to fully pay the fixed rent based on the original contract. RevPAR was 50.6% in the fourth quarter of 2021 compared to the same period in 2019, and although there are monthly fluctuations and gaps in the timing of recording sales and expenses, if RevPAR continues at this level for about six months or more, INV's net income will be in the black.

Q: With regard to the distribution per unit (DPU), what is the DPU if the rent income from MHM is limited to the original fixed rent only? What is the latest figure taking into effect of sale of assets and repayment of loan amid COVID-19? What is the DPU if the performance of the hotel returns to the level before the COVID-19 outbreak?

A: We have not calculated the case where we receive fixed rents only, but we'd like to explain the estimate assuming the hotel performance has returned to the 2019 level. From December 2019, we sold 19 residential properties and 1 commercial property. This reduces the annual DPU by about 150 yen. On the other hand, due to a decrease in interest paid which occurred from loan repayment by sale proceeds completed up to today, the annual increase in DPU is about 23 yen. Therefore, it is expected to decrease on net of approximately 127 yen from the stabilized base of 2019 DPU which was 3,400 yen. However, this estimate does not include the reduction of loan-related fees at the time of future refinancing due to the decrease in borrowings, and the effects of further loan repayment in the future.

Q: Prices are rising as a whole. Are hotel operating expenses and costs rising? If so, can it be passed on to the room price? What is the outlook?

A: MHM has been fundamentally reducing costs over the past two years. Compared to 2019, the ratio of cost increase to the increase of occupancy is lower, and cost increases are absorbent to some extent. However, if electricity, gas prices, and various goods continue to rise further, the impact will be inevitable.

Q: Will the recovery be pushed back by the effects of Russia's invasion of Ukraine?

A: Due to the high gasoline prices before the Russia's invasion of Ukraine, demand for car travel may decline, but during the discussions with MHM's management this morning, we don't think there will be a direct impact from Russia's invasion of Ukraine on the domestic hotel business. Since April 2020, hotel guests are mostly domestic. As for supplies, only a limited number of seafood is purchased from Russia and Ukraine, but there are substitutes.

Q: When do you think Cayman hotels will recover?

A: Since January 20, 2022, unvaccinated children under the age of 12 years old "assume" the vaccination status of their adult travel companions, which enabled families to visit Cayman more easily under Phase 5 of the Cayman border reopening plan. Subsequently, COVID-19 testing for travelers aged 5 and over that required lateral flow tests on days 2, 5, and 7 (resulting in a 10-day quarantine if positive) was lifted as of February 17, 2022. Based on the new regulations, demand has been improving recently. 80% of passengers to the Cayman Islands are from the United States. Commercial flights operated by U.S. based airlines have also resumed, and there is a good possibility that business performance will improve in the future.

Q: I would like to ask about debt cost. What conditions need to be met to reduce loan-related expenses and interest expenses? Also, what do you need to happen in order to extend your borrowing period which is currently short-term?

A: In the fiscal period ended December 31, 2021, loan-related expenses increased from the previous fiscal period but refinancing for this fiscal period was 62.6 billion yen, a significant increase from 11.8 billion yen in the previous fiscal period. Also, loan-related expenses include upfront fees and others, which are prorated for the borrowing period, creating an impact because we are borrowing most of the loans for one year amid COVID-19. Hotel performance improved each quarter last year. COVID-19 is expected to subside, and we believe we can extend the borrowing duration and reduce loan-related expenses in the future. There will be a time lag before INV is able to extend the loan duration because it is necessary to show an actual improvement in performance in order to realize longer term borrowing. We believe we will be able to extend the duration if the hotel performance recovers to the level where MHM can pay the fixed rent as stated in the original contract.

Q: What kind of situation needs to exist for you to acquire properties in the future?

A: We believe it is a prerequisite that two capital markets, equity and debt, including bank loans, will be able to positively support our acquisitions.