March 3, 2023

Invincible Investment Corporation

Q&A regarding Financial Results for the Fiscal Period Ended December 2022

Q: While inbound demand from China has not returned, domestic demand has recovered significantly, and given that RevPAR in December 2022 was plus 13.6% compared to the same month in 2019, the forecast for 2023, which projects RevPAR for the full year at minus 11% compared to 2019, seems conservative. How do you feel about the actual recovery of the hotel market?

A: We are feeling a positive sentiment regarding the recovery of the hotel market. While there is some underlying support from National Travel Support campaign, the environment is getting better and our hotels across the country are able to raise ADR in line with our target to maximize the GOPPAR indicator. This is reflected in the GOP results for December 2022, which increased by 15.3% compared to the same month in 2019. As for the future, we are taking a conservative view, including costs, but we have received information that the recovery of inbound travel from China is likely to proceed faster than expected. Therefore, we believe that demand will steadily increase even after the National Travel Support program is over.

Q: What is the current ratio of inbound sales as a percentage of the total? I remember it was in the mid to high 30% range before the pandemic, but to what extent do you expect inbound demand to increase in 2023, including Chinese tourists?

A: Inbound sales accounted for about 30% of room sales in 2019, 14% in November 2022, and 22% in both December 2022 and January 2023. However, inbound sales amount in January 2023 was only 54% of that in January 2019. We are assuming a gradual recovery toward the end of the year, but as of today, we believe that the recovery of inbound sales will be about 80% at the end of 2023 except for China. We expect limited recovery with respect to China at the end of 2023.

Q: Will you continue your strategy of raising ADRs with an emphasis on RevPAR and GOP growth? Currently, the recovery of occupancy rate is slower than the recovery of ADR. Is this an intended result or an unintended one, where occupancy rates cannot be raised due to supply constraints such as labor shortages?

A: As shown on page 14 of the financial results presentation, in an environment where inflation is driving up various costs including utilities, it is important to maximize GOP, not occupancy, by strictly managing costs through daily demand forecast on an individual hotel basis. For example, both combinations of "100% occupancy rate with ADR 8,000 yen" and "80% occupancy rate with ADR 10,000 yen" will have the same RevPAR of 8,000 yen, but the latter should deliver a much higher GOP. We will continue our efforts to increase GOP by absorbing cost increases through higher ADR.

Staff shortages are not a major problem, since most of Invincible (“INV”)'s hotels are limited service. Staff shortages are mainly a problem for full-service hotels and resort hotels in remote areas, and newly opened hotels. In addition, during the pandemic, some of MyStays employees were seconded to our sponsor’s group companies. All secondments were terminated as hotel demand bottomed out, and hotel professionals with working experience at MyStays were quickly redeployed to their hotels. Similarly, all employees who had been on leave due to employment adjustment subsidies went back to their hotels by last summer. Furthermore, MyStays has continued to hire new graduates, and will hire approximately 100 new graduates in 2023. In addition, since MyStays manages a nationwide portfolio, it is possible to flexibly assign staff between properties.

Q: How much has the GOP margin changed since 2019 for the 73 properties owned by INV and managed by MyStays?

A: The GOP margin is shown on page 14 of the financial results presentation. 2019 (July to December) was around 40%, while 2022 (July to December) was in the mid to high 30% range. In 2023, GOP margin is expected to gradually get back to 2019 levels.

Q: Can you tell me how much RevPAR increase compared to 2019 levels will translate into an increase of GOP? Please tell us after taking into account current cost increases.

A: This is a rough estimate based on certain assumptions, but taking the performance indicators of MyStays as variables, the level at which the profit/loss (GOP) of MyStays' 73 properties would be in the black has not changed since six months ago; if RevPAR exceeds approximately 40% of the actual RevPAR (¥8,317) for the period ended June 2019, GOP of MyStays will be in the black. If RevPAR exceeds approximately 50% of actual RevPAR (¥8,317) for the fiscal period ended June 2019, INV’s profit/loss will be in the black.

With respect to GOP, GOP in December 2022 exceeded December 2019 in both absolute value and GOP margin as discussed on page 14; if RevPAR gets back to 2019 levels as a result of maximizing GOPPAR, occupancy will probably be lower than in 2019 and ADR will be higher than in 2019, and GOP margins should be close to 2019 levels.

Moreover, we do not expect the dividend from the investment in Sheraton Grande Tokyo Bay Hotel will be paid in 2023. Also, the Cayman hotels are affected by currency fluctuations, although we have partially hedged against them.

Q: What is your strategy for debt financing? During the difficult time through the pandemic, INV chose short-term borrowing periods to keep down borrowing costs, but the hotel market has recovered. In light of the rising long-term interest rates, etc., do you intend to lengthen borrowing periods going forward? Also, will you choose a floating or fixed interest rate?

A: We intend to gradually lengthen the maturity of our borrowings. In March we will refinance approximately ¥17 billion in loans, and we are negotiating with major banks to refinance a portion of these loans with a three-year tranche, in addition to a one-year tranche. INV's average residual borrowing duration is now almost one year, compared to almost three years before the pandemic. Financing-related costs have increased compared to 2019 as the frequency of refinancing has increased. While a longer borrowing period will increase spreads, it will reduce the frequency of refinancing, thereby contributing to reducing and normalizing financing-related costs. We would like to control the total cost increase of borrowing interest rates and financing-related costs.

Q: INV has not acquired any properties for some time after January 2020. With the recovery of unit price, could you comment on the possibility of external growth, including capital increase through public offering? What is your perception of current property prices and cap rates?

A: Unit price is recovering, and NAV multiples are now above 1x. The debt financing environment is also improving, and we are now in a situation where we can consider external growth, including a capital increase. Recently, the expansion of revenge travel and revenge consumption, as well as the continued depreciation of the yen, has led to strong demand for domestic travel as an alternative to overseas travel by Japanese, and inbound demand has also improved significantly, especially from Southeast Asia, Europe, and the United States. Under these circumstances, we would like to specifically consider acquiring a hotel in the future that has tourism resources such as hot springs that can attract domestic customers and that can also enjoy growing inbound demand.

Most of the hotel properties in the sponsor pipeline that we disclosed in the past were acquired by INV in July 2019, and only two properties, Rihga Royal Hotel Kyoto and

Fusaki Beach Resort Hotel & Villas, were not acquired. In addition to these two properties, approximately 20 hotel properties are owned by funds managed by the sponsor and exist as future acquisition candidates for INV. However, we have not started considering acquisitions and it is too early to comment on property prices or cap rates.