September 2, 2022

Invincible Investment Corporation

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

Q: Previously you explained that if the RevPAR of the hotels operated by MyStays (MHM) recovered to -40% or better of 2019 RevPAR, the fixed rent stipulated in the original contract could be received in full. Based on the actual figures for June and July and the forecast for August, will you be able to receive full fixed rent for the fiscal period ending December 2022?

A: Prices are on the rise in various ways. For example, when comparing the unit prices in June 2019 and June 2022, heavy oil has risen by about 41% and electricity and gas by about 29%. The point is how much these cost increases can be passed on to room charges. While the occupancy rate has improved, the labor costs, along with price of food, FF&E, and heavy oil used for boilers, etc. has risen, in addition to an increase in utility costs. Therefore, based on a conservative view, our latest estimate is that the level at which MHM can pay the full fixed rent under the original contract should probably be at about 65% to over 70% of 2019 RevPAR, which is higher than the level we have previously explained.

Q: In the previous explanation, the level required for INV to be in the black was -50% or better of 2019 RevPAR. The RevPAR of domestic hotels in the fiscal period ended June 2022 was -47% of 2019 RevPAR which cleared the -50% threshold. I understand that INV did not reach positive net income without the sale of assets due to seasonality and the gaps in the timing of recording sales and expenses. Again, I would like to confirm the RevPAR level for INV to produce a positive net income.

A: Please understand that the break-even analysis is an estimation based on certain assumptions, and the results vary depending on how you estimate occupancy rate, ADR, costs, etc., and that the RevPAR level needs to be maintained not for just a single month, but continuously for six months or more. Based on that premise, MHM has a fairly conservative view of the increase in costs, and the current estimate is that the level at which INV will be profitable should probably be at about 55% to over 60% of 2019 RevPAR, which is higher than the level we have previously explained.

Q: With regard to the extension of temporary reduction of fixed rent, is there a possibility that you will consider lowering the fixed rent of the original contract on a permanent basis, taking into account the volatility of hotel revenues?

A: Since the beginning of the COVID-19 pandemic, we have been implementing temporary rent reductions in the form of a Memorandum of Understanding to amend MLPM contracts with MHM. Hotel revenues have been recovering considerably, but the current level of hotel revenues in July and August is still likely to require a reduction in the fixed rent of the original contract. We would like to restore hotel revenues to a level where MHM can pay the fixed rent as stated in the original contract at an early stage. As for the permanent measures to be taken thereafter, we would like to consider various aspects whether to maintain the fixed rent level of the original contract or to review the level of fixed rent in the event of a recurrence of an unprecedented global pandemic such as the current one in order to best serve the interests of our unitholders. In any case, we would like to consider a way to maintain the business model, whereas all hotel revenues, excluding management fees, are returned to unitholders in the form of fixed or variable rent.

Q: Does the pace of recovery vary by the location or type of hotel?

A: The recovery of hotels in leisure areas such as Hotel Epinard Nasu, Hirosaki and Otaru are leading the recovery. The recovery is sluggish in areas such as Sapporo and Osaka where supply increased in anticipation of inbound visitors.

Q: While business performance seems to be on a recovery trend including the summer vacation demand, you did not announce your earnings forecast. What is the background?

A: As the impact of COVID-19 is subsiding and no restrictions on movement is imposed, we expect that border restrictions will be relaxed, and hotel business performance will improve. However, the number of deaths due to COVID-19 has recently reached a record high, and while there were announcements that the cap on daily arrivals would be increased to 50,000, the timing was not clearly stated. The resumption of nationwide travel support measures has also been postponed. The earnings forecasts of the hotels owned by INV have a very large fluctuation range and since we do not want to mislead investors and the market, we have decided to postpone the announcement of the earnings forecast at this time.

Q: Will you consider selling the two Cayman hotels in order to acquire domestic assets as an option?

A: At present, we have not hired an agent to conduct a competitive bid for the sale of two Cayman hotels, nor do we have any plans to do so. However, we believe that it is a subject that needs to be thoroughly examined, taking into account whether a transaction can be conducted that is beneficial to unitholders, and how the gain on sale and the proceeds of the sale will be used.

Q: Will you maintain your hotel portfolio as it is, or will you consider asset recycling? For example, will you change your portfolio to one that does not rely on inbound demand and focus on domestic leisure demand, or will you maintain current portfolio mix expecting a return of inbound customers in the future?

A: Since there are many hotels in the sponsor pipeline that have attractive tourism resources such as hot springs and abundant nature that can appeal to domestic customers, we think that such hotels will become the center of future acquisitions.