March 5, 2024

Invincible Investment Corporation

Questions and Answers Related to the Briefing on the Financial Results for the Fiscal Period Ended December 2023

Q：Considering the robust performance of the hotels owned by Invincible Investment Corporation ("INV") in January 2024, where KPIs significantly exceeded the January 2023 figures, the forecasts for June 2024 Fiscal Period (FP) and December 2024 FP look conservative. For example, the RevPAR of the 2 Cayman hotels for December 2024 FP is forecasted to be lower than the same period in 2023. Are you assuming any specific risks?

A：No special risks are factored into the forecasts for June and December 2024 FP. The forecasts are based on the budgets planned by the hotel operators in November 2023. The actual hotel performance for January 2024 and the forecasted performance for February 2024 exceed those forecasts. The forecast for the two Cayman hotels is also forecast based on the budget made by the hotel operator in November 2023. As the December 2024 FP is almost one year ahead from the time it was made, the forecast was conservatively made.

Q：What is the forecast for GOP margin for 2024?

A： We forecast that GOP margin for 2024 will be similar to the December 2023 FP level. The GOP margin for the December 2023 FP recovered to the level higher than that of the same period in 2019.

Q：Is it fair to say that the main driver for GOP growth is still the revenue from the Rooms department and that the contribution of the Food & Beverage department is limited?

A：Considering that the revenue from the Rooms department accounts for 75% of the revenue of the hotel portfolio, an increase in ADR matters in terms of GOP growth. Therefore, the main driver is the Rooms department. On the other hand, the revenue from the Food & Beverage department has not recovered to the 2019 level and has heavier fixed costs. As such, we think that once the revenue from the Food & Beverage department recovers to the original level, it will contribute to GOP growth.

Q：What will you do to further increase GOP? Will you continue to concentrate on increasing ADR, or shift to increasing occupancy rate considering that there is no more room to grow ADR?

A：We think that there is still room to grow ADR as the inbound demand is increasing though demand varies from area to area. As such, we will increase GOPPAR by increasing ADR while maintaining a reasonable level of occupancy rate. In Japan, healthy inflation is developing driven by wage increases. As Japan has finally exited from deflation where room rate was constrained, we will set reasonable rate. The room rate of Japanese hotels is significantly lower than that of hotels in the West.

Q：Could you tell me the outlook for personnel expenses?

A：The personnel expenses of 73 hotels operated by MyStays Hotel Management in 2023 increased by approximately 4% compared to that of 2019. We forecast that, in line with the on-going wage increase in Japanese society, personnel expenses in 2024 will increase as in 2023.

Q：Could you tell me your idea on appropriate ratio of fixed interest rate from a long-term perspective?

A：We think that 50%, the latest ratio, is reasonable. During the COVID-19 pandemic period, when INV's performance was stagnant, we decreased interest expenses through borrowing with variable interest rates. Since last year, when INV's performance recovered, we have increased the ratio of fixed interest rates and will continue financing through long-term debt with fixed interest rates including investment corporation bonds. On the other hand, we will also continue financing through debt with variable interest rates in order to enjoy lower interest rates, which is expected to continue because the Japanese Government is unlikely to significantly increase the variable interest rate for the sake of borrowers of mortgage loans while the Government may discontinue the zero-interest rate policy. In addition, history shows that interest expenses of borrowing with variable interest rates are likely to be lower than those with fixed interest rates when you borrow for a period longer than a certain length of time.

Q：Can we expect a further decrease in loan-related costs due to a further lengthening of duration of borrowing as well as an upgraded credit rating? In addition, can we expect a tightening in the spread?

A：We shortened the borrowing terms during the COVID-19 pandemic period. All-in cost including spread and fee was much higher than before the COVID-19 pandemic. From March 2023, we started initiatives for normalization of loan conditions such as lengthening borrowing terms and tightening spreads supported by banks including our main banks. As a result, the current all-in cost is close to the level before the COVID-19 pandemic, with a small room to improve. We will strive to further improve it to a better level than before COVID-19.

Q：Could you explain your ideas on controlling debt costs through external growth?

A：Further diversification in terms of hotel type and area through external growth will enhance the credit evaluation by lenders. In addition, credit rating agencies positively evaluate the large assets size. As such, we will strive to improve INV's portfolio performance and decrease debt costs by improving credit evaluations by lenders.

Q：As for the 20 hotels under the discussion for potential acquisition, could you tell me the potential deal size?

A：It is too early to say anything about the potential deal size because we have not narrowed down the selection from the 20 hotels yet.

Q：How much appetite do you have for external growth? Do you want to acquire new assets regardless of the price? Or do you want to acquire them as long as the price is reasonable?

A：We will pursue external growth because an increase in market capitalization results in (a) more attention from global investors due to higher daily trading volume and (b) decrease in risk due to a more diversified portfolio. However, we will not acquire any assets unless the quality of the assets meets our investment criteria and the price is reasonable, in other words, the acquisition contributes to an increase in DPU.

Q：I assume that the decrease in cap rates contributes to the increase in appraisal value of INV's assets as of December 2023. Is there any change in estimated cash flow?

A：As for residential properties, the estimated cash flow has remained the same. As for hotel portfolio, the estimated cash flow of most properties had decreased during the COVID-19 pandemic, but it started to recover from the June 2023 FP. Although some appraisal agencies only decrease cap rate and do not increase estimated cash flow, the estimated cash flow of each hotel property generally increased in the appraisal as of December 2023. Exceptionally, the estimated cash flow of some hotels decreased due to factors that have nothing to do with hotel performance: (a) increase in estimated repair cost and/or CAPEX as a result of updated engineering reports (b) increase in property taxes and/or city planning taxes. 80% of INV's hotel properties saw an increase in its appraisal value due to decrease in its cap rate and/or increase in its estimated cash flow. The estimated cash flow using direct capitalization method is insulated from the COVID-19 pandemic because it adopts stabilized figures. On the other hand, as for the estimated cash flow using DCF method, after the figures for the first year and second year had decreased due to the COVID-19 pandemic, they recovered to the point close to the 2019 level.

Q：Do you see any sign of improvement of staff shortages at Ishigaki Airport, which is a road block for recovery in the number of inbound travelers?

A：As inbound travelers account for less than 10% of the revenue of Fusaki Beach Resort Hotel & Villas, we consider it as upside if the number of inbound travelers recover and it contributes to the revenue of Fusaki. As for the staff shortage at Ishigaki Airport, we don't have any further information other than what is written in the briefing material.