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November 14, 2023

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Under Japanese GAAP)

Company name: Polaris Holdings Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 3010
 URL: <https://www.polaris-holdings.com/en/>
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 Scheduled date to file quarterly securities report: November 14, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: None

(Amounts are rounded off to the nearest million yen.)

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2023	14,120	353.4	2,624	-	2,180	-	2,555	-
September 30, 2022	3,114	77.6	31	-	(60)	-	(107)	-

Note: Comprehensive income For the six months ended September 30, 2023: ¥2,796million [-%]
 For the six months ended September 30, 2022: ¥(107) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2023	21.04	20.75
September 30, 2022	(1.09)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
September 30, 2023	22,393	6,317	28.2
March 31, 2023	24,653	2,911	11.8

Reference: Equity
 As of September 30, 2023: ¥6,316 million
 As of March 31, 2023: ¥2,905 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2024	-	0.00			
Fiscal year ending March 31, 2024 (Forecast)			-	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated Financial Forecast for the Year Ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	22,100	214.9	3,070	-	2,340	-	2,670	399.8	21.75

Note: Revisions to the consolidated financial forecast most recently announced: Yes

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	123,471,189 shares
As of March 31, 2023	116,969,189 shares

- (ii) Number of treasury shares at the end of the period

As of September 30, 2023	1,674 shares
As of March 31, 2023	1,674 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	121,436,602 shares
Six months ended September 30, 2022	97,699,895 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions deemed reasonable as of the date of publication of this document. Actual results may differ significantly from these forecasts due to a wide range of factors.

Qualitative Information on the Financial Results for the consolidated financial results for the six months ended September 30, 2023

(1) Explanation of Operating Results

During the second quarter of the consolidated fiscal year, the Japanese economy saw further normalization of social activities following change in the status of COVID-19 to Category 5 under the Infectious Diseases Act in May 2023. On the other hand, soaring labor costs due to increased demand for labor resulting from the rapid improvement in the employment environment accompanying the normalization of economic activities, and increase in costs, including high resource prices triggered by the situation in Ukraine and JPY depreciation, had a continuous significant impact on economic activities.

In the hotel industry, the Polaris group's main business, both the number of domestic and foreign overnight guests are returning to pre-COVID level, thanks to a shift to domestic travel due to the lifting of action restrictions and JPY depreciation, and a recovery in the number of foreign visitors to Japan due to a significant relaxation of immigration restrictions and JPY depreciation. According to the Lodging Travel Statistics Survey published by the Japan Tourism Agency, the second preliminary report for August 2023 shows that the total number of overnight guests in Japan was 61.02 million (-3.5% from the same month in 2019, +30.2% from the same month in the previous year), of which 50.93 million were Japanese overnight guests (-5.2% from the same month of 2019, +10.4% from the same month of the previous year), and the total number of foreign guests was 10.10 million (+6.4% from the same month in 2019, +1,296.5% from the same month in the previous year).

On the back of this positive environment, our domestic hotel group has continued to strengthen revenue management and aggressively implemented measures to expand revenue and opened new hotels. Specifically, we started to operate KAYA Kyoto Nijo Castle BW Signature Collection by Best Western in Kyoto City, Kyoto Prefecture, in April 2023 and KOKO HOTEL Sendai Kotodai Park, KOKO HOTEL Sendai Station South, KOKO HOTEL Sendai Station West in Sendai City, Miyagi Prefecture, in September 2023 under a Management Contract, and resumed restaurant operations at each Best Western brand hotel, KOKO HOTEL Premier Kanazawa Korinbo and KOKO HOTEL Premier Kumamoto. KOKO HOTEL Ginza 1-chome and KOKO HOTEL Kobe Sannomiya, which had been catered as the facilities for COVID-19 infected persons, returned to normal hotel operations in April 2023, and KOKO HOTEL Kagoshima Temmonkan resumed the hotel operation as well in June 2023. In addition, KOKO HOTEL Osaka Shinsaibashi, KOKO HOTEL Nagoya Sakae, and KOKO HOTEL Fukuoka Tenjin are undergoing renovation of guest rooms and other facilities, which are expected to boost the revenue thereafter.

As a result, our group's financial results for the second quarter ended September 30, 2023 were as follows.

Net Sales

JPY 14,120 million (vs. +353.4% from the same period of the previous fiscal year)

Operating Income

JPY 2,624 million (vs. JPY 31 million in the same period of the previous fiscal year)

Ordinary Income

JPY 2,180 million (vs. JPY -60 million in the same period of the previous fiscal year)

Net Profit attributable to owners of parent

JPY 2,555 million (vs. JPY -107 million in the same period of the previous fiscal year)

In terms of profit and loss, net sales from domestic hotels amounted to 13,221 million (JPY 3,114 million in the previous year's quarter), which is significantly increased due to the sale of real estate for sale, an increase in number of hotels in operation, improved occupancy rates and average room rates, and the receipt of funds to prepare for the opening of new hotels. Furthermore, net sales in overseas operations of JPY 899 million were added since Red Planet Holdings (Philippines) Limited and its subsidiaries, which owns and operates limited-service hotels in the Republic of the Philippines under the Red Planet brand, became consolidated subsidiaries as of March 31, 2023. As a result, net sales amounted to JPY 14,120 million on a consolidation basis. The domestic hotel business returned to significant profitability and its operating profit amounted to JPY 2,600 million (operating profit of JPY 31 million in the same period of the previous year) due to a gain on real estate sales and lowering the break-even point. On the other hand, the overseas hotel business, despite a recovery in local hotel demand, resulted in an operating profit of JPY 23 million due to high depreciation expenses on its own hotel assets. As a result, operating income amounted to JPY 2,624 million on a consolidated basis.

The domestic business achieved a significant return to profitability with ordinary income of JPY 2,314 million (ordinary loss of JPY 60 million for the same period of the previous fiscal year). Although the overseas business recorded an ordinary loss of JPY -134 million mainly due to high financial costs of JPY 267 million caused by high interest rate with inflation, etc., ordinary profit amounted to JPY 2,180 million on a consolidated basis.

Profit attributable to owners of parent on a consolidated basis was JPY 2,555 million. Profit attributable to owners of parent for the domestic operations was JPY 2,501 million (JPY -107 million in the same period of the previous fiscal year) and profit attributable to owners of parent for the overseas operation was JPY 54 million.

The results for each segment, including intersegment transactions, are as follows.

The hotel business recorded net sales of JPY 6,109 million (+97.3% from the same period of the previous fiscal year) and operating income of JPY 725 million (+339.6% from the same period of the previous fiscal year). Major source of sales is hotel management sales.

The real estate business recorded net sales of JPY 8,291 million (sales JPY 176 million in the same period of the previous fiscal year) and operating income of JPY 2,290 million (operating loss of JPY 18 million in the same period of the previous fiscal year). Major source of sales is real estate sales.

(2) Explanation of Financial Condition

Total assets amounted to JPY 22,393 million, which decreased by JPY 2,260 million from the end of the previous fiscal year. Major factors included a JPY 5,857 million decrease in real estate for sale and a JPY 2,989 million increase in cash and deposits.

Total liabilities amounted to JPY 16,076 million, which decreased by JPY 5,666 million from the end of the previous fiscal year due to JPY 4,525 million decreased in long-term debt (including current portion) and JPY 1,048 million decreased in long-term deposits.

The net assets amounted to JPY 6,317 million, which represents an increase of JPY 3,406 million from the end of the previous fiscal year. Major factors included a JPY 3,585 million increase in retained earnings, in net income attributable to parent company shareholders, and JPY 241 million increased in foreign currency translation adjustments.

(3) Explanation of Cash Flow

The balance of cash and cash equivalents of our group at the second quarter ended September 30, 2023 increased by JPY 2,991 million from the end of the previous fiscal year to JPY 6,562 million.

(Cash Flow from Operating Activities)

During the second quarter of the consolidated fiscal year, net cash increased by operating activities JPY 8,442 million (JPY 81 million decrease for the same period of the previous fiscal year). Major factors of increase included a JPY 5,826 million decrease in real estate for sale and a JPY 2,600 million decrease in net profit before tax adjustments. Major factors of decrease included a JPY 366 million gain on termination of lease agreements and a JPY 330 million interest payment.

(Cash Flow from Investing Activities)

During the second quarter of the consolidated fiscal year, net cash increased by investing activities JPY 32 million (JPY 487 decrease for the same period of the previous fiscal year). Major factors of increase included a JPY 218 million collection of security and guarantee deposits.

(Cash Flow from Financing Activities)

During the second quarter of the consolidated fiscal year, net cash decreased by financing activities JPY 5,507 million (JPY 1,809 increase for the same period of the previous fiscal year). Major factors of increase included a JPY 610 million proceeds from issuance of shares upon exercise of stock acquisition rights. Major factors of decrease included a JPY 5,031 million repayment of long-term loans and a JPY 1,048 million refund of long-term deposits.

Regarding the funding sources for our group's capital and the liquidity of funds, the Group manages funds by monitoring future cash flows in considering of business environment and the state of operations and plans to primarily secure funds through borrowings from financial institutions when the need for funds arises.

(4) Explanation of consolidated earnings forecasts and other forward-looking information

We have revised the earnings forecast announced on August 10, 2023. For details, please refer to the announcement of "Upward Revision of Consolidated Financial Forecast for the Year Ending March 31, 2024 and Recognition of Extraordinary Income (Gain on Cancellation of Lease Agreements)" released today.

Quarterly Consolidated Financial Statements

1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	4,283,720	7,272,732
Accounts receivable - trade	1,839,769	2,226,617
Real estate for sale	5,857,254	-
Raw materials and supplies	79,156	103,095
Other	1,527,876	1,672,046
Allowance for doubtful accounts	△724,860	△797,320
Total current assets	12,862,915	10,477,170
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,046,234	7,576,877
Land	476,590	499,437
Right-of-use assets, net	2,040,876	1,837,654
Other, net	303,748	304,913
Total property, plant and equipment	9,867,448	10,218,880
Intangible assets		
Other	29,039	28,938
Total intangible assets	29,039	28,938
Investments and other assets		
Investment securities	193,058	190,448
Beneficial interests in real estate trust	316,416	309,376
Leasehold and guarantee deposits	930,069	758,491
Other	454,273	410,098
Total investments and other assets	1,893,817	1,668,413
Total non-current assets	11,790,304	11,916,231
Total assets	24,653,218	22,393,401

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	390,727	317,674
Current portion of bonds payable	—	950,073
Short-term borrowings	587,200	560,600
Current portion of long-term borrowings	1,094,687	1,100,231
Accounts payable - other	1,129,692	1,277,046
Income taxes payable	185,931	137,849
Provision for shareholder benefit program	3,915	50,117
Provision for loss on store closings	151,475	—
Provision for bonuses	—	48,000
Other	1,207,419	1,710,621
Total current liabilities	4,751,047	6,152,211
Non-current liabilities		
Bonds payable	918,366	—
Long-term borrowings	10,453,827	5,923,333
Subordinated capital loans	950,000	950,000
Lease liabilities	3,176,670	2,528,839
Long-term deposits received	1,060,676	12,245
Retirement benefit liability	47,398	35,483
Asset retirement obligations	318,623	319,000
Other	66,042	155,221
Total non-current liabilities	16,991,600	9,924,121
Total liabilities	21,742,647	16,076,332
Net assets		
Shareholders' equity		
Share capital	12,155	37,012
Deposits for subscriptions of shares	—	54,997
Capital surplus	2,528,713	2,033,892
Retained earnings	366,725	3,951,732
Treasury shares	△2,992	△2,992
Total shareholders' equity	2,904,601	6,074,641
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	145	178
Foreign currency translation adjustment	—	241,402
Total accumulated other comprehensive income	145	241,580
Share acquisition rights	5,826	848
Total net assets	2,910,571	6,317,069
Total liabilities and net assets	24,653,218	22,393,401

2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the six months ended September 30, 2023)

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	3,114,361	14,120,194
Cost of sales	221,659	6,215,534
Gross profit	2,892,702	7,904,660
Selling, general and administrative expenses	2,861,578	5,280,919
Operating profit	31,124	2,623,741
Non-operating income		
Interest income	13	6,368
Subsidy income	11,278	3,901
Foreign exchange gains	285	—
Other	2,843	11,670
Total non-operating income	14,419	21,939
Non-operating expenses		
Interest expenses	92,696	335,653
Commission expenses	6,851	86,355
Interest expenses on bonds	—	31,707
Foreign exchange losses	—	7,835
Other	5,791	4,059
Total non-operating expenses	105,338	465,609
Ordinary profit (loss)	△59,794	2,180,071
Extraordinary income		
Gain on cancellation of lease contract	—	365,703
Reversal of provision for loss on store closings	—	57,125
Total extraordinary income	—	422,828
Extraordinary losses		
Loss on valuation of investment securities	—	2,585
Total extraordinary losses	—	2,585
Profit (loss) before income taxes	△59,794	2,600,314
Income taxes - current	46,817	17,574
Income taxes - deferred	—	28,099
Total income taxes	46,817	45,672
Profit (loss)	△106,611	2,554,642
Profit (loss) attributable to owners of parent	△106,611	2,554,642

(Quarterly Consolidated Statements of Comprehensive Income)

(For the six months ended September 30, 2023)

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit (loss)	△106,611	2,554,642
Other comprehensive income		
Valuation difference on available-for-sale securities	△12	34
Foreign currency translation adjustment	—	241,402
Total other comprehensive income	△12	241,435
Comprehensive income	△106,623	2,796,077
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	△106,623	2,796,077

3) Quarterly Consolidated Statements of Cash Flows
(For the six months ended September 30, 2023)

(Thousands of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit (loss) before income taxes	△59,794	2,600,314
Depreciation	103,483	341,801
Gain on cancellataion of lease contract	—	△365,703
Reversal of provision for loss on store closings	—	△57,125
Increase (decrease) in allowance for doubtful accounts	12	△13
Increase (decrease) in provision for shareholder benefit program	25,200	46,201
Increase (decrease) in retirement benefit liability	636	△13,061
Increase (decrease) in provision for loss on store closings	—	△94,350
Increase (decrease) in provision for bonuses	—	48,000
Interest and dividend income	△13	△6,368
Interest expenses	92,696	335,653
Commission expenses	6,851	48,401
Interest expenses on bonds	—	31,707
Loss (gain) on valuation of investment securities	—	2,585
Decrease (increase) in trade receivables	△209,243	△307,760
Decrease (increase) in inventories	△8,164	△18,109
Decrease (increase) in real estate for sale	—	5,826,098
Increase (decrease) in trade payables	—	△101,933
Increase (decrease) in accounts payable - other	△48,571	△28,172
Increase (decrease) in advances received	8,813	91,457
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	195,500	412,193
Other, net	△83,893	△6,734
Subtotal	23,512	8,785,082
Interest and dividends received	13	6,368
Interest paid	△92,091	△330,250
Income taxes paid	△12,375	△19,515
Net cash provided by (used in) operating activities	△80,941	8,441,685
Cash flows from investing activities		
Purchase of property, plant and equipment	—	△153,033
Purchase of intangible assets	—	△4,833
Payments of leasehold and guarantee deposits	△53,461	△23,520
Proceeds from refund of leasehold and guarantee deposits	—	217,538
Advance payments for purchase of shares of subsidiaries and associates	△433,718	—
Other, net	92	△3,702
Net cash provided by (used in) investing activities	△487,087	32,449
Cash flows from financing activities		
Repayments of short-term borrowings	△185,600	△26,600
Repayments of long-term borrowings	△164,020	△5,031,251
Refund of long-term deposits received	—	△1,048,431
Proceeds from issuance of shares resulting from exercise of share acquisition rights	2,179,481	610,427
Other, net	△21,349	△10,983

Net cash provided by (used in) financing activities	1,808,512	△5,506,838
Effect of exchange rate change on cash and cash equivalents	—	23,817
Net increase (decrease) in cash and cash equivalents	1,240,485	2,991,113
Cash and cash equivalents at beginning of period	2,224,386	3,571,227
Cash and cash equivalents at end of period	3,464,871	6,562,340