

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

August 10, 2023

Consolidated Financial Results for the Three Months Ended June 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/>
 Representative: Takahiro Tsujikawa, President & CEO
 Inquiries: Takashi Handa, Director and CFO
 Telephone: +81-3-5822-3010
 Scheduled date to file quarterly securities report: August 14, 2022
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results briefing: None

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

1. Consolidated financial results for the three months ended June 30, 2023 (from April 1, 2023 to June 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	%
Three months ended								
June 30, 2023	2,740	129.8	183	-	(4)	-	(33)	-
June 30, 2022	1,192	56.1	(58)	-	(107)	-	(120)	-

Note: Comprehensive income For the three months ended June 30, 2023: ¥24 million [-%]
 For the three months ended June 30, 2022: ¥(120) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2023	(0.28)	-
June 30, 2022	(1.30)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
June 30, 2023	24,337	3,472	14.2
March 31, 2023	24,653	2,911	11.8

Reference: Equity
 As of June 30, 2023: ¥3,467 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	-				
Fiscal year ending March 31, 2024 (Forecast)		0.00	-	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	21,000	199.2	2,726	-	2,134	-	1,780	233.2	14.56

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 June 30, 2023	123,214,389 shares
As of March 31, 2023	116,969,189 shares

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

As of June 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)

Three months ended June 30, 2023	119,502,094 shares
Three months ended June 30, 2022	92,494,732 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 three months ended June 30, 2023

(1) Explanation of Operating Results

During the the first quarter of the consolidated fiscal year, the Japanese economy saw further normalization of social activities following the change in the status of COVID-19 to Category 5 under the Act on the Prevention of Infectious Disease and Medical Care for Patients with Infectious Diseases 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 May 2023 shows that the total number of overnight guests in Japan was 49.26 million (-4.2% from the same month in 2019, +33.8% from the same month in the previous year), of which 40.49 million were Japanese overnight guests (-2.8% from the same month of 2019, +12.0% from the same month of the previous year), and the total number of foreign guests was 8.77 million (-9.9% from the same month in 2019, +1,243.4% 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 Nijojo BW Signature Collection by Best Western in Kyoto City, Kyoto Prefecture, under a Management Contract in April 2023, 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 first quarter ended June 30, 2023 were as follows.

Net Sales	JPY 2,740 million (vs. +129.8% from the same period of the previous fiscal year)
Operating income	JPY 183 million (vs. JPY -58 million in the same period of the previous fiscal year)
Ordinary loss	JPY -4 million (vs. JPY -107 million in the same period of the previous fiscal year)
Net loss attributable to owners of parent	JPY -33 million (vs. JPY -120 million in the same period of the previous fiscal year)

In terms of profit and loss, net sales from domestic hotels amounted to JPY 2,307 million (JPY 1,192 million in the previous year's quarter), which is significantly increased due to an increase in the number of hotels under management and a significant improvement in occupancy rates and average daily rates. Furthermore, net sales in overseas operations of JPY 433 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 2,740 million a consolidation base.

The domestic hotel business returned to profitability and its operating profit amounted to JPY 186 million (operating loss of JPY 58 million in the same period of the previous year) due to an increased net 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 loss of JPY 4 million due to high depreciation expenses on its own hotel assets. As a result, operating income amounted to JPY 183 million on a consolidated basis.

Although the domestic business achieved a significant return to profitability with ordinary income of JPY 130 million (ordinary loss of JPY 107 million for the same period of the previous fiscal year), the overseas business recorded an ordinary loss of JPY -134 million mainly due to high financial costs of JPY 143 million caused by high interest rate with inflation, etc. As a result, ordinary profit amounted to JPY -4 million on a consolidated basis.

Profit attributable to owners of parent consists mainly corporate income taxes of JPY 26 million. Profit attributable to owners of parent for the domestic operations was JPY 121 million (JPY -120 million in the same period of the previous fiscal year), and loss attributable to owners of parent for the overseas operation was JPY 154 million.

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

The hotel business recorded net sales of JPY 2,729 million (+129.0% from the same period of the previous fiscal year) and operating income of JPY 268 million (operating income of JPY 7 million in 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 134 million (+84.3% from the same period of the previous fiscal year) and operating income of JPY 64 million (operating loss of JPY 4 million in the same period of the previous fiscal year). Major source of sales is a lease revenue. In addition, real estate sales were recorded in the first quarter due to the sale of real estate for sale located in Kamo City, Niigata Prefecture.

(2) Explanation of Financial Condition

Total assets amounted to JPY 24,337 million, which decreased by JPY 316 million from the end of the previous fiscal year. Major factors included a JPY 223 million decreased in cash and deposits and JPY 266 million decreased in other current assets.

Total liabilities amounted to JPY 20,865 million, which decreased by JPY 877 million from the end of the previous fiscal year due to JPY 360 million decreased in long-term debt (including current portion) and JPY 439 million decreased in other current liabilities.

The net assets amounted to JPY 3,472 million, which represents an increase of JPY 561 million from the end of the previous fiscal year. Major factors included a JPY 538 million increase in common stock and capital surplus by execution of warrant rights and JPY 58 million increased in foreign currency translation adjustments.

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

We have revised the earnings forecast announced on May 15, 2023. For details, please refer to the announcement of "Revision of Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2024" released today.

Quarterly Consolidated Financial Statements

1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	4,283,720	4,060,791
Accounts receivable - trade	1,839,769	1,847,109
Real estate for sale	5,857,254	5,830,822
Raw materials and supplies	79,156	92,417
Other	1,527,876	1,262,157
Allowance for doubtful accounts	△724,860	△742,966
Total current assets	12,862,915	12,350,329
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,046,234	7,175,768
Land	476,590	482,302
Right-of-use assets, net	2,040,876	1,979,035
Other, net	303,748	305,467
Total property, plant and equipment	9,867,448	9,942,572
Intangible assets		
Other	29,039	30,847
Total intangible assets	29,039	30,847
Investments and other assets		
Investment securities	193,058	190,519
Beneficial interests in real estate trust	316,416	312,192
Leasehold and guarantee deposits	930,069	1,004,628
Other	454,273	506,342
Total investments and other assets	1,893,817	2,013,681
Total non-current assets	11,790,304	11,987,100
Total assets	24,653,218	24,337,429

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	390,727	440,883
Current portion of bonds payable	—	934,133
Short-term borrowings	587,200	573,900
Current portion of long-term borrowings	1,094,687	1,135,215
Accounts payable - other	1,129,692	1,083,185
Income taxes payable	185,931	127,669
Provision for shareholder benefit program	3,915	3,915
Provision for loss on store closings	151,475	151,475
Other	1,207,419	768,334
Total current liabilities	4,751,047	5,218,709
Non-current liabilities		
Bonds payable	918,366	—
Long-term borrowings	10,453,827	10,053,344
Subordinated capital loans	950,000	950,000
Lease liabilities	3,176,670	3,138,749
Long-term deposits received	1,060,676	1,059,592
Retirement benefit liability	47,398	48,794
Asset retirement obligations	318,623	319,000
Other	66,042	77,208
Total non-current liabilities	16,991,600	15,646,687
Total liabilities	21,742,647	20,865,396
Net assets		
Shareholders' equity		
Share capital	12,155	281,292
Capital surplus	2,528,713	2,797,850
Retained earnings	366,725	333,478
Treasury shares	△2,992	△2,992
Total shareholders' equity	2,904,601	3,409,628
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	145	175
Foreign currency translation adjustment	—	57,591
Total accumulated other comprehensive income	145	57,766
Share acquisition rights	5,826	4,639
Total net assets	2,910,571	3,472,033
Total liabilities and net assets	24,653,218	24,337,429

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

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	1,192,320	2,740,109
Cost of sales	93,262	165,408
Gross profit	1,099,059	2,574,701
Selling, general and administrative expenses	1,157,056	2,392,153
Operating profit (loss)	△57,997	182,548
Non-operating income		
Interest income	2	6,082
Subsidy income	5,038	3,901
Foreign exchange gains	—	5,414
Other	251	1,975
Total non-operating income	5,291	17,372
Non-operating expenses		
Interest expenses on bonds	—	15,767
Interest expenses	46,489	183,499
Other	7,398	5,050
Total non-operating expenses	53,887	204,316
Ordinary loss	△106,593	△4,396
Extraordinary losses		
Loss on valuation of investment securities	—	2,585
Total extraordinary losses	—	2,585
Loss before income taxes	△106,593	△6,981
Income taxes - current	13,433	11,747
Income taxes - deferred	—	14,519
Total income taxes	13,433	26,266
Loss	△120,026	△33,247
Loss attributable to owners of parent	△120,026	△33,247

(Quarterly Consolidated Statements of Comprehensive Income)
(For the three months ended June 30, 2023)

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Loss	△120,026	△33,247
Other comprehensive income		
Valuation difference on available-for-sale securities	△8	30
Foreign currency translation adjustment	—	57,591
Total other comprehensive income	△8	57,621
Comprehensive income	△120,035	24,374
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	△120,035	24,374