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February 13, 2024

Consolidated Financial Results for the Nine Months Ended December 31, 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: February 14, 2024
 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 nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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	%
Nine months ended								
December 31, 2023	18,237	266.6	3,018	-	2,384	-	2,836	-
December 31, 2022	4,975	77.7	69	-	(76)	-	(134)	-

Note: Comprehensive income For the nine months ended December 31, 2023: ¥3,030 million [-%]
 For the nine months ended December 31, 2022: ¥(134) million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	23.19	22.86
December 31, 2022	(1.29)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2023	24,254	6,551	27.0
March 31, 2023	24,653	2,911	11.8

Reference: Equity
 As of December 31, 2023: ¥6,550 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 December 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: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly included: 1 company (Red Planet Hotels Manila Corporation)

(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 December 31, 2023	124,110,689 shares
As of March 31, 2023	116,969,189 shares

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

As of December 31, 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)

Nine months ended December 31, 2023	122,328,320 shares
Nine months ended December 31, 2022	104,129,062 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 nine months ended December 31, 2023

(1) Explanation of Operating Results

During the third quarter of the consolidated fiscal year, the Japanese economy saw continued 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, increase in costs, including high resource prices triggered by the situation in Ukraine and JPY depreciation, had a continuous 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 and exceeding pre-COVID levels, 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 November 2023 shows that the total number of overnight guests in Japan was 52.92 million (+6.6% from the same month in 2019, +15.5% from the same month in the previous year), of which 41.03 million were Japanese overnight guests (+1.1% from the same month of 2019, -2.3% from the same month of the previous year), and the total number of foreign guests was 11.89 million (+31.1% from the same month in 2019, +213.3% 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 opening 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 completed acquisition of Red Planet Hotels Manila Corporation in October 2023 and started to operate "Red Planet BGC The Fort", which is located in Bonifacio Global City, Central Manila of the Philippines in December 2023. We resumed restaurant operations at each Best Western brand hotels, 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. Also, KOKO HOTEL Osaka Shinsaibashi, KOKO HOTEL Nagoya Sakae, and KOKO HOTEL Fukuoka Tenjin had undergone renovation of guest rooms and other facilities, which are expected to boost revenues. In addition, in response to the sustained recovery of the hotel market, we changed the hotel management structure to further improve profitability. The management of two KOKO HOTELS (Kobe Sannomiya and Nihonbashi Hamacho) shifted from hotel management contracts to fixed-rent lease contracts from October 2023, and the management of five KOKO HOTELS (Sapporo Ekimae, Ginza 1-chome, Hiroshima Ekimae, Fukuoka Tenjin, Kagoshima Temmonkan) shifted from hotel management contracts to lease contracts with variable rent in December 2023. Lastly, the impact of the Noto Peninsula earthquake that occurred on January 1, 2024 is currently expected to have a limited effect on our business performance.

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

Net Sales

JPY 18,237 million (vs. +266.6% from the same period of the previous fiscal year)

Operating Income

JPY 3,018 million (vs. JPY 69 million in the same period of the previous fiscal year)

Ordinary Income

JPY 2,384 million (vs. JPY -76 million in the same period of the previous fiscal year)

Net Profit attributable to owners of parent

JPY 2,836 million (vs. JPY -134 million in the same period of the previous fiscal year)

In terms of profit and loss, net sales from domestic hotels amounted to 16,687 million (JPY 4,975 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, significantly 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 1,550 million were added since Red Planet Holdings (Philippines) Limited and its subsidiaries, which owns and operates limited-service hotels in the Philippines under the Red Planet brand, became consolidated subsidiaries as of March 31, 2023. As a result, net sales amounted to JPY 18,237 million on a consolidated basis.

The domestic hotel business returned to significant profitability and its operating profit amounted to JPY 2,842 million (operating profit of JPY 69 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 176 million due to high depreciation expenses on its own hotel assets. As a result, operating income amounted to JPY 3,018 million on a consolidated basis.

The domestic business achieved a significant return to profitability with ordinary income of JPY 2,639 million (ordinary loss of JPY -76 million for the same period of the previous fiscal year). Although the overseas business recorded an ordinary loss of JPY -258 million mainly due to increased financial costs of JPY 442 million caused by Red Planet Hotels Manila Corporation and high interest rate with inflation, etc., ordinary profit amounted to JPY 2,384 million on a consolidated basis.

Profit attributable to owners of parent on a consolidated basis was JPY 2,836 million. Profit attributable to owners of parent for the domestic operations was JPY 2,808 million (JPY -134 million in the same period of the previous fiscal year) and profit attributable to owners of parent for the overseas operation was JPY 28 million.

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

The hotel business recorded net sales of JPY 10,226 million (+106.3% from the same period of the previous fiscal year) and operating income of JPY 1,328 million (+369.9% 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 268 million in the same period of the previous fiscal year) and operating income of JPY 2,260 million (operating profit of JPY 52 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 24,254 million, which decreased by JPY 399 million from the end of the previous fiscal year. Major factors included a JPY 5,857 million decrease in real estate for sale, a JPY 2,268 million increase in construction in progress, a JPY 1,248 million increase in cash and deposits, a JPY 776 million increase in buildings and structures, and a JPY 335 million increase in security and guarantee deposits.

Total liabilities amounted to JPY 17,704 million, which decreased by JPY 4,039 million from the end of the previous fiscal year due to JPY 3,927 million decreased in long-term debt (including current portion) and JPY 1,044 million decreased in long-term deposits.

The net assets amounted to JPY 6,551 million, which represents an increase of JPY 3,640 million from the end of the previous fiscal year. Major factors included a JPY 3,611 million increase in retained earnings, in net income attributable to parent company shareholders.

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

There is no change to the earnings forecast announced on November 14, 2023.

Quarterly Consolidated Financial Statements

1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	4,283,720	5,531,993
Accounts receivable - trade	1,839,769	1,745,761
Real estate for sale	5,857,254	-
Raw materials and supplies	79,156	137,968
Other	1,527,876	1,523,703
Allowance for doubtful accounts	△724,860	△26,745
Total current assets	12,862,915	8,912,681
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,046,234	7,821,908
Land	476,590	500,388
Right-of-use assets, net	2,040,876	2,165,440
Construction in progress	-	2,267,841
Other, net	303,748	327,881
Total property, plant and equipment	9,867,448	13,083,458
Intangible assets		
Other	29,039	27,390
Total intangible assets	29,039	27,390
Investments and other assets		
Investment securities	193,058	190,454
Beneficial interests in real estate trust	316,416	-
Leasehold and guarantee deposits	930,069	1,265,012
Other	454,273	775,435
Total investments and other assets	1,893,817	2,230,902
Total non-current assets	11,790,304	15,341,750
Total assets	24,653,218	24,254,431

(Thousands of yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	390,727	386,874
Current portion of bonds payable	-	966,013
Short-term borrowings	587,200	997,300
Current portion of long-term borrowings	1,094,687	874,568
Accounts payable - other	1,129,692	1,679,957
Income taxes payable	185,931	9,967
Provision for shareholder benefit program	3,915	20,093
Provision for loss on store closings	151,475	-
Provision for bonuses	-	72,000
Other	1,207,419	1,168,898
Total current liabilities	4,751,047	6,175,669
Non-current liabilities		
Bonds payable	918,366	-
Long-term borrowings	10,453,827	6,746,481
Subordinated capital loans	950,000	950,000
Lease liabilities	3,176,670	3,023,211
Long-term deposits received	1,060,676	16,228
Retirement benefit liability	47,398	33,323
Asset retirement obligations	318,623	168,623
Other	66,042	590,311
Total non-current liabilities	16,991,600	11,528,177
Total liabilities	21,742,647	17,703,846
Net assets		
Shareholders' equity		
Share capital	12,155	64,571
Capital surplus	2,528,713	2,316,797
Retained earnings	366,725	3,978,039
Treasury shares	△2,992	△2,992
Total shareholders' equity	2,904,601	6,356,416
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	145	182
Foreign currency translation adjustment	-	193,260
Total accumulated other comprehensive income	145	193,442
Share acquisition rights	5,826	726
Total net assets	2,910,571	6,550,585
Total liabilities and net assets	24,653,218	24,254,431

2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Nine months ended December 31, 2023)

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net sales	4,974,851	18,236,769
Cost of sales	355,196	6,447,064
Gross profit	4,619,654	11,789,704
Selling, general and administrative expenses	4,550,238	8,771,797
Operating profit	69,417	3,017,907
Non-operating income		
Interest income	15	21,503
Dividend income	3	4
Subsidy income	12,144	7,515
Other	3,687	1,923
Total non-operating income	15,849	30,945
Non-operating expenses		
Interest expenses	137,265	516,516
Commission expenses	10,142	86,355
Interest expenses on bonds	2,772	47,647
Foreign exchange losses	—	8,143
Other	10,655	6,370
Total non-operating expenses	160,835	665,032
Ordinary profit (loss)	△75,570	2,383,821
Extraordinary income		
Gain on cancellation of lease contract	—	405,812
Reversal of provision for loss on store closings	—	57,125
Total extraordinary income	—	462,937
Extraordinary losses		
Loss on valuation of investment securities	—	2,585
Loss on retirement of non-current assets	—	17,700
Total extraordinary losses	—	20,285
Profit (loss) before income taxes	△75,570	2,826,473
Income taxes - current	58,679	10,923
Income taxes - deferred	—	△20,746
Total income taxes	58,679	△9,823
Profit (loss)	△134,249	2,836,295
Profit (loss) attributable to owners of parent	△134,249	2,836,295

(Quarterly Consolidated Statements of Comprehensive Income)

(For the Nine months ended December 31, 2023)

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Profit (loss)	△134,249	2,836,295
Other comprehensive income		
Valuation difference on available-for-sale securities	△6	38
Foreign currency translation adjustment	—	193,260
Total other comprehensive income	△6	193,298
Comprehensive income	△134,255	3,029,593
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	△134,255	3,029,593