

VELTRA Corporation

7048

Tokyo Stock Exchange Growth Market Index

2-Nov.-2023

FISCO Ltd. Analyst

Yoichiro Shimizu



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Overview of the 1H FY12/23 results	01
2. FY12/23 results forecasts	02
3. Medium- to long-term growth strategy	02
■ Company profile	03
1. History	03
2. Business overview	05
■ Results trends	07
1. Overview of the 1H FY12/23 results	07
2. Financial condition and management indicators	11
■ Outlook	12
■ Medium- to long-term growth strategies and topics	15
1. Business portfolio expansion and growth investment	16
2. Future growth strategy	17
3. Investment strategies in each business and status of progress	18
■ Shareholder return policy	21

Summary

Amid a recovery in travel demand, operating revenue grew sharply by 225.6% YoY. Losses decreased significantly by controlling expenses. From FY12/23 onward, the Company will further accelerate growth investment and aims to increase its market share and maximize corporate value through business diversification

VELTRA Corporation <7048> (hereafter, also “the Company”) manages VELTRA, Japan’s largest online reservation website specializing in local-experience optional tours. The Company achieved growth as a specialty reservation site for experience-type optional tours worldwide by focusing on what can be experienced at travel destinations and reaping the benefits of expanded use of online services and increased demand for individualized travel. It adopted the VELTRA name to communicate that “VELTRA changes TRAVEL” by sharing information on experiences that are possible at destinations (in other words, altering the definition of travel to seeking destinations based on the experiences they offer).

1. Overview of the 1H FY12/23 results

In the 1H FY12/23 consolidated results, operating revenue increased 225.6% year-on-year (YoY) to ¥1,157mn and operating loss was ¥203mn (a loss of ¥488mn in the same period in the previous fiscal year). All businesses except HawaiiActivities (overseas travel, domestic travel, and tourism IT businesses) grew sharply YoY amid a recovery in travel demand as the impact of the COVID-19 outbreak (hereinafter “COVID-19 pandemic”) faded, boosting operating revenue. In particular, overseas travel business and LINKTIVITY performed well, with operating revenue from overseas travel business rapidly recovering 15.0 times YoY to ¥647mn against the background of the removal of travel restrictions in Japan on April 29, 2023, amid a gradual recovery in travel demand from 2H FY12/22. LINKTIVITY’s operating revenue surged 9.6 times YoY to ¥201mn amid a recovery in the inbound market. The domestic travel business also performed well thanks to measures to stimulate demand, including nationwide travel support, and operating revenue jumped 2.1 times YoY to ¥130mn. On the other hand, the company posted an operating loss of ¥203mn. This was due to a further acceleration of growth investments to realize growth from FY12/24 onward. However, the loss margin narrowed significantly YoY, mainly due to a significant increase in revenue and ongoing fixed cost controls.

Summary

2. FY12/23 results forecasts

For the FY12/23 consolidated results forecasts, operating revenue is expected to increase 294.0% YoY to ¥3,420mn, while operating loss will be ¥103mn (a loss of ¥794mn in the previous period). The Company, which saw the end of its survival period up to FY12/22, views FY12/23 as a period in which to enact growth investment in order to achieve continual growth that will exceed the level prior to the COVID-19 pandemic (2019). It has set aside approximately ¥640mn as additional investment, and intends to achieve revenue in FY12/24 that will exceed pre-pandemic levels by investing in various measures in the overseas travel business, domestic travel business, and LINKTIVITY. Cost levels are expected to increase due to factors including growth investments for future business expansion, an increase in variable costs such as advertising expenses accompanying the increase in operating revenue, and human resource investments, mainly to increase personnel in the overseas travel business division and the system development division during the recovery period in travel demand. Nevertheless, travel demand is recovering through various measures enacted during the COVID-19 pandemic, so it projects that revenue will increase steadily, particularly in the overseas travel business and LINKTIVITY, while operating loss will be drastically reduced. In particular, the Company predicts that the increase in operating revenue following its busy season (the season during the summer holidays) will exceed costs, leading to operational profitability.

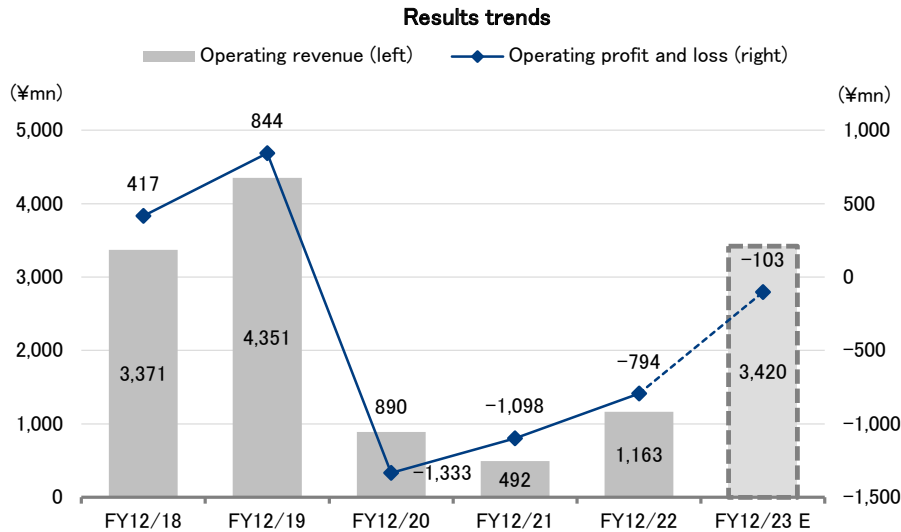
3. Medium- to long-term growth strategy

Since FY12/20, the Company has been working to rebuild and expand its business portfolio. As an online travel agent (OTA) for local experience tours, while expanding its businesses centered on VELTRA, the Company is aiming to further expand its market share and maximize its enterprise value by utilizing the management resources that are the source of its competitive advantages to the greatest possible extent and diversifying its businesses without being restricted to the travel industry. Additionally, from FY12/23 the Company plans to further accelerate growth investment in order to achieve revenue in FY12/24 that will surpass pre-COVID-19 pandemic levels and achieve medium- to long-term growth. In 1H FY12/23, the Company made investments in each of its businesses to ensure that the recovery in tourism demand would lead to a recovery in business performance (an increase in operating revenue and a reduction in operating loss). In order to continue achieving growth acceleration in the future as well, it will reinvest funds generated stably from OTA business into LINKTIVITY or new services, and focus on further expansion of its business portfolio and expansion of its earnings base. Furthermore, as LINKTIVITY's increasing-margin business performance grows, the Company expects its consolidated profitability to improve, so it aims for an operating profit margin of more than 30% in FY12/26.

Key Points

- Operates VELTRA, Japan's largest online reservation website specializing in local-experience optional tours
- In 1H FY12/23, operating revenue grew sharply amid recovery in travel demand. The scale of loss was drastically reduced through ongoing control of fixed costs
- In FY12/23, forecasts operating revenue to increase 294.0% YoY to ¥3,420mn, with an operating loss of ¥103mn. It will carry out growth investment, but predicts that each profit line will significantly surpass FY12/22 through an increase in operating revenue
- Aims to further expand market share and maximize enterprise value by utilizing its management resources to the greatest possible extent and diversifying businesses without being restricted to the travel industry

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

Operates VELTRA, Japan's largest online reservation website specializing in local-experience optional tours

1. History

The Company was established in 1991 by three members of the overseas business division of Nissan Motor <7201>, mainly to conduct automotive-related marketing. Overseas automobile manufacturers were seeking to expand into Japan at that time, and in response to an order from overseas, the Company conducted a survey of the Tokyo Motor Show event and other activities. However, it decided not to focus on just one business and instead to develop businesses in various directions. Among these multiple businesses, it started an online golf reservation (GORA) business in 2000, and this business grew rapidly and was sold to Rakuten (currently, Rakuten Group) <4755>. Using the proceeds from this sale, it started the current business in 2004. In the travel industry, sales related to accommodations and airline tickets had already moved to an online format, and only experiences at destinations were not available through online services. Furthermore, with a vast number of local-experience tours and activities the Company thought it could securely use the economies of scale benefits of e-commerce rather than offline and decided it made sense to start from zero.

On the launch of this business in 2004, the Company did not possess any expertise in the travel business, nor did it have any connections with companies conducting activities businesses. But in the same year, it acquired companies that conducted sales of activities, mainly offline, in Australia, Bali, and Hawaii. Current President and Representative Director and CEO Wataru Futagi, the Company's fourth president since its founding, assumed the role of President and Representative Director in 2015. He took over management from the founders for the purpose of addressing acceleration in technology advances, looking ahead to the IPO, and pursuing further growth.

We encourage readers to review our complete legal statement on "Disclaimer" page.

VELTRA Corporation | 2-Nov.-2023
 7048 Tokyo Stock Exchange Growth Market Index | <https://corp.veltra.com/en/ir/company-overview/>

Company profile

However, when business initially began, it did not have a global online market and local business operators did not have direct contact points with customers to handle reservations online. It was also necessary to revise the business due to many hurdles between travelers and business operators, including differences in culture, language, values, and time zones among countries. For this reason, the Company redefined the method of how customers participate in local-experience tours in an online environment and concentrated business resources in this area. After this, the business grew, and the areas covered expanded to not only around beach resorts, but to other areas such as Asia, Europe, and the US.

Within this global business development, the Company launched an English-language website in 2012 and started a business for travelers visiting Japan. It also strengthened its structure for systems development, recruited engineers in Japan, established a development base in Malaysia, and shifted the systems company to completely in-house manufacturing. Then in 2015, it launched a Chinese-language (traditional and simplified) website. Moreover, the Company acquired all of the shares of City Discovery SAS in 2016, and in 2017, promoted global development by, for instance, launching a Korean-language website through a business alliance with 12CM Inc. of South Korea. (The Company has currently suspended multilingual initiatives in order to selectively focus business resources on the Japanese market.)

In order to realize the expected synergies, in December 2020, the Company concluded a capital and business alliance with OpenDoor <3926>, which operates travel-related businesses, including the travel comparison website Travelko. Then in December 2021, its subsidiary LINKTIVITY Inc. conducted a capital increase through third-party allocation to Nippon Telegraph and Telephone West Corporation (NTT West Japan) and entered into a capital and business alliance. The Company also raises funds through the issue of stock acquisition rights, and raised ¥955mn through this method in FY12/22. Despite the severe business environment due to the effects of COVID-19, the Company has demonstrated active business and financial developments in anticipation of the period after the COVID-19 pandemic subsides (the “after-COVID-19” period) and managed its business both offensively and defensively.

History

Year	Description
1991	Established Alan Co., Ltd. (currently, VELTRA Corporation) as a marketing-related consulting business
2003	Transferred the GORA business, a dedicated golf reservation website, to Rakuten (currently, Rakuten Group) <4755>
2004	Launched the Alan1.net (currently, VELTRA) site specializing in activities Acquired all of the shares of White Publishing, Inc. (currently, VELTRA Inc.), which managed the HawaiiActivities.com website for local tours in Hawaii for the North American market
2012	With the aim of global business development, changed the brand name from “Alan1.net” to “VELTRA” and the company name from Alan Co., Ltd. to VELTRA Corporation Launched an English-language site and started a business for travelers visiting Japan Established VELTRA Malaysia Sdn. Bhd. (Malaysia) as a system company in Kuala Lumpur, Malaysia
2015	Established a Chinese-language (traditional and simplified) site
2016	Acquired all of the shares of City Discovery SAS, which managed CityDiscovery.com, a local tours reservation site for the global market targeting English-speaking countries
2017	Changed the company name of the local Paris corporation to VELTRA SAS and made it a sales base of the VELTRA Group Changed the company name of the local Manila corporation to VELTRA Philippines and made it a CS base of the VELTRA Group Launched a Korean-language site through a business alliance with 12CM Inc. of South Korea Established LINKTIVITY PTE.LTD. in Singapore and started a full-scale business for B2B
2018	Listed on the Tokyo Stock Exchange (TSE) Mothers market
2019	Established VELTRA KOREA Inc.
2020	Established LINKTIVITY Inc.
2021	Concluded a capital and business alliance with OpenDoor
2022	Following the Tokyo Stock Exchange’s reorganization of market categories, listing was transferred to the Growth Market

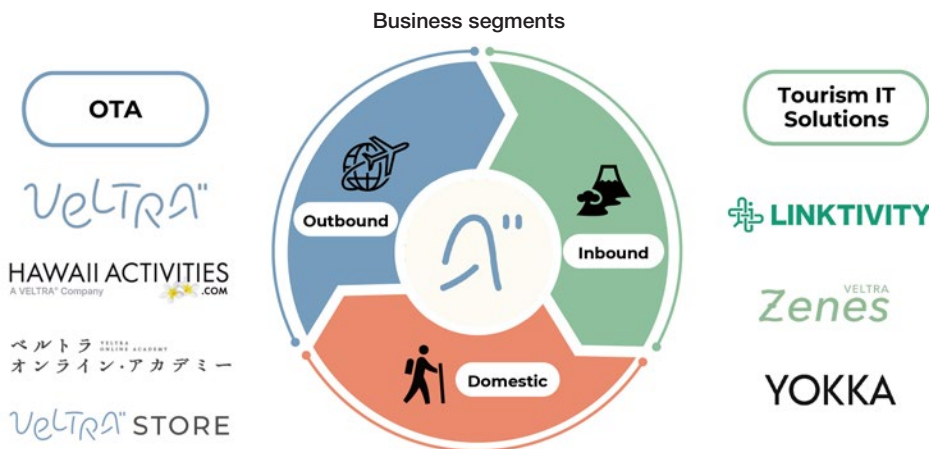
Source: Prepared by FISCO from the Company’s securities report and results briefing materials

Company profile

2. Business overview

The Company goes beyond the framework of existing travel companies and provides solutions to encounter “inspirational experiences*” from Japan to overseas, from before to after travel, and from online to offline. Its business areas are travel-related businesses that are categorized by revenue and consist of the OTA business and the tourism IT business.

* The Company considers “inspirational experiences” to be those in which people have true experiences that makes them feel real emotions and inspire them, such as the culture and nature around the world, and the splendor of the people who communicate them.



Source: Prepared by FISCO from the Company's results briefing materials

(1) OTA business

This business is comprised of the local experience tours online reservation websites (VELTRA and HawaiiActivities); VELTRA Online Academy, an online experience service; and the Corporate Service, which sells the Company's products on corporate websites. In addition to its overwhelming member base, it provides “inspirational experience” products not limited to only travel products.

VELTRA, which is the core business, is Japan's largest activity reservation website targeting Japanese people, on which more than 14,500 types of overseas optional tours (an increase of 1,600 YoY) in 150 countries around the world can be reserved. Also, HawaiiActivities is an English-language website that specializes in Hawaii as the venue of trips, and it provides services mainly for travelers in the U.S. For these services, businesses development is limited to the phases during travel. In the travel industry, sales related to accommodations and airline tickets had already moved to an online format, and only experiences at destinations were unavailable through online services. It also offers countless local experience tours and activities, and in consideration of the fact that these are not offline and can utilize scale merits on the internet, the Company is concentrating management resources and preparing a wide variety of local experiences and activities called “during travel” activities which include sightseeing tours for experiences at the travel destinations, shows and entertainment, world heritage sites, spas and beauty salons, cultural experiences, theme parks, cruises, nature tours, gourmet tours, water sports, and travel tools including airport transfers. Moreover, it provides these local experiences at local prices. As users can reserve at the same price as locally whether reserving at the travel destination or reserving before departure, demand is increasing from people who prepare plans before they travel.

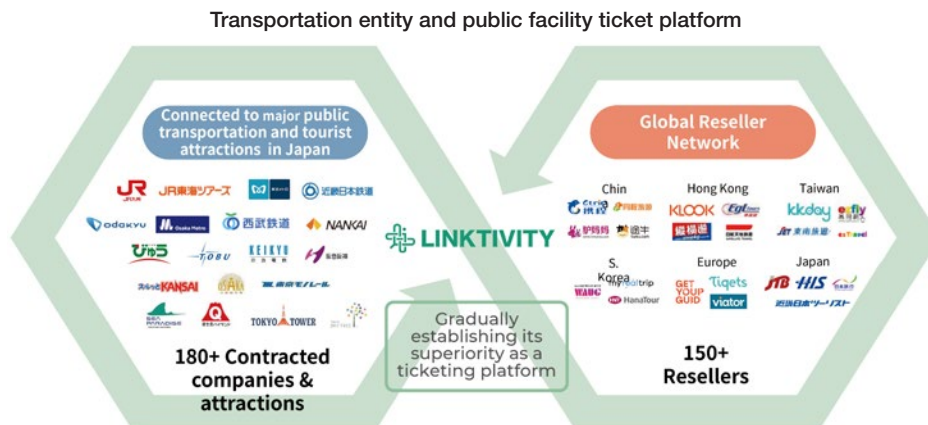
Company profile

Meanwhile, it has been gradually launching services that have rapidly addressed the new normal during the COVID-19 pandemic since 2020. VELTRA Online Academy provides original online experiences by popular guides who are carefully selected from within a network of 150 countries around the world, and it enables users to have the feeling of traveling even while staying at home.

(2) Tourism IT business

This business consists of providing IT infrastructure to tourism-related businesses, and also the ticket platform business conducted by the subsidiary LINKTIVITY.

The ticket platform business aims to seamlessly connect every transportation entity and tourism facility through the transportation entity and public facility ticket platform. The trend toward MaaS, which links various services, and electronic tickets is increasing, and amid these conditions, the Company is strengthening sales channels not only for inbound demand, but also for domestic demand. Based on domestic railway companies, prefectural facilities, and others, its number of sales agencies had steadily increased to 275 companies (as of the end of June 2023, 24 companies at the end of December 2020) and its number of customers to 280 companies around the world (same, 112 companies at the end of December 2020).



Source: Prepared by FISCO from the Company's results briefing materials

The tourism media business, which the Company has been strengthening since 2020, operates multiple forms of media in order to approach new customer groups and to maintain communication with existing customers. To give examples, in May 2020, it launched VELTRA Kite, which is travel information media that delivers the real world of “today” for the with-COVID-19 period (during the COVID-19 pandemic), while in March 2021, it launched YOKKA, a new online media that proposes new experiences and hobby ideas for people’s daily lives.

Results trends

In 1H FY12/23, revenue increased significantly by capturing the recovery in travel demand, combining growth investment and cost control while the extent of the operating loss was drastically reduced by controlling costs

1. Overview of the 1H FY12/23 results

In the 1H FY12/23 consolidated results, operating revenue increased 225.6% year-on-year (YoY) to ¥1,157mn, operating loss was ¥203mn (a loss of ¥488mn in the same period in the previous fiscal year), ordinary loss was ¥233mn (a loss of ¥435mn) and loss attributable to owners of parent was ¥254mn (a loss of ¥464mn). Operating revenue grew sharply YoY, and each profit line drastically reduced the scale of the loss. With regard to operating revenue, as the impact of the COVID-19 pandemic faded and travel demand recovered, all businesses except HawaiiActivities (overseas travel, domestic travel, and tourism IT businesses) grew sharply YoY, which contributed to results. As for operating profit and loss, despite the impact of actively making growth investment to achieve medium- to long-term growth, the scale of loss was drastically reduced YoY by managing expenses as an appropriate level, in addition to a significant increase in operating revenue. As a result, operating profit rose ¥316mn, recurring income was up ¥304mn, and profit attributable to owners of parent rose ¥307mn compared to the forecast, with each stage of income landing well above the initial projection.

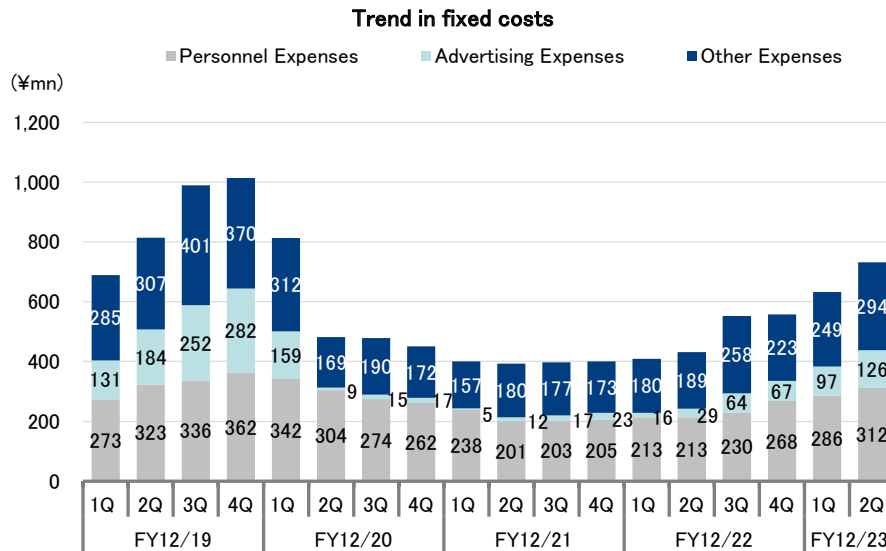
1H FY12/23 consolidated results

	1H FY12/22		1H FY12/23		Change	
	Result	Operating revenue ratio	Results	Operating revenue ratio	Amount	%
Operating revenue	355	-	1,157	-	802	225.6%
Operating expenses	844	237.4%	1,361	117.5%	516	61.2%
Operating profit and loss	-488	-137.4%	-203	-17.5%	285	-
Ordinary profit and loss	-435	-122.5%	-233	-20.1%	202	-
Loss attributable to owners of parent	-464	-130.7%	-254	-22.0%	209	-

Source: Prepared by FISCO from the Company's financial results

Since March 2020, when COVID-19 appeared around the world, the Company has been conducting a Company-wide review of costs, including greatly reducing advertising expenses and reducing executive remuneration. As the impact of the COVID-19 pandemic fades and travel demand recovers, the Company intends to continue to work on maintaining cost levels, while gradually increasing advertising expenses in response to an increase in trade volume, and as for human resource investment, concentrate on increasing personnel while maintaining awareness of productivity. In particular, with regard to human resources, the number of employees has expanded to 242 as of 1H FY12/23 (188 at the end of the previous period). By allocating the increased number of employees to each business and system development division, the company is building a structure which will ensure that recovery in travel demand is incorporated into its business performance.

Results trends



Source: Prepared by FISCO from the Company's results briefing materials

The status by business is as follows.

(1) OTA business

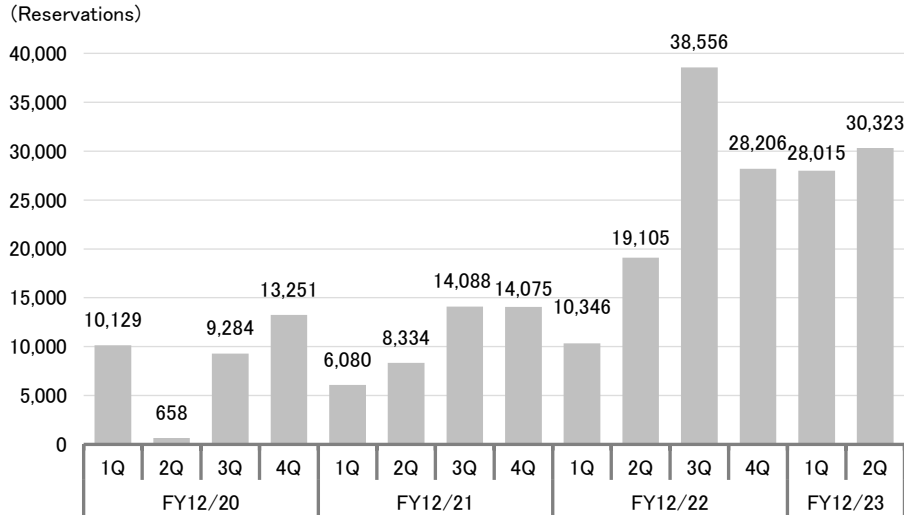
In the OTA business, operating revenue grew sharply by 211.0% YoY to ¥919mn. Although HawaiiActivities' operating revenue were driven downward YoY, the domestic and overseas travel businesses both performed well thanks in part to the removal of travel restrictions in Japan and government measures to stimulate demand.

a) Domestic travel business

In the domestic travel business, operating revenue grew by 113.1% YoY to ¥130mn. The domestic travel business recovered rapidly (approximate Japanese guest nights in domestic travel recovered to 2019 levels) in response to the normalization of social and economic activity due to progress in COVID-19 vaccinations and government measures to stimulate demand through nationwide travel support that was launched in October 2022 under measures to co-exist with the COVID-19 virus. An increase in domestic travel product volume, which led to YoY growth in the volume of reservations, contributed to the sharp increase in operating revenue. Travel product volume at the end of 1H was up 30.4% YoY to 7,300, while the volume of reservations increased 58.7% to 30,323.

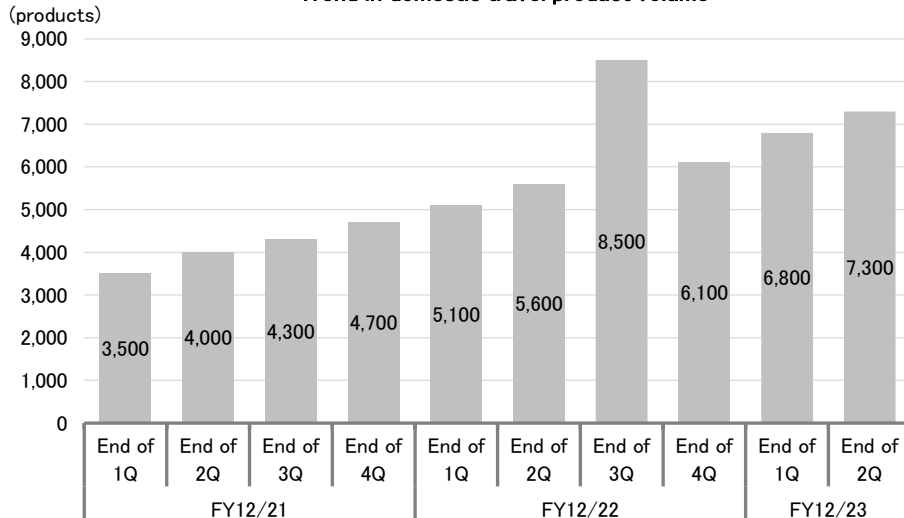
Results trends

Trend in domestic travel reservation volume



Source: Prepared by FISCO from the Company's results briefing materials

Trend in domestic travel product volume



Source: Prepared by FISCO from the Company's results briefing materials and business plan documents

b) Overseas travel business

In the overseas travel business, operating revenue increased rapidly by 1,404.7% YoY to ¥647mn. As travel demand gradually picked up from 2H FY12/22, the number of Japanese departures between January and June 2023 increased 476.1% to 3.61mn due to the removal of travel restrictions in Japan on April 29, 2023. On a monthly basis, in June, departures recovered to 46% of pre-COVID 19 pandemic levels. Operating revenue grew because the Company made sure it increased travel product volume amid the rebound of overseas travel demand, resulting in a steady rise in the volume of reservations. Another positive factor for operating revenue was yen depreciation, which lifted commission per customer from a year earlier. Yen depreciation is often regarded as negative for the travel industry, but it can also have a positive effect on earnings in the form of increasing the price per customer.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

c) HawaiiActivities

In HawaiiActivities, operating revenue decreased by 26.6% YoY to ¥141mn. Travel to Hawaii from the US mainland has been picking up. The market is recovering, with the number of travelers down 3% from the same period in 2019 prior to the COVID-19 pandemic, but operating revenue fell YoY because pent-up demand seen a year earlier has settled down and competitors have emerged. That being said, the Company's reservations increased by 81%, significantly outpacing the rate of market recovery (down 3%). The main reason for this is the large travel product volume it offers, made possible by maintaining relationships with local suppliers during the pandemic. It is thought that its generous travel product lineup that fulfills customer needs amid further recovery of travelers to Hawaii from the US mainland is a competitive advantage, which we at FISCO assume will allow the Company to grow its earnings by capturing the recovery of customer needs. The Company also plans to differentiate itself from emerging competitors through unique initiatives such as promotions on YouTube and social media as well as building a relationship of trust with customers by promoting early bookings. Furthermore, HawaiiActivities makes 650 types of travel products available at all times.

(2) Tourism IT business

In the tourism IT business, revenue increased 297.9% YoY to ¥237mn. Within this amount, the operating revenue of LINKITIVITY, a ticket platform business, grew sharply by 857.1% to ¥201mn. Due to various policies including the removal of restrictions on entering Japan from October 2022 and the termination of border control measures in 2023, the number of overseas visitors between January and June 2023 recovered rapidly by 2,010.2% to 10,710,000. As the number of overseas visitors recovers to 69.0% of pre-COVID-19 levels, the Company focused on developing new suppliers and sales channels, resulting in a significant increase in the volume of railroad and facility ticket bookings through the LINKITIVITY platform. Trade volume increased by 136.5% from the end of the previous period to ¥2,559mn, demonstrating a growth speed that surpassed the rate of recovery in the number of overseas visitors. As a result, the business's share of operating revenue (on a consolidated basis) in 1H FY12/2023 rose 11.5 percentage points (pp) YoY to 17.4%. This is evidence that the expansion of the Company's business portfolio is progressing smoothly. In addition, since LINKITIVITY is service with an increasing business margin, we at FISCO believe that profitability on a consolidated basis can be expected to improve as the percentage of operating revenue increases down the road.

Results trends

Operating loss decreases; turn to cash inflow due to factors including operating activities on increase in OTA business reservations. Expects stable equity ratio going forward

2. Financial condition and management indicators

At the end of 1H FY12/23, total assets had increased ¥1,714mn to ¥5,766mn. Current assets had risen ¥1,485mn to ¥5,164mn. This was mainly due to an increase in cash and deposits of ¥265mn, partly because trade payables and advances received increased due to higher trade volume amid travel demand recovery, and a ¥1,147mn increase in trade accounts receivable. Non-current assets increased ¥228mn to ¥601mn, because investment securities (under investments and other assets) and guarantee deposits increased ¥100mn and ¥119mn, respectively. Current liabilities rose ¥1,910mn to ¥4,581mn, mainly because of increases of ¥607mn in accounts payable and ¥1,286mn in advance payments received. Total net assets decreased ¥195mn to ¥1,185mn, mainly due to a decrease in retained earnings attributed to recording a quarterly net loss of ¥254mn. As a result of the above, the equity ratio was 20.1% (33.4% at the end of the previous period). Current liabilities rose because of the increase in trade payables and advances received due to the improved revenue, and as a result, the equity ratio fell 13.3 percentage points from the end of the previous period. However, positive contributions were made to cash flow and the financial condition is improving. Due to the nature of its business model, liabilities such as trade payables and advances received tend to increase when the business is recovering. The equity ratio fell for this reason and because the Company invested for growth in FY12/23. At FISCO, we think the equity ratio will stabilize once the Company enters the stage of investment recovery and retained earnings begin to grow.

Consolidated balance sheet and management indicators

	(¥mn)		
	End of FY12/22	End of 1H FY12/23	Change
Current assets	3,678	5,164	1,485
Cash and deposits	2,799	3,065	265
Non-current assets	372	601	228
Total assets	4,051	5,766	1,714
Current liabilities	2,670	4,581	1,910
Interest-bearing dept	500	500	-
Non-current liabilities	0	0	0
Total liabilities	2,670	4,581	1,910
Total net assets	1,381	1,185	-195
[Management indicators]			
Equity ratio	33.4%	20.1%	-13.3pt

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Results trends

In 1H FY12/23, cash flows used in operating activities amounted to ¥499mn, with the main increase factors including the increases of depreciation expenses of ¥70mn, trade payables of ¥596mn, and advances received of ¥1,273mn, while the main decrease factors included that trade receivables increased ¥1,140mn and that the loss before taxes, etc., was ¥233mn. Cash flows from investing activities totaled ¥303mn, with the main items being expenditures of ¥84mn to acquire non-current assets, ¥119mn for payments of leasehold deposits, and ¥100mn to acquire investment securities. Cash flows from financing activities were ¥4mn, mainly from income of ¥4mn following the issues of shares. As a result, the balance of cash and deposits at the end of the fiscal quarter had increased by ¥265mn from the end of the previous period to ¥3,065mn. Cash flows significantly worsened from FY12/20 onward due to the impact of COVID-19, but cash flows from operating activities turned positive in 1H FY12/23, partly because advances received increased following the rise in the reservation volume in the OTA business and as the extent of the operating loss was reduced. We at FISCO expect cash flows from operating activities to stay positive as the Company reduces its loss and turns a profit going forward.

Consolidated statement of cash flows

	(¥mn)	
	1H FY12/22	1H FY12/23
Cash flows from operating activities	-42	499
Cash flows from investing activities	6	-303
Cash flows from financing activities	674	4
Cash and cash equivalents at end of period	1,942	3,065

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Forecasting a sharp increase in operating revenue in FY12/23 due to travel demand recovery. Will invest in growth and reduce losses by expanding topline earnings.

For the FY12/23 consolidated results forecasts, operating revenue is expected to increase 294.0% YoY to ¥3,420mn, operating loss will be ¥103mn (a loss of ¥794mn in the previous period), ordinary loss will be ¥139mn (a loss of ¥753mn), and loss attributable to owners of parent will be ¥189mn (a loss of ¥794mn). The Company will invest boldly in growth for continual growth in the coming years, but expects each profit line to drastically reduce the scale of loss as a result of revenue growth mainly in the overseas travel business and LINKTIVITY.

Outlook

The Company, which saw the end of its survival period up to FY12/22, views FY12/23 as a period in which to enact growth investment in order to achieve continual growth that will exceed the level prior to the COVID-19 pandemic (2019). It has set aside approximately ¥640mn as additional investment, and intends to achieve revenue in FY12/24 that will exceed pre-pandemic levels by investing in various measures in the overseas travel business, domestic travel business, and LINKTIVITY. Cost levels are expected to increase due to factors including growth investments for future business expansion, an increase in variable costs such as advertising expenses accompanying the increase in operating revenue, and human resource investments, mainly to increase personnel in the overseas travel business division and the system development division during the recovery period in travel demand. Nevertheless, travel demand is recovering through various measures enacted during the COVID-19 pandemic, so it projects that revenue will increase steadily, particularly in the overseas travel business and LINKTIVITY, while operating loss will be drastically reduced. In particular, the Company predicts that the increase in operating revenue following its busy season (the season during the summer holidays) will exceed costs, leading to operational profitability. The Company reported that the recent summer holiday period was busy as expected. Results in August and September 2023 will be a key factor in attaining earnings targets, and in this respect, we think that the Company is increasingly likely to reach its targets

Initiatives for 2H FY12/23 are described below.

(1) Domestic travel business

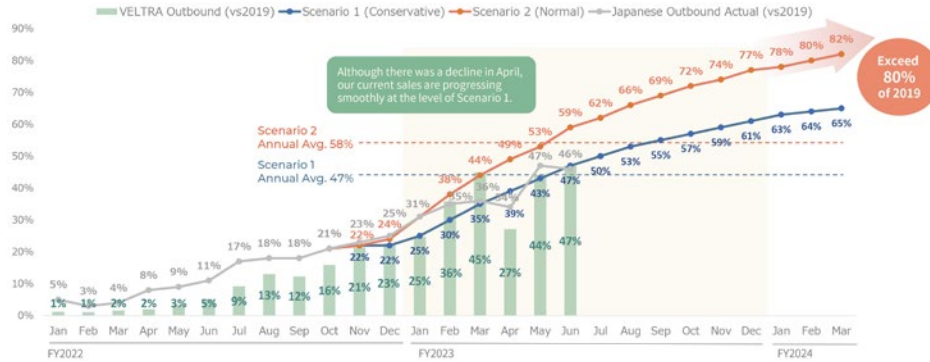
The domestic travel business recovered rapidly after government measures were put in place to stimulate demand, such as nationwide travel support that started in October 2022. Japanese guest nights in from October to December 2022 exceeded levels from October to December 2019. With COVID-19's disease category officially reclassified to Class 5 in May 2023, we assume that the market environment will remain favorable. The Company will continue to focus on increasing travel product volume and strengthening promotions in the domestic travel business to expand earnings further amid a positive outlook for business conditions. This entails expanding and enhancing new travel products on a nationwide basis. In particular, the Company is focused on planning products offering National Park-related activities. By providing adventure tourism products that offer cultural and nature experiences, it will provide added value for visitors (The Company was approved by the Ministry of the Environment as an Official Partner of National Parks of Japan in March 2022). As a result of these measures, the Company aims to increase the volume of reservations further, targeting 70,000 in 3Q FY12/23 and 50,000 in 4Q to double the volume of reservations YoY in FY12/23.

(2) Overseas travel business

In the overseas travel business, the Company formulated a sales plan based on two scenarios. Scenario 1 (average rate of market recovery of 47% per year) is a basic recovery scenario informed by earlier market recovery in Europe and North America. Scenario 2 (average rate of market recovery of 60% per year) also factors in changes in the operating environment, including the reclassification of COVID-19 to a Class 5 disease. The conservative assumption (Scenario 1) calls for a recovery rate of 61% as of December 2023, which increases to 77% under Scenario 2 (based on Scenario 1). Both scenarios look for a gradual recovery of the overseas travel business and assumes a positive outlook for market conditions. As noted previously, the peak travel season in August and September was busy for the Company. We at FISCO think that this is also evidence of steady market recovery. As of June 2023, airlines' summer flight schedules (for May–October 2023) are expected to have recovered to 72% of the 2019 weekly total. The number of flights will likely increase as airlines make progress with replacing personnel who were cut due to the COVID-19 pandemic, which will also be a positive factor for the Company's earnings.

Outlook

Recovery scenarios for the revenue of overseas travel market



Note: Forecast values prepared by the Company
Source: The Company's results briefing materials

The Company will continue to focus on the acquisition of new products for the overseas travel market amid gradual market recovery. It will mainly restore and increase Japanese-language tours, which were cut during the pandemic. It also plans tour products that harness easy-to-use technology such as digital audio guides and will also focus on expanding its lineup of products that allow travelers to enjoy a stress-free local experience. The Company's policy for Hawaii Activities is strengthening sales in the Hawaiian Islands and archipelago, but it has been revising its plans after the Maui wildfires in August 2023. It plans to expand tour products for all of the Hawaiian Islands when the number of visitors to Maui begins to recover.

(3) Ticket platform business (LINKTIVITY)

The Company has two scenarios for inbound market conditions. The basic scenario (Scenario 1) assumes that the inbound market will recover faster than the Japanese overseas travel business (average recovery rate of around 60% per year). Scenario 2 assumes recovery of over 100% in 2024 compared to 2019, because the number of visitors from China may increase further depending on Chinese government policy. The conservative assumption (Scenario 1) calls for a recovery rate of 80% as of December 2023, which increases to 102% under Scenario 2 (Scenario 1 plus contribution of increase in number of visitors from China).

Recovery forecast for inbound market



Forecast values prepared by the Company
Source: The Company's results briefing materials

Outlook

Amid expectations of rapid market recovery, the Company plans a further increase in trade volume by continuing to work on pioneering new suppliers and sales channels. It will also focus on expanding its business model, such as offering various software (such as the QR code issuing system used in LINKTIVITY and inventory management system) as solutions to customer companies.

To recap, trade volume of the ticket platform business in 1H FY12/23 increased at a faster rate than the recovery of inbound visitors. While the potential negative impact of the release of treated wastewater from the Fukushima Daiichi Nuclear Power Plant on visitors from China remains a concern, it is assumed to be minimal, because the business increased its trade volume despite Chinese visitors representing a relatively small share of all foreign visitors to Japan from January to June 2023. A steady increase in trade volume is expected going forward as the Company adds more suppliers and sales channels.

In summary, the Company is expected to maintain robust earnings performance in 2H amid progressive recovery of travel demand. Although it cannot yet turn profitable at all levels because it is investing for growth, the investment is sowing the seeds for accelerating growth in FY12/24 onward. We look for further growth of operating revenue and profit in FY12/24 and beyond.

■ Medium- to long-term growth strategies and topics

Aims to further increase market share and maximize enterprise value by utilizing its management resources to the greatest possible extent and diversifying businesses without being restricted to the travel industry. Targeting revenue growth beyond pre-pandemic levels by accelerating growth investment

The Company's management resources include "networks in every region of the world and an overwhelming product lineup," and also "instantaneous and integrated marketing capabilities," and "the quality of the services that have been built." It is aiming to create new value, further increase market share, and maximize enterprise value by reinvesting in order to utilize these management resources.

Medium- to long-term growth strategies and topics

Cycle to enhance management resources



Source: The Company's results briefing materials

1. Business portfolio expansion and growth investment

Since FY12/20, the Company has been working on rebuilding and expanding its business portfolio. As OTA, or local experience tours, while expanding the business centered on VELTRA, it is strengthening the tourism IT business by utilizing the management resources that are the source of the Company's competitive advantages and diversifying its businesses without being restricted by business expansion as an OTA, and is aiming to maximize its enterprise value centered on recovery of travel business and the new tourism IT business. Additionally, from FY12/23 onward, the Company plans to further accelerate growth investment in order to achieve revenue in FY12/24 that will surpass pre-COVID-19 pandemic levels to achieve medium- to long-term growth. It has set aside approximately ¥640mn as additional investment in the overseas travel business, domestic travel business, and LINKTIVITY. The Company has set policies and measures for growth investment in each business. In the overseas travel business, investment will target strengthening and developing travel product volume and updating apps and systems. In the global business (HawaiiActivities), investment will target strengthening sales in the Hawaiian Islands and archipelago. In the domestic travel business, the Company will invest in strengthening and developing travel product volume and strengthening the ticket business through business alliances. In the tourism IT business (LINKTIVITY), it will invest in strengthening and developing contracted companies and travel product volume, strengthening direct sales and systems, and in new businesses.

Considering proactive advances in the various portfolio areas during 1H FY12/23 as well, the Company's top-line growth potential is steadily rising. By pursuing a wide range of services utilizing technology with a "travel" theme, the Company's business domains and overall image seems likely to change gradually. FISCO expects the Company to increase contacts with customers and diversify income opportunities in this process.

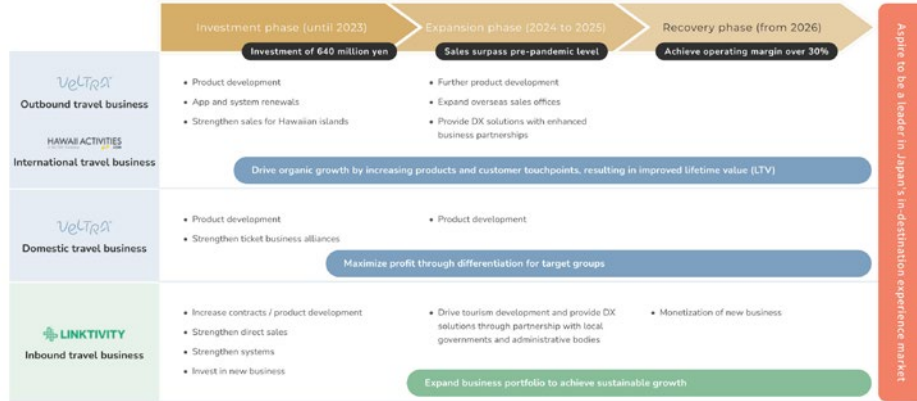
VELTRA Corporation | 2-Nov.-2023

7048 Tokyo Stock Exchange Growth Market Index

<https://corp.veltra.com/en/ir/company-overview/>

Medium- to long-term growth strategies and topics

Business portfolio expansion and investment categories in each business

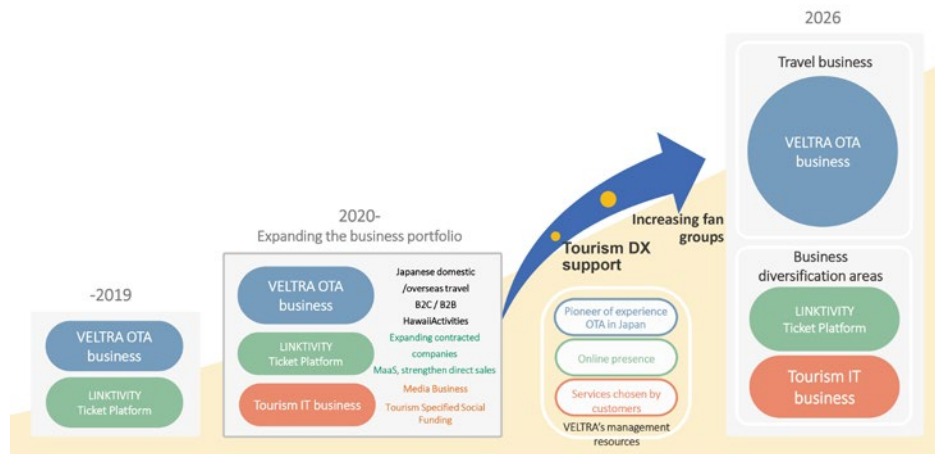


Source: Reprinted from "Business Plan and items relating to Sustainable Growth"

2. Future growth strategy

As its growth strategy for the period from FY12/22 to FY12/26, the Company is advancing "fan acquisition" and "tourism DX" by supplementing new services and touch points and establishing an overwhelming position toward being chosen by customers and markets at the times when the travel markets reopen. Moreover, while utilizing the management resources that are the source of its competitive advantages to the greatest possible extent, it is aiming to create new value, further expand market share, and maximize enterprise value by diversifying its businesses without being restricted to the travel industry. By providing new services that value international exchanges and the real connections between people, which is both the Company's mission and corporate philosophy, its policy is to grow sustainably together with all the people it is involved with and, based on its unique presence, to lead the tourism industry and international exchanges.

Growth strategy from FY12/22 to FY12/26



Source: Reprinted from "Business Plan and Items relating to Sustainable Growth"

Medium- to long-term growth strategies and topics

3. Investment strategies in each business and status of progress

(1) OTA business

The Company plans to improve user convenience by updating its apps and systems and expand travel product volume and touchpoints, thereby improving lifetime value (LTV) to achieve organic growth amid a brighter outlook for recovery of the travel market.

a) Overseas travel business

As previously noted, Japan removed overseas travel restrictions on April 29, 2023, resulting in a steady recovery in the number of Japanese departures. Amid these conditions, the Company plans to invest in strengthening and developing travel product volume and updating apps and systems to make its offerings more attractive to customers and strengthen its competitive edge. As the first stage of updating apps and systems, the Company plans to invest approximately ¥170mn in project development between FY12/23 and FY12/24, as well as recovering 2019 levels of travel product volume (strengthening and developing travel product volume) to establish a travel product structure that allows it to take advantage of market recovery to grow its earnings. Travel product volume is recovering in the overseas travel business and it is safe to say that the Company's measures are making steady progress (travel product volume totaled 9,100 at end-1H FY12/23, or 87.5% of the volume in 1Q FY12/20). The Company will continue to perceive changes in the market environment and customer needs and reflect these in travel product development.

b) Global business (HawaiiActivities)

In the global business (HawaiiActivities), investment will target strengthening sales in the Hawaiian Islands and archipelago. The Company is exploring what activities are possible after the Maui wildfires in August 2023 and has been collecting donations to help areas affected by the wildfires and their residents. Given that Hawaii is a desirable destination for US-based travelers, the Company aims to capture this demand by strengthening its travel product volume and running promotional campaigns once the situation in Maui stabilizes.

c) Domestic travel business

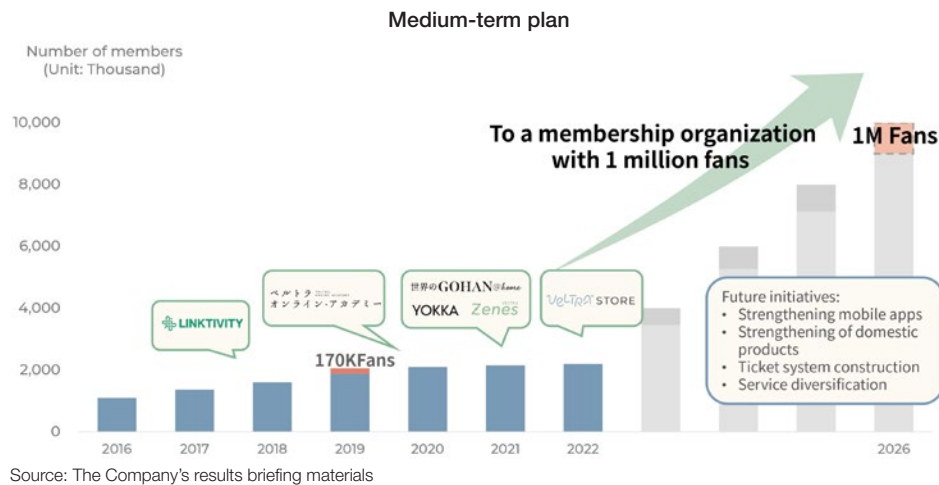
The Company will invest in strengthening and developing travel product volume and strengthening the ticket business through business alliances as the number of lodgers is expected to increase further, seeing as how the number of Japanese people staying at lodging facilities at the end of 2022 exceeded the 2019 level and COVID-19 was officially reclassified to a Class 5 disease. Travel product volume totaled 7,300 at end-1H FY12/23, far exceeding 2,500 at end-1Q FY12/20, showing steady progress. Going forward, the Company will target singles, families, and middle-aged and older couples, which are customer segments with potential for increasing its market share, and differentiate itself from competitors by fostering loyal customers (fans). It is also making solid progress in strengthening the ticket business, entering into strategic alliance agreements with Asoview Inc. in February 2023 and Tigets International BV of the Netherlands in March 2023. It will harness these alliances to strengthen further sales of tickets for popular tourist attractions in Japan and worldwide, improving user convenience and building customer loyalty. It targets an increase of 2,300 travel products and 100,000 reservations in FY12/26 versus FY12/22.

VELTRA Corporation | 2-Nov.-2023
 7048 Tokyo Stock Exchange Growth Market Index | <https://corp.veltra.com/en/ir/company-overview/>

Medium- to long-term growth strategies and topics

In these ways, based on market conditions, the Company’s approach is to develop new services that combine its strengths and corporate image and to further enhance services in the future, and at FISCO, we consider that its potential to grow the topline will continue to increase going forward as well. As its medium-term plan, the Company is targeting a member organization of 1 million fans* in the OTA business by 2026. To achieve this target, it will increase customer touchpoints through supplementing domestic products and diversifying services and promote the increased activities of existing members and acquisitions of new fans. It considers that by increasing fans, the unit price per customer will rise and results will grow.

* Defined as customers who use the Company’s services two or more times a year.



(2) Tourism IT business

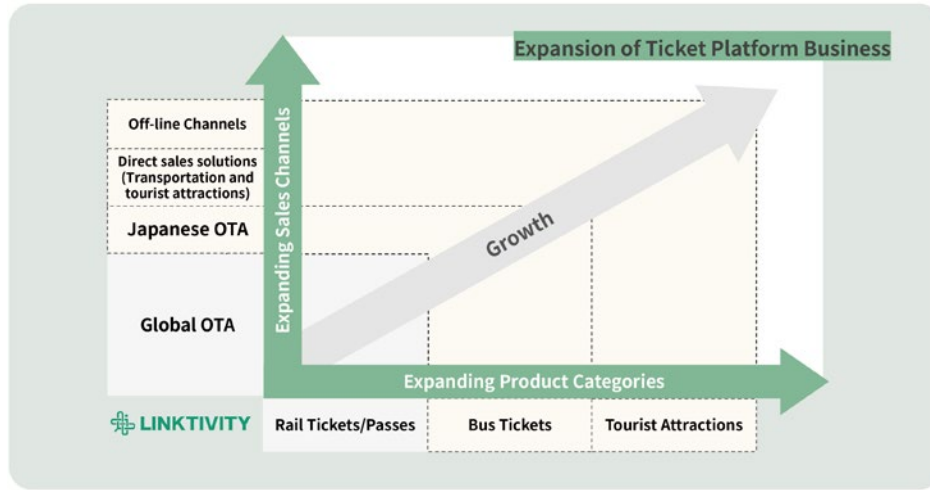
a) Ticket platform business (LINKTIVITY)

In the ticket platform business, as the operator of an established railroad ticket platform for foreign visitors to Japan, the Company plans to expand travel product categories and sales channels further in the inbound market, which is expected to grow. In this way, it plans to accelerate growth by expanding the total addressable market (TAM).

In the tourism IT business, where trade volume is increasing at a faster rate than the recovery of foreign visitors to Japan as a result of greater inbound demand, the Company will focus on areas such as strengthening and developing contracted companies and travel product volume, strengthening direct sales, enhancing systems, investing in new businesses, strengthening collaboration with other companies, and expanding DX solutions. The number of contracted companies was 275 sales agencies at the end of 1H FY12/23 compared to 90 at end-FY12/21 and 280 customers (167), showing a steady increase. The Company plans to accelerate trade volume growth by increasing the number of contracted companies and products for sale, targeting over 3,000 contracted companies in FY12/30, taking advantage of the uptick in users amid recovery of the inbound market. For investment in new businesses, the Company is exploring external sales of its QR code issuing system and various software products such as an inventory management system. The Company is building up a track record of business alliances including a partnership with ALL NIPPON AIRWAYS CO., LTD. (ANA), helping to progress DX in partner companies.

Medium- to long-term growth strategies and topics

Growth strategy



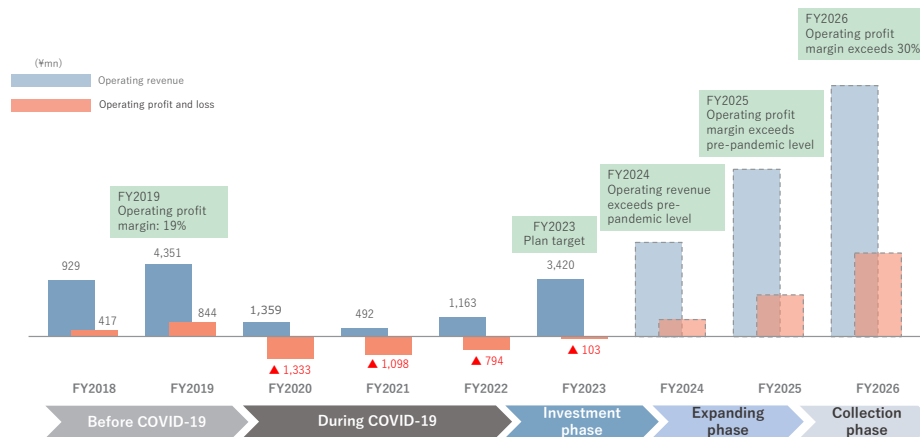
Source: The Company's results briefing materials

b) Media business

In order to generate revenue, the Company is sorting through the service content and strengthening this content. Through the media it operates, it expects to refer customers to its own services and to record advertising revenue, and we can expect the topline growth of existing services and acquisitions of new revenue sources.

The Company expects these growth investments in the overseas travel, global business, domestic travel, and tourism IT businesses to help improve its operating profit margin and grow topline earnings. It forecasts operating revenue exceeding pre-pandemic levels in FY12/24, and an operating profit margin exceeding the pre-pandemic level in FY12/25 and over 30% in FY12/26. These forecasts are based on the rising operating revenue share of LINKTIVITY, which is an increasing-margin business. Recent results of LINKTIVITY have been robust and the market outlook remains upbeat, which increases the possibility that the Company's profitability will improve in FISCO's view.

Growth scenario of travel market after recovery



Source: Reprinted from "Business Plan and items relating to Sustainable Growth"

■ Shareholder return policy

Priority on investments to expand businesses for the time being

The Company recognizes future business advancement and long-term stability of the financial base as top priorities and hence maintains internal reserves for investments in business expansion and stabilization of the financial base to drive maximization of shareholder profits. From this perspective, it intends to increase internal reserves for the time being. Meanwhile, it is likely to have opportunities to leverage strength in local-experience optional tours in 150 countries in a shareholder benefit program.

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp