



President & CFO Yusuke Shibata

Airtrip Corp. (6191)



Company Information

Exchange	TSE 1st Section
Industry	Service industry
President & CFO	Yusuke Shibata
HQ Address	Atago Green Hills Mori Tower, 2-5-1 Atago, Minato-ku, Tokyo
Year-end	End of September
Homepage	https://www.airtrip.co.jp/en/

Stock Information

Share Price	Number of shares issued		Total market cap	ROE (Actual)	Trading Unit
¥1,155	20,115,300 shares		23,233 million	9.4%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
undecided	-	undecided	-	¥493.9	2.3x

*The share price is the closing price on July 3. Number of shares issued is from the financial results for the second quarter of the year ending September 2020. ROE and BPS were actual results for the previous year. Due to the impact of the novel coronavirus, the forecast for this term is still to be determined.

Earnings Trend

Fiscal Year	Sales	Operating Income	Profit before tax	Net Income	EPS	DPS
September, 2016 Act.	4,000	618	571	340	22.17	0.00
September 2017 Act.	5,534	730	695	420	25.06	7.00
September 2018 Act.	12,426	1,152	1,138	855	49.09	10.00
September 2019 Act.	24,306	680	588	733	39.07	10.00
September 2020 Est.	-	-	-	-	-	-

*Unit: yen, million yen. Due to the impact of the novel coronavirus, the forecast for this term is still to be determined. The Company implemented a stock split at 1:300 in December 2015 and 1:3 in August 2016. The Japanese accounting standards were used until FY 9/17. IFRS is discretionally applied from FY 9/18. Profit before tax is the ordinary income based on the Japanese standards. Net income is profit attributable to owners of parent. Hereinafter the same applies.

This report outlines The First Half of Fiscal Year September 2020 earnings results and other information about Airtrip Corporation.

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Key Points

- In the second quarter of the term ending September 2020, handling volume decreased 5.1% year on year to 61.5 billion yen, and sales revenue increased 44.5% year on year to 15.3 billion yen. As there was a sudden decline in global travel demand due to the novel coronavirus's impact, operating income onwards changed into a loss. However, gross profit was nearly unchanged from the same period of the previous year. Moreover, although an impairment loss of 1 billion yen was recorded due to a decline in the online travel agency business's profitability, operating income and net income for this period before impairment were 300 million yen each, indicating a significant increase from the previous term. This means that the underlying earning capacity was not significantly damaged.
- For the term ending September 2020, due to the impact of the novel coronavirus, the forecast value announced on November 14, 2019 has been temporarily withdrawn, and the earnings forecast is still to be determined. The company plans to announce the earnings forecast as soon as it becomes possible to disclose it.
- Regarding overall travel demand, demand has been on a gradual recovery trend while fluctuating between increasing and shrinking. However, it is forecasted that it will take at least one to two years for the recovery to reach 100% mark of the previous year, through the development of therapeutic agents. As for the company's profits, although the impact of the novel coronavirus has expanded rapidly since March, the company recorded a stable monthly gross profit of approximately 200 million yen in other business areas. Also, cost reductions have been implemented. It was confirmed that the impact in the domestic travel area has bottomed out, and an early recovery toward monthly profitability is expected in June or later.
- The company announced "AirTrip 2020," a growth strategy for the post-pandemic era after surviving the novel coronavirus crisis. The strategy actively utilizes the Go To Travel campaign to accommodate new forms of travel. The company will work on strengthening the AirTrip online travel business and reducing the relative dependence on the travel industry by restructuring the business portfolio within the corporate group.
- The company entered the profit recovery phase in the term ending September 2020 and aimed to achieve a handling volume of 500 billion yen in the term ending September 2024 under the new medium-term management strategy "AirTrip 5000." However, due to the novel coronavirus situation, the company was forced to review its goals. There is no choice but to wait for quarterly disclosure, but it is expected that monthly profit will be earned around the busy summer season. Thus, we will focus on the company's progress.
- In the medium to long term, as stated in the growth strategy "AirTrip 2020," the company will steadily grasp the demand for the Go To Travel campaign and relatively reduce the dependence of the entire group on the travel industry. Under these circumstances, we would like to see if the company can maintain and accelerate its growth potential.

1. Company Overview

AirTrip Corp. conducts a variety of businesses centered on the AirTrip online travel business, which operates the comprehensive travel platform "AirTrip," boasting the largest Internet ticket trading volume. In the inbound travel business, the company provides various services to foreign visitors to Japan and private lodging management companies. As for the IT offshore development business, the company has about 1,000 IT engineers and is engaged in the largest lab-type offshore development among Japanese companies. Moreover, the company is focusing on life innovation business that provides services in peripheral areas with synergies under the theme of making customers' lives more convenient in a variety of situations. Their another focus is on the investment business, aiming to expand service lines and improve profits by pursuing synergies through collaborations with investee companies by investing in growing companies.

Their medium-term target is to achieve a trading volume of 500 billion yen.

【1-1 Corporate History】

In May 2007, Tabi Capital Co., Ltd. was established to provide online travel agency services.

Since then, the Company has been expanding its product line-up through M&A and business transfers.

In March 2012, the Company began IT offshore development business in Vietnam. Taking this opportunity, in order to clearly show the Company's direction towards the integrated IT business, it changed its name to Evolvable Asia Corp. in October 2013.

In March 2016, it was listed on the Mothers Section of the Tokyo Stock Exchange. One year later, in March 2017, it moved to the First Section of the Tokyo Stock Exchange.

In May 2018, the company achieved the largest Internet trading volume of airline tickets due to the reorganization of the former DeNA Travel into a subsidiary.

On January 1, 2020, as the operating company of "AirTrip," which has the largest Internet trading volume of airline tickets, the company unified its trade name and brand name to build a stronger business foundation and further improve the popularity of the "AirTrip" brand. Also, the company changed its name to AirTrip Corp. to demonstrate its stance of concentrating on various businesses centered on "AirTrip."

【1-2 Corporate Philosophy, etc.】

Corporate Philosophy	<p>One Asia Becoming a Leading Company in the Golden Age of Asia</p> <p>Asia is emerging as a single economic zone. Under this circumstance, through the movement of people and businesses, AirTrip will serve as a bridge linking Asia. AirTrip links Asia, and Asia becomes connected.</p>
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Mission	We will continue to grow endlessly by grasping all the changes in the Asian economic area as business opportunities.
Code of conduct	<p>*Always put customers first! We are always aware of our customers' point of view and work for the customers</p> <p>*Conscientiousness, peace of mind and trust are more important than anything! It is the core of our business to provide detailed work, give peace of mind to our customers and respond to their trust.</p> <p>*Continue to improve as professionals! We cannot grow unless we improve each and every aspect of our work.</p> <p>*Swift response, fast implementation, speed! We respond to our customers faster than any other companies and develop a system faster than any other companies.</p>

* Timesaving by restricting time for dealing with visitors in 30 minutes, and for meetings in 20 minutes. Achieve work-life balance.

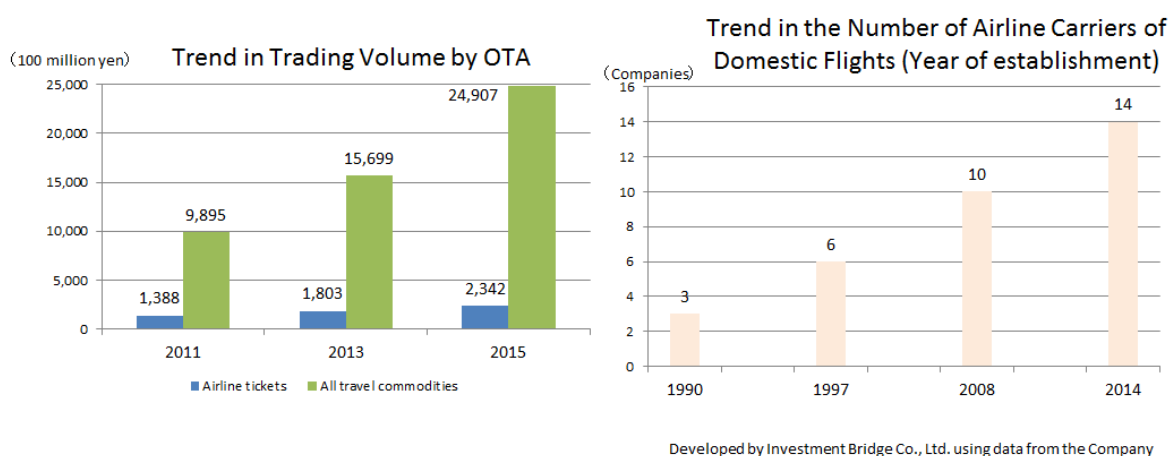
【1-3 Market Environment】

◎Online travel commodities sales continue to grow.

The number of airline companies providing domestic flights has increased due to the rapid growth of low-cost carriers (LCCs). This has resulted in an increase in OTA users due to growing demand for comparison searches. The trading volume of travel commodities by OTA in the Fiscal Year 2015 was 2.5 trillion yen with an annual growth rate of 26% since 2011. It is a rapidly growing industry.

The domestic accommodation market mainly supported this rapid growth. The trading volume of airline tickets was 230 billion yen, indicating a double-digit growth at an annual rate of 14%. Thus, in the future, following the domestic accommodation market, the domestic airline tickets market is expected to grow significantly.

However, the novel coronavirus's impact has forced travel demand to stagnate, and the future recovery trend is uncertain.



◎IT offshore development that has a large potential for growth

The outsourcing software development market in Japan is about 10 trillion yen, and the annual growth rate is about 3%. Among them, the offshore development is only about 1% (about 100 billion yen).

In the US, the rate is over 10%, indicating that the Japanese market can grow to the scale of 1 trillion yen (increase from current 1% to 10%).

Actually, the order amount from Japan to Vietnam is increasing at an annual rate of 17.8%.

【Business Description】

There are five business domains: AirTrip online travel business, Inbound travel agency business, IT offshore development business, Life innovation business, and Investment business.

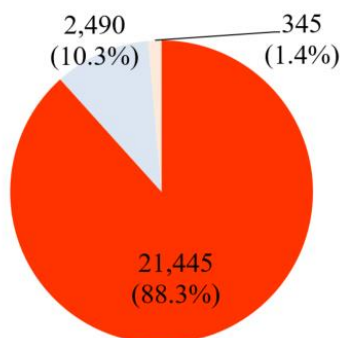
With the company name change in January 2020, the online travel agency business name was changed to AirTrip online travel business, and life innovation business was separated from the online travel agency business.

(There have been no changes in the reporting business segments. They are divided into online travel agency business segment, IT offshore development business segment, and investment business segment. The inbound travel business is included in the online travel agency business segment.)

BRIDGE REPORT



Sales composition (FY ended September 2019)



■ Online travel business ■ IT offshore development business ■ Investment business

Sales to external customers, Unit: million yen

(1) Online Travel Agency Business**① AirTrip online travel Business**

It sells travel products such as domestic airline tickets, domestic accommodations, overseas airline tickets and overseas accommodations through the comprehensive travel platform "AirTrip" and various sales channels.

Domestic airline tickets	<ul style="list-style-type: none"> • Contracts signed with all domestic airline groups
Domestic accommodations	<ul style="list-style-type: none"> • Offering 1,400 facilities, mostly luxurious ryokans, in Japan.
Overseas airline tickets / accommodations	<ul style="list-style-type: none"> • Issuing international airline tickets as an authorized IATA agent (※). • Offering about 40,000 overseas facilities.

※ IATA (International Air Transport Association): The IATA is a trade association of the world's airlines.

Sales channels	Overview
Direct sales site (B-to-C)	The Company operates integrated service platform at "AirTrip".
B-to-B-to-C	The Company provides travel content to the online media of over 500 companies. The media will enjoy benefits such as enriching original content, enhancing customer satisfaction, and creating new profit sources.
Wholesale service (B-to-B)	The Company provides mainly domestic airline tickets and sales management systems to travel agencies.
Business Travel Management (BTM)	The Company provides a free cloud-based service called "Tabi Pro-BTM" for corporate business trip management.

Initially, the comprehensive travel platform "AirTrip" mainly handled domestic airline tickets. Now, it is rapidly expanding its lineup including overseas airline tickets, hotels, domestic and overseas tours, buses, rental cars, and the Japanese bullet train (Shinkansen).

Moreover, the company steadily increased the number of users by actively developing various advertising activities such as TV commercial to raise awareness, operating various campaigns, and improving UI and UX on a daily basis.

The number of customers for Business Travel Management, which arranges business trips for corporate users, has steadily increased to 3,516 companies as of the end of March 2020.

(Strengths of business)

The Company has the largest trading volume of domestic airline tickets in the Japanese OTA industry.

The agreements with all domestic airline groups, a unique business condition enjoyed only by the Company, enable the Company to issue flight tickets. Advantageous procurement prices combined with self-issuing of tickets (no need to outsource) make its cost competitiveness overwhelmingly strong.

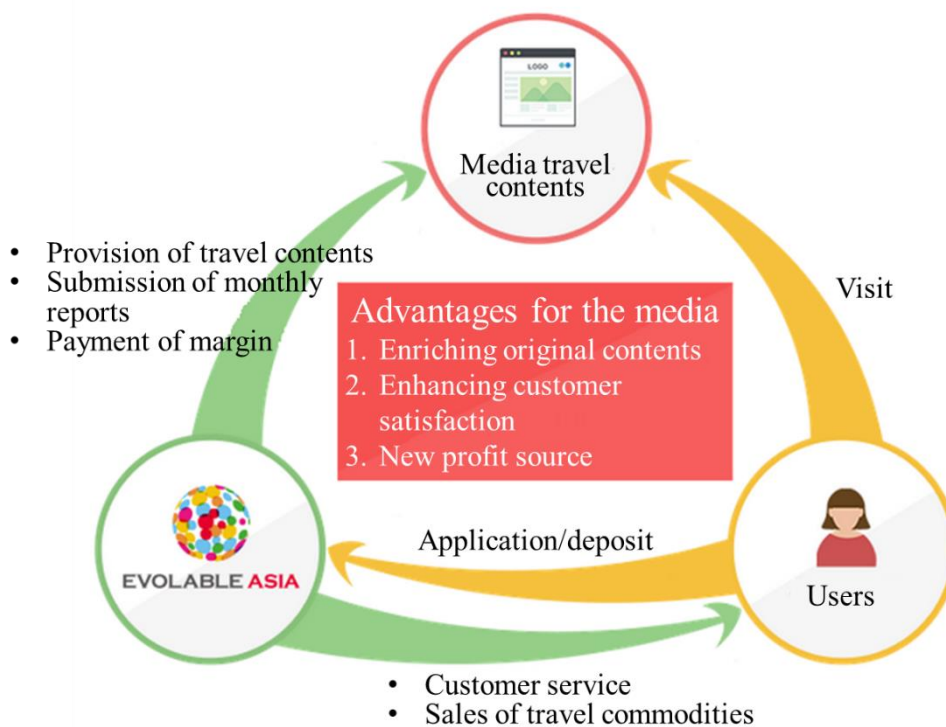
In addition, the Company has "competitive supply routes" based on strong relationships of trust with each airline company resulting

from long-term business relationships, “diverse sales routes”, and “low-cost system development using its own offshore IT development capacity”. Because of these factors, the Company has created high barriers to entry.

② Inbound Travel Business

In order to respond to the demand from the inbound foreign travelers, the Company offers multilingual websites (currently 7 languages) to sell travel commodities directly to inbound travelers online and provide search/reservation engine of domestic travel content (mainly domestic flight tickets) on an OEM basis to the local travel agencies and media operators primarily in the Asian region.

In addition to starting Japanese first system collaboration in the domestic airline ticket field with Ctrip.com (the largest travel company in China), the company is promoting partnerships with other Chinese travel agencies.



(From the company's website)

(Strengths of business)

The Company’s expertise in OEM provision and its proprietary offshore development allow them to meet customers’ needs with inexpensive and speedy development.

(2) IT offshore development business

The Company hires about 1000 engineers in 3 locations (Ho Chi Minh, Hanoi, and Da Nang) in Vietnam as of March 2020. It offers system development of web services, applications, etc. and business process outsourcing (BPO). The customers are mostly web service providers such as GREE, Inc.

(Strengths of business)

The Company has recruiting capabilities in Vietnam and expertise in starting development teams. Against the backdrop of a shortage of IT engineers and rising wages for engineers in Japan, since its establishment in 2012, the Company has grown to have the largest number of employees among the Japanese offshore development companies in Southeast Asia. The company does not offer entrusted development but is specialized in lab-style development services. The operation rate is almost 100% because the Company forms a team with dedicated staff members for each customer to reflect the customer’s needs on a long-term (in principle, over a year) contract basis and the team operates under respective customer.

In addition, customers are billed engineers' cost from the time of employment. Therefore, there is no risk for the Company in terms of delayed delivery or idle employees.

Because of its stock business model, scale expansion and significant increase in earnings can be expected.

(3) Investment business

It is positioned as the business having characteristics of CVC (corporate venture capital). The company will pursue a synergistic effect as well as opportunities for capital gains. The company also engages in investment incubation business.

As of March 2020, the company had invested in 64 companies, and the total investment amount was 2.3 billion yen.

2. First Half of Fiscal Year September 2020 Earnings Results

(1) Consolidated Business Results

	FY 9/19 2Q	Ratio to sales	FY 9/20 2Q	Ratio to sales	YoY
Trading volume	64,849	-	61,535	-	-5.1%
Sales revenue	10,643	100.0%	15,383	100.0%	+44.5%
Gross profit	5,908	55.5%	5,803	37.7%	-1.8%
SG&A	6,181	58.1%	6,067	39.4%	-1.8%
Operating Income	178	1.7%	-660	-	-
Profit before tax	140	1.3%	-759	-	-
Net income for this period	78	0.7%	-741	-	-

*Unit: million yen. IFRS is applied. Net income for this period means profit attributable to owners of parent.

Sales increased, but a loss was recorded due to an impairment loss

In the second quarter of the term ending September 2020, handling volume decreased 5.1% year on year to 61.5 billion yen, and sales revenue increased 44.5% year on year to 15.3 billion yen. As there was a sudden decline in global travel demand due to the novel coronavirus's impact, operating income onwards changed into a loss. However, gross profit was nearly unchanged from the same period of the previous year. Moreover, although an impairment loss of 1 billion yen was recorded due to a decline in the online travel agency business's profitability, operating income and net income for this period before impairment were 300 million yen each, indicating a significant increase from the previous term. This means that the underlying earning capacity was not significantly damaged.

(Factors in impairment)

The company decided to reduce some labor-intensive products (tour business, etc.) as its profitability deteriorated because of the novel coronavirus crisis. Due to this policy, the company recorded a loss of software and goodwill, etc.

Additionally, profitability deteriorated due to the novel coronavirus crisis, which led subsidiaries that they started considering selling in the future to record a loss based on the current profit and loss situation and prospects.

(2) Trends by segment

	FY 9/19 2Q	Ratio to sales	FY 9/20 2Q	Ratio to sales	YoY
Sales					
Online travel agency business	9,500	89.3%	14,295	92.9%	+50.5%
IT offshore development business	1,142	10.7%	1,016	6.6%	-11.0%
Investment business	0	0.0%	71	0.5%	-
Total	10,643	100.0%	15,383	100.0%	+44.5%
Operating Income					
Online travel agency business	234	2.5%	223	1.6%	-4.7%
IT offshore development business	111	9.7%	53	5.2%	-52.3%
Investment business	237	-	-243	-	-
Total	583	5.5%	34	0.2%	-94.2%

*Unit: million yen. The composition ratio of operating income means operating income margin on sales.

① Online travel agency business

Sales increased and profit decreased. An impairment loss of 1.04 billion yen was recorded.

*B to C services (operation of a website for directly selling travel commodities to general consumers by PC and smartphone)

Users steadily increased due to the improvement of UI to increase repeaters, strengthening SEM, major renewal of the core system, and mass marketing in order to attract new customers.

The company carried out strategic price setting and spent heavily on brand development expenses to improve the popularity of “AirTrip” and attracting new customers.

*B to B to C services (business that provides travel content under the brand of the partner company)

The company worked to strengthen the development of major clients, provide services that meet the needs of its main clients, and strengthen communication with clients. Also, as with B-to-C services, the company focused on marketing and partnering initiatives to expand its customer base.

*BTM services (business of managing the in-company procedures for approval for business trips and arranging business trips in an integrated manner)

In the business model of the company, basically sales grow in parallel with the growth of the number of client companies and the rate of utilization. Accordingly, sales grew steadily, because the company increased sales staff and promoted customers who had not used their services frequently to use them.

*Inbound travel agency service (a business which offers various B to C services to foreigners visiting Japan).

The company offers services such as Wi-Fi rental, camper rentals, currency exchange, and management of web media. Each business line engaged in an increase of foreigners visiting Japan, coverage of diverse languages, and strengthened marketing.

*Life innovation business service

It is a new business that aims to make every part of the user's life more convenient by utilizing the know-how of various travel-related services accumulated through AirTrip. The company is currently developing e-mail newsletter, manufacturing, selling, and renting travel carry cases, manufacturing tea, etc. The business scale is expected to expand significantly in the future due to additional new services.

②IT offshore development business

Sales and profits decreased.

Although the number of engineers increased and the unit price rose due to development efficiency, sales and profits decreased.

③Investment business

Increase in revenue, loss conversion

The company's investment portfolio has expanded to 64 companies. An impairment loss was recorded at subsidiaries.

(3) Financial standing and cash flows

◎Summarized Balance Sheet

	End of Sep. 2019	End of Mar. 2020		End of Sep. 2019	End of Mar. 2020
Current assets	20,140	18,903	Current liabilities	15,717	15,334
Cash, etc.	8,997	6,067	Trade payables, etc.	4,414	5,123
Trade receivables, etc.	5,239	5,437	Interest-bearing debts	7,519	8,266
Other financial assets	4,606	4,790	Noncurrent liabilities	5,397	9,878
Noncurrent assets	11,075	15,917	Interest-bearing debts	5,111	9,516
Tangible fixed assets	1,324	1,795	Total liabilities	21,114	25,213
Intangible fixed assets	2,501	2,387	Capital	10,101	9,607
Goodwill	5,861	5,336	Capital surplus	4,175	4,478
Other financial assets	1,103	1,346	Retained earnings	2,601	1,825
Total assets	31,216	34,821	Total liabilities and net assets	31,216	34,821

*Unit: million yen. “Cash, etc.” mean cash and cash equivalent. “Trade receivables, etc.” mean trade receivables and other credits. “Trade payables, etc.” mean trade payables and other liabilities. Interest-bearing debts include lease liabilities.

Due to the increase in right-of-use assets, total assets increased 3.6 billion yen from the end of the previous term to 34.8 billion yen. Total liabilities augmented 4 billion yen from the end of the previous term to 25.2 billion yen, due to a rise in interest-bearing debts. Due to the decrease in retained earnings, capital declined 4 billion yen from the end of the previous term to 9.6 billion yen. As a result, equity ratio (equity ratio attributable to owners of the parent) decreased 4.5 points from 31.0% at the end of the previous fiscal year to 26.5%.

◎Cash Flow

	FY 9/19 2Q	FY 9/20 2Q	Increase/decrease
Operating Cash Flow	-536	-892	-356
Investing Cash Flow	-798	-340	458
Free Cash Flow	-1,334	-1,232	102
Financing Cash Flow	2,949	-1,631	-4,580
Cash and equivalents	6,932	6,067	-865

*Unit: million yen

The deficit of operating CF expanded due to the loss of profit before tax. The deficit of free CF is almost unchanged. Although it expanded, the financing CF turned negative due to the loss of proceeds from issuance of common shares. The cash position has dropped.

(4) Progress in the first half of the fiscal year ending September 2020

① Marketing

In January 2020, the new creative commercials were broadcasted. Three types of new commercials were broadcasted nationwide at record high volumes to raise awareness further.

After the TV commercials were aired, the search volume recorded a significant increase, and the average cost for customer acquisition was reduced by increasing the inflow with the keyword "AirTrip."

Also, as the awareness of "AirTrip" increased, the search trend rose, and the results far exceeded the competitors'.

Even under the novel coronavirus's influence, the inflow of keywords remained at the same level as the previous year and achieved excellent results.

② Domestic airline tickets

As the company started refunding 20% in points for reservations made via the app and applied a 5% refund to various cashless payment methods, the app usage rate increased by 56% year on year, and gross profit also increased 12% year on year.

③ Domestic AirTrip plus

The number of monthly unique users increased 10% year on year due to the New Year campaign.

④ Domestic hotels

The most critical key performance indicators (KPIs) have improved significantly, with trading volume, conversion rate (CVR), and unique users (UU) numbers increasing by 210%, 160%, and 70%, respectively, year on year.

The company also promoted establishing a service provision system that meets the accommodation needs in the post-pandemic era, such as formulating guidelines for coronavirus measures regarding accommodations, strengthening cooperation with accommodation facilities that comply with novel coronavirus measures, and designing websites that meet new accommodation needs in the post-pandemic era. Additionally, the company has launched plans and promotions for the government's Go To Travel campaign to stimulate domestic travel demand and is preparing to capture accommodation demand.

⑤ Overseas airline tickets and hotels

To minimize the impact of the novel coronavirus crisis, the company conducted advertising operations considering the market conditions, such as a thorough review of ad keywords and ad strength, optimal pricing, scrutiny of room for cost reduction, and decreasing some fixed costs.

As a result, return on investment (ROI) increased 40%.

⑥ Overseas AirTrip plus

The number of unique users increased 20% due to the New Year campaign's implementation linked to TV commercials.

⑦ IT offshore development business

The number of new orders increased steadily to 11 companies.

For contracts within the period, the company carried out "We won't be defeated by the coronavirus! Immediate order campaign," which is an exceptional 10% off campaign for a year.

⑧ Investment business

As of the end of May 2020, the company has invested about 2.3 billion yen in 64 companies.

The main achievements and progress of the group companies are as follows.

* Inbound Platform Corp.

Trading volume increased 28% year on year.

After reorganizing Global Mobile Co., Ltd., which is a major Wi-Fi rental company, into a subsidiary in April, the company absorbed it in June. Additionally, the company took over the inbound concierge app "Tabiko" business from FAST JAPAN, Inc. to further strengthen its earnings base.

The demand for camper vans is also steadily increasing.

* Hybrid Technologies, Co. Ltd.

Sales increased 72% year on year.

The number of new orders has increased significantly due to the provision of hybrid development services that pursue high quality and cost performance.

For the second consecutive year, the company was selected as the top Japanese company in Vietnam Best IT Company. Vietnamese engineers inside and outside the company evaluated the company highly in terms of salary, education, management, corporate culture, and office environment.

* Hikawa Co., Ltd.

The company is working to strengthen the life innovation business further.

Profitability has improved due to organizational reforms and thorough cost reductions.

The company aims to improve profits by expanding EC for individuals and increasing sales channels, mainly in Asia.

Moreover, it is strengthening its trading base by developing new businesses that combine Hikawa's tea-making technology and AirTrip's know-how.

⑨ AirTrip ticket

The company is promoting the expansion of its trading base by strengthening cooperation with the AirTrip corporate business.

In addition to expanding the customer base and improving profitability by attracting customers in the Kanto region, the company has started handling used brand products at two stores to increase profits from existing customers and attract new customers.

The company conducted a thorough cost control, such as reviewing business hours according to the store's profitability.

⑩ AirTrip stay

The increase in the number of managed units, mainly for large companies, and the strengthening of the operating system led to a significant increase in gross profit of 214% year on year. The company established its original revenue management method through in-house knowledge. Also, it has strengthened its operation system and achieved highly productive operations.

3. Fiscal Year September 2020 Earnings Forecasts

(1) Earnings forecast

Due to the impact of the novel coronavirus, the forecast values (earnings and dividends) announced on November 14, 2019, have been temporarily withdrawn, and the forecast is still to be determined. The company plans to announce the earnings forecast as soon as it becomes possible to disclose it.

(2) Measures and results for the spread of the novel coronavirus

① Impact and recovery prospects

Regarding overall travel demand, demand has been on a gradual recovery trend while fluctuating between increasing and shrinking. However, it is forecasted that it will take at least one to two years for the recovery to reach 100% of the previous year level through the development of therapeutic agents.

As for the company's profits, the impact of the novel coronavirus has expanded rapidly since March. Currently, the impact has bottomed out, and the domestic travel area is expected to recover gradually.

	January	February	March	April	May	June (Est)	July (Est)
Domestic Travel Domain	◎	○	○→△	△→×	×	×→△?	△→○?
Overseas Travel Domain	○→△	△→×	×	×	×	×?	×→△?
Investment Business Domain	○	○→△	×	○	○	○?	○?
Other Business Domains	○	○~△	○~△	○~△	○~△	○~△?	○~△?

1Q Results Announcement (Feb. 14)
Emergency Declaration Issued (Apr. 7)
Emergency Declaration Dissolved (May. 25)
Go To Travel

(From the company's materials)

② Measures and results

◎ Group-wide reduction of cash-out costs

As sales in the travel business decline, the company has controlled variable costs to optimize expenses, and thoroughly curbed advertising costs to the extent that they are profitable.

Regarding fixed costs, executive compensation was refunded (100% refund for the two founders, 40% refund for other directors and corporate auditors), and labor costs of all group employees (regular employees and non-regular employees) are being reduced by utilizing the employment adjustment subsidies.

Moreover, due to the shift to working from home, other fixed costs such as land rent and outsourcing costs were reviewed to decrease cash outs throughout the group, resulting in a reduction in costs in May of approximately 60% compared to February.

◎ Measures to reduce cash-out costs for the future

The company implemented cost control to adapt to the busy and slow seasons based on operation variable costs. They also curbed the advertising cost ratio to gross profit. They decreased total labor costs by 130 million yen/month through company-wide reduction of system development costs, executive compensations, full-time employees, temporary staffing, and part-time jobs, etc. It has also cut down land rent by 10 million yen/month, which led to a total reduction of 40 million yen/month in other fixed costs. These measures are expected to improve the break-even point.

◎ Early recovery of gross profit

In addition to recording a stable monthly gross profit of approximately 200 million yen in other business areas, the company has implemented cost reductions. It has been confirmed that the impact in the domestic travel area has bottomed out, and an early recovery toward monthly profitability after June is expected.

4. Evolution of "AirTrip 2020" Growth Strategy

In response to the novel coronavirus crisis, in addition to the new medium-term growth strategy "AirTrip 5000" formulated and announced at the beginning of this term, "AirTrip 2020," which is a growth strategy for the post-pandemic era after surviving the novel coronavirus crisis, was announced.

(1) Goals

Actively utilize the Go To Travel campaign* to respond to new forms of travel.

1. Reliably capture domestic travel demand by using the Go To Travel campaign	Strengthening cooperation with government agencies, local partners, and airlines Actively utilize government measures to stimulate domestic travel demand, such as the Go To Travel campaign, which subsidizes half the travel price.
2. Large-scale promotion for the masses using the awareness of AirTrip	Implementation of marketing strategies that utilize the awareness of AirTrip The company will carry out a marketing strategy that uses the record high recognition (45%) achieved in the first half of this year and the organic conversion ability.
3. Flexible service development for new travel and lifestyles that utilize IT literacy and development capabilities	Service development for a new form of travel using IT capabilities The company aims to develop new services by grasping the evolution of travel styles and lifestyles that are expected to change in the post-pandemic era.

*: Go To Travel campaign

It is part of the Go To campaign project, which is a demand stimulating policy to create people's flow and bustle in the Japanese cities and revitalize the region after the novel coronavirus has subsided. From the supplementary budget, 1,679.4 billion yen has been allocated to the entire Go To campaign project.

Details of the Go To Travel campaign are being adjusted. However, it includes supporting half of the accommodation and day trip prices for domestic trips, up to 20,000 yen per person per night (up to 10,000 yen for day trips), 70% of the support amount is a discount on the travel price, and about 30% is given as a regional coupon that can be used at the travel destination, and no limits on numbers of days for staying and of times to use the campaign.

(2) Main measures

① Strengthening the AirTrip online travel business

The company will promote improving service quality and operational efficiency, mainly in the domestic travel area.

Specifically, in addition to the former strategy in the AirTrip online travel business, the company will promote operation automation through utilizing technology as mentioned below, to ensure that domestic travel demand, which is on a recovery trend, will be captured reliably in the future.

Product	<ul style="list-style-type: none"> - As before, the company will focus on UI and UX improvement and aim for thorough service quality improvement. - Implement various campaigns centered on the domestic travel area to improve travel demand.
Marketing	<ul style="list-style-type: none"> - Continue to promote optimal marketing measures to raise awareness of AirTrip. - Curb the ratio of advertising expenses to gross margin and achieve efficient customer attraction.
Technology	By utilizing technology further, the company will promote the automation of operational tasks and streamline call center functions.

② Financial strategy

In addition to significant cost reduction measures, the company will ensure robustness through efforts to improve the fund balance, maintain high levels of financial soundness, and further increase liquidity on hand.

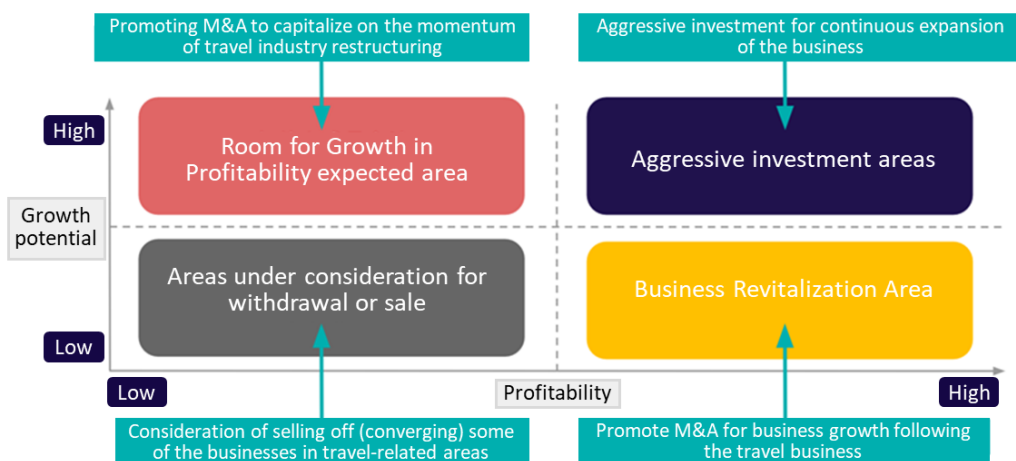
Specifically, the company will restructure the group's business portfolio, reduce the entire group's reliance on the travel industry, and

continue preparing for initial public offering (IPO) of the three major subsidiaries. Also, it will continue to consider various financing methods, including borrowing.

◎ Restructuring the business portfolio within the group

The company will restructure the business portfolio while putting importance on profitability and growth potential.

The company will consider the sale (decline) of some businesses in the travel-related area. It will promote aggressive investment, to continue expanding the business scale in areas where high growth potential and profitability are expected. Moreover, to achieve business growth, following the travel business, the company will promote M&A to reduce the entire group's dependence on the travel industry.



(From the company's materials)

◎ Progress in preparation for listing of major group subsidiaries

Currently, Magmag, Inc., in life innovation business, Inbound Platform Corp., in inbound travel business, and Hybrid Technologies Co., Ltd., in IT offshore development business, are preparing for listing. All of them are performing well and making good progress toward listing by accelerating their growth further.

◎ Examination of various financing methods

The company signed a commitment line agreement with Mizuho Bank to secure a stable working capital.

The contract period is from May 29, 2020 to September 30, 2020. The contract funding amount is 1.5 billion yen.

5. Conclusions

The company entered the profit recovery phase in the term ending September 2020 and aimed to achieve a handling volume of 500 billion yen in the term ending September 2024 under the new medium-term management strategy "AirTrip 5000." However, due to the novel coronavirus situation, the company was forced to review its goals. There is no choice but to wait for quarterly disclosure, but it is expected that monthly profit will be earned around the busy summer season. Thus, we will focus on the company's progress.

In the medium to long term, as stated in the growth strategy "AirTrip 2020," the company will steadily grasp the demand for the Go To Travel campaign and relatively reduce the dependence of the entire group on the travel industry. Under these circumstances, we would like to see if the company can maintain and accelerate its growth potential.

<Reference: Regarding Corporate Governance>

◎Organization type and the composition of directors

Organization type	Company with an audit and supervisory board
Directors	13 directors, including 3 outside ones
Auditors	4 auditors, including 3 outside ones

◎Corporate Governance Report

Last updated on Dec. 27, 2019.

<Basic policy>

Our company group considers the swift decision-making in response to the changes in the business environment, lasting business development, and gaining trust from stakeholders as the most significant business challenges. To improve the health, transparency and efficiency of the operations, all of us are striving to enhance the structure of corporate governance, thorough compliance, and timely and appropriate disclosure (of information).

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
Supplementary Principle 1-2-2	The Company currently refrains from dispatching the notice of an annual general meeting of shareholders early for the purpose of thoroughly considering the contents before dispatching it, but we will plan to develop a system which enables early dispatch in the future. As for uploading of the notice of an annual general meeting of shareholders onto websites, it is currently disclosed on TDnet and the IR page of our company, and we will consider disclosure before dispatching the notice.
Supplementary Principle 4-1-2	Our company has not disclosed our mid-term management plan, but the board of directors designs mid-term management plans and manages their progress. We will discuss the disclosure of our mid-term management plans.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4	Our company may hold shares strategically, if the shareholding is expected to strengthen business cooperation or contribute to the maintenance or improvement of our corporate value.
Principle 5-1	corporate strategy department is in charge of our IR activities, and the divisions of finance, accounting, publicity, general affairs, human resources, and management planning cooperate in promoting constructive dialogue with shareholders and investors. In addition, we hold results briefing session involving executives four times a year, and a company briefing session for individual investors, and deal with the request for individual interviews within a reasonable range.

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