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PRESENTATION

Koichi Nishikawa - *PARK24 Co., Ltd. - President & Representative Director*

I am Koichi Nishikawa, President and Representative Director of PARK24 Company Limited. Thank you very much for taking time out of your busy schedule to access PARK24's financial results briefing for FY 2020, the fiscal year ended on October 31, 2020. I will now present an overview of the financial results for FY 2020 following the presentation material.

Here are the consolidated financial results for FY 2020, which were announced yesterday. We closed the year with JPY 268.9 billion in net sales, JPY 36.3 billion in gross profit, JPY 14.6 billion in operating loss, JPY 15.1 billion in recurring loss and JPY 46.6 billion in net loss attributable to owners of parent. These figures from net sales to recurring loss outperformed the revised plan announced at the time of the announcement of the second quarter results.

Regarding the net loss of the fiscal year, as we recorded JPY 34 billion in extraordinary loss due to the impact of COVID-19, the final loss was JPY 46.6 billion. In the revised plan announced in the second quarter, we did not take into account the extraordinary loss from the impact of COVID-19 and the amortization of goodwill, which I will explain later, so the final loss was JPY 25.5 billion. The final loss further increased by JPY 21.1 billion from the revised plan.

Page 4 shows the breakdown of the losses. Recurring ordinary loss is JPY 15.1 billion, and below that, extraordinary losses of JPY 34 billion is shown. The breakdown of the JPY 34 billion is as follows: JPY 19.3 billion in impairment losses on amortization of goodwill in Parking Business Overseas; JPY 4.8 billion in impairment losses on contract-based intangible assets; JPY 6.7 billion in impairment losses due to the cancellation of unprofitable sites. The total of these amounts is JPY 30.9 billion for the Parking Business Overseas.

In addition, there are impairment losses on unprofitable sites in the Parking Business in Japan and impairment losses due to the closures of stores and unsold vehicles in the Mobility business. That amounts to a total of JPY 34 billion in extraordinary losses, which makes up a large part of the net loss for the fiscal year.

The breakdown by Overseas region is: JPY 21.5 billion in the U.K.; JPY 2.6 billion in Australia; and no impairment in Singapore and Malaysia. And for JPY 21.5 billion in the U.K. and JPY 2.6 billion in Australia, we have reviewed our future plans for the U.K. and Australia in light of the current situation due to COVID 19.

As a result, it became necessary to record impairment losses, and we have recorded losses of JPY 21.5 billion and JPY 2.6 billion, respectively. As a result, goodwill, which totaled JPY 51.1 billion at the end of FY 2019, the fiscal year ended on October 31, 2019, was JPY 25.4 billion at the end of FY 2020 with JPY 15.5 billion in the U.K. and JPY 9.1 billion in Australia and other countries. This was the breakdown of losses, especially the extraordinary losses.

The next page, Page 5, shows the quarterly trend of the sales and the recurring profits for FY 2020. As you can see in the graphs, the impact is starting to show in numbers. All of our businesses started to be impacted by COVID-19 in the second quarter.

In the domestic business, there was the declaration of the state of emergency. There were lockdowns in Australia and the U.K. in the third quarter. That was the bottom. The situation improved considerably in the fourth quarter. However, it was still short of reaching profitability.

The next page, Page 6, shows the monthly status. As you can see, the line graph on the left clearly shows that in May, or to be more precise, in the first week of May, the utilization of domestic parking lots and domestic Mobility businesses was the lowest.

In the beginning of the third quarter, which includes the first week of May, the sales have fallen to about half of the same period previous year. Things have started to improve slowly from that time with upward trend of June and July. However, in the fourth quarter, in August, September and October, the sales slightly declined again.

The fiscal year ended in such state in October. The bar chart on the right shows the cost reductions. In the revised plan we announced in the second quarter, we plan to reduce costs by JPY 12 billion, JPY 4.9 billion reduction in the domestic parking business; JPY 3.7 billion in the Mobility business; JPY 2 billion in the Overseas Parking business and JPY 1.4 billion in head office expenses. The total being JPY 12 billion.

In the actual result, we were able to reduce costs by a total of JPY 20.6 billion. JPY 8.4 billion in domestic parking business; JPY 6.9 billion in Mobility business, JPY 3.6 billion in Overseas Parking business; and JPY 1.7 billion in head office expenses, with a total of JPY 20.6 billion. These factors contributed to a slight narrowing of the losses compared to the revised plan announced in the second quarter.

Next is Page 7. This is an analysis of recurring profit, the difference between the initial plan and the actual result. As stated, the impact of COVID-19 on the recurring profit is estimated to be about JPY 63 billion. We implemented cost reduction and other measures, but unfortunately we were not able to fill the gap completely, and we landed with a recurring loss of JPY 15.1 billion.

Next, on Page 8, the line graphs are very detailed, showing the monthly differences from initial forecasts by segments. The graphs show how the actual results were compared to the revised plan announced in the second quarter.

If you look at the graph in the upper right, you will see that the Mobility business has been performing above the initial and revised plans. The October result came down to a level almost close to the plan, but I believe we were able to maintain strong performance in June, July and August. The domestic parking business, shown in the upper left-hand corner, was outperforming the plan in June and July after the announcement of the revised plan. But in August, September and October, the recovery was weaker than initially expected.

There were impacts from the second and third wave of COVID-19 that we have not factored in when we developed the revised plan. The figures show that external environment was more severe than we had assumed.

The lower left graph is the Overseas Parking business. The results were much lower than the revised plan. Overseas, especially in the U.K. and Australia, the number of newly infected patients became very high after July. And it was difficult to recover due to the subsequent lockdowns and the restrictions enforced. The results have stayed in the 40% to 50% range of the previous year.

Mobility business was very strong. I mean, it performed well against the revised plan. Domestic parking business trended with some slowness. For overseas business, there were some measures that were very different from our expectations, so the results fell far short of the revised plan.

Page 9 shows the impact of COVID-19 by segment and cost reduction. As you can see here, the slide shows by segment, net sales recurring profit of revised and initial plans, the amount of impact on recurring profit of COVID-19 and cost reductions. In the domestic business, the domestic parking business and the Mobility business, we have managed to stay in the black on recurring profit basis.

There was a large negative impact in the overseas business. Although we were able to reduce our head office expenses compared to the initial plan, our domestic parking and Mobility businesses were not able to cover the costs of the head office.

Starting on Page 10 is the plan for FY 2021, the fiscal year ending on October 31, 2021, which started in November. Our basic approach and policies for FY 2021 are, above all, to protect the safety of our customers in light of the fact that COVID-19 pandemic has not subsided.

In addition to the company staff, many of our members use our facilities. We will strengthen the disinfection of our facilities, place sanitizers in vehicles so that they are always available to users and ensure that coronaviruses are not transmitted when we serve customers in person. Through these means, we will thoroughly protect the safety of our customers.

The next part is to protect the safety of our employees. To put it simply, we encourage our employees to work from home. And when they need to commute using public transportation, they are to avoid crowded hours, such as morning and evening rush hours. When it is absolutely necessary to come to work, they are to try to avoid crowded times.

When they really have to come to work, we encourage them to avoid busy times and also we allow and encourage them to commute by car, including the use of company cars and car sharing. In any case, employees are to take thorough measures to prevent infection to make sure that they do not get infected nor infect others.

Third, we must fulfill our mission as a transportation infrastructure company. Even under these circumstances, we will maintain an environment in which our existing services, such as parking and mobility, can be used as smoothly as before. That is what we would like to focus on.

There are various restrictions such as working remotely and limiting the number of people who can come to the office, but I would like to ensure that we overcome these conditions and devise various ways to ensure smooth business operations. That is our basic policy.

In FY 2021, we will focus on getting out of the red and raising funds to improve our financial health since we posted a very large loss in FY 2020.

Page 11 shows the assumptions that form the basis of our consolidated plan for FY 2021. For the group as a whole, we will focus on the cost control and cost containment. It says here that we will control costs through strict selection of group expenses. We will continue our efforts to thoroughly reduce costs and curb costs in all areas without exceptions in this fiscal year as well.

Also, we are preparing for the Tokyo 2020 Olympic and Paralympic games, which is expected to take place in this fiscal year.

We have to deal with the operation of the parking lots related to the games. And during the games time, we can expect various traffic and road conditions. Although it is unclear at this point how the operation will be, there will be traffic restrictions. There will be changes in the conditions surrounding the parking lots when such restrictions are imposed.

In addition, on Sunday, as was broadcasted on television, our company's Judo club member, Hifumi Abe, won a qualifying match and got the qualification to participate in the Olympic games. 3 members of PARK24's Judo club have been selected for the Olympics. We would like to make preparations, including support and encouragement for them.

Implement activities for medium to long-term growth. This is an area where we have been continuously working on. We will continue to work on this area in this fiscal year. With regards to the assumptions for each business, for Parking Business, Japan, in a nutshell, we will strive to make the business leaner and create a leaner business structure. As for our parking lots, existing parking lots, the occupancy has changed pre and post COVID-19.

Naturally, for parking lots developed based on simulations that assume parking demand pre-COVID, once the parking demand in the surrounding area changes due to the impact of COVID-19, the sales and profit will naturally drop.

For those parking facilities, we will actively implement measures such as changing the fee structure to meet the parking demand post COVID and reducing costs to improve the profit structure. For sites developed post COVID, we will develop parking lots based on the simulations of the parking demand coming from the traffic conditions post COVID. So the level of profitability of parking lots developed post COVID will not be the same as the parking lots developed pre COVID.

For the parking facilities developed post COVID, we can develop parking facilities that can secure a profit margin of roughly 20%, the same level as the existing parking facilities pre COVID.

For the new development post COVID, we can develop parking facilities that can secure the same level of profit as before. And for the existing sites built pre COVID, we will improve profitability, so we are working to make the overall domestic parking business stronger and leaner.

As for the Mobility business, it says here to construct strongly Times CAR service. Times CAR refers to the integration of car share and rental car, which will be further promoted strongly. In short, all cars will be converted to cars for sharing.

In the process of shifting to car sharing, the cars that used to be at the old car rental offices will basically be converted to cars for sharing. To be more specific, cars equipped with communication terminals will be deployed. These cars can be rented in 15-minute increments, just like conventional car sharing.

For the Parking Business Overseas, we will intensively focus on profitability improvement. Having said that, compared to the domestic business, the environment remains very severe this year, and we plan to achieve net sales around 60% to 80% of FY 2019 when there was no impact of COVID.

Given the planned net sales, we'll continue to rigorously work on rent revision and better management and maintenance. We have gradually resumed operation with restrictions. FY 2020, otherwise, would have been a year of aggressive development with focus on smaller sizes and diversification, just like we do in Japan. Despite all the restrictions and limitations, we will be creative to make progress on overseas development project from FY 2020.

Page 12 shows mostly changes in Parking Business, Japan and Parking Business Overseas in FY 2021 compared to FY 2019 when we had no COVID-19 impact. Parking Business Japan is expected to be hovering around 95% to 98%, not over 100% of FY '20, while overseas business was under 60% in November and is expected to be 50% in December and back to 55% in next January and reach up slightly over 80% in next October. This is the assumption of our next year's plan.

If the business environment, our Parking Business Japan deteriorates further, it might affect adversely. By examining current situation, the assumption is fairly neutral.

As for Parking Business Overseas, December forecast is 50% due to lockdown in the U.K. Recovery is expected from January in a moderate pace. Speaking about U.K., it began vaccination. The mass inoculation would turn out to be either preferable or undesirable to our business, depending on how many new cases will be reported after all. Having said that, we made the assumption in the neutral setting for overseas business.

Page 13 represent P&L and business profits by segment. Net sales is JPY 282 billion. Gross profit is JPY 63.9 billion. Operating profit is JPY 13.5 billion, and recurring profit is JPY 8.5 billion. Recurring profit is broken down by segment as shown on the right table.

Parking Business Japan is JPY 24 billion. Mobility business is JPY 10.2 billion. Parking Business Overseas is expected to be minus JPY 6 billion and Business Development will cost us JPY 0.9 billion. Others includes head office expenses, such as SG&A. And all in all, the total amounts to JPY 8.5 billion as recurring profit for FY 2021.

Page 14 is a waterfall chart of consolidated P&L and recurring profit and loss. The far left represent FY 2019 recurring profit. FY '20 is just a reference because of COVID-19. We expect business to grow by JPY 2.2 billion from FY '19 then add minus JPY 22 billion as impact of COVID-19 and plus JPY 6.8 billion from cost reductions, which makes recurring profit amount to JPY 8.5 billion. That is a breakdown of planned net sales.

Page 15 covers financials. As released yesterday, we will finance JPY 50 billion by subordinated loans on 30th of this month. Under the influence of COVID-19, our business declined, and we recognized impairment loss on goodwill, which led to JPY 46.6 billion of loss posted with JPY 36.7 billion of shareholders' equity and 12.4% of equity ratio.

After examining in different aspects, we, PARK24, as a group, set mid-term target of equity ratio at 30% as minimum, and it should add some extra on top of 30% in the future as basic policy. Out of JPY 50 billion financed by subordinated loans, 50% or JPY 25 billion is regarded as capital. The fundamental policy has said decrease in shareholders' equity due to impairment of goodwill should be compensated by subordinated loans. While loss due to a fall in business in the wake of COVID-19 should be recovered by accumulating future profits.

In order to bring the equity ratio back to 30% level, JPY 25 billion, 50% of the financed subordinated loans financed on 30th should compensate severely affected shareholders' equity and the remaining will be by profits earned in this fiscal year and onwards. It would take several years to get back on 30% level of equity ratio. So we will steadily accumulate profits to accomplish the goal of 30%.

Profit accumulation is a good segue to the policy on dividends, frankly speaking, we didn't expect current situation to occur as risk. That's why we have returned profit from growth to shareholders rather than unnecessary reserved internally through dividend, not share buyback, which is our policy on dividend that we committed to. As a result, we offered nearly 80% of payout ratio.

Since the shareholder equity significantly declines based on the policy of the equity ratio at about 30%, we must keep payout ratio control at lower range until the equity ratio comes back to the normal level of 30%. There will be no changes on the policy to prioritize dividends but the amount of dividend shall remain lower than normal time until equity ratio comes back to 30% by retaining profits.

Once it recovers to 30%, we will plan to increase dividends. As announced yesterday, dividend per share in FY '21 is JPY 5 and payout ratio is 15.4%.

Page 17 talks about activities for mid- and long-term growth, leading to the concept of social and business environments. The company will continue to be affected by COVID-19 in the short term, but in the midterm, it will be diminishing. Until then, it will remain important not to get infected and not to spread virus to anyone. Once it's over, we will shift gear to be more aggressive, in other words, to accelerate business, and we want to prepare ourselves for that even under the pandemic.

Regarding business environments, malls in a case, which we often heard about in the media before COVID but not much nowadays, were expected to thrive greatly as mobility service. Especially when it comes to malls, parking spaces and mobility will play a key role, and we have high expectation on malls. Of course, the size of the impact brought by COVID-19 has been greater but once the pandemic ends, malls in a case, will increase their presence. We will work in capturing information, leading up to become a key player in those new domains by offering new type of services.

Page 18 covers activities for mid- and long-term growth by segment. We haven't made much changes on what we should do or efforts to continue. We determine which should be done in pandemic under such restrictions and what should be after pandemic.

Necessary preparation should be made fully under restrictions so that we could full throttle once it ends. Parking Business in general is, and will be, growing steadily after COVID. Mobility business will become a powerful driving force for growth in next 5 years. And in 5 to 10 years' time, Parking Business Overseas should be a growth driver, and we step up preparation for that.

You may be skeptical of it as overseas businesses is very damaged. However, we intend to launch all services offered in Japan in overseas business, so as Mobility business in the end.

Scale merit of parking sites and spaces have ensured that competitive edge proven by our domestic car sharing service. In the future, we will expand Mobility business along with Parking Business outside of the nation as growth driver in 5 to 10 years' time, which will make overseas business more appealing. We won't cut any corners to prepare ourselves for further growth in Parking Business Overseas.

Lastly, Page 19 is about activities for mid- to long-term growth. Back in the financial briefing and second quarter result, I announced that I would share our business policies and the financial targets, including equity capital in December full-year result briefing. And they're summarized now on Page 19.

The top line of the left chart shows the years from FY '21 to FY '25. Recurring profit for FY '21 is JPY 8.5 billion and above is a line indicating impact of COVID-19. FY '21 says, yes, it's affected. FY '22 will still have a residual impact and FY '23 will be no longer affected.

Based on the assumption, FY '21 is expected to earn JPY 8.5 billion of recurring profits, and FY '22 is in the range of JPY 25 billion with a marginal upward or downward revision expected. From FY '23, '24 to FY '25 recurring profit will grow to JPY 35 billion, JPY 40 billion and JPY 45 billion, respectively. As a result, ROE and ROA will stand at the numbers given here.

Shareholders' equity ratio is expected to be accumulated around JPY 120 billion down the road. This is our plan and time line to turn the business around after our financial side was damaged significantly.

Page 19 gives you the numbers that we set as a target, which makes us excited about further growth after 2026. This plan itself is neither bullish nor bearish, but I should say it is fairly neutral as fundamental assumption. The numbers laid out here will be the base when we draw our plans for FY '22 and onwards.

That concludes my quick updates and highlights of FY 2020 financial result and plan for FY 2021. Thank you for your attention.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]