

## **ETIC decides to support Granvista Hotel & Resort Co., Ltd.**

December 1<sup>st</sup>, 2011

Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan ( “ETIC” ) has decided to provide support to Granvista Hotel & Resort Co., Ltd. under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, of 2009, hereafter “the ETIC Act”).

1. Name of company concerned

Granvista Hotel & Resort Co., Ltd. (Hereafter, “Granvista”)

2. Name of financial institution jointly applying for rehabilitation support with Granvista

Sumitomo Mitsui Banking Corporation (hereafter “SMBC”)

3. Outline of business revitalization plan

Please see appendix

4. Comment from State Ministers in charge of ETIC

Prime Minister, Minister of Internal Affairs, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare: No objections. However, I request that the ETIC will, after confirming that support will be provided to Granvista, promptly ensure that discussions with workers are conducted and in the course of the provision of advice and guidance in the execution of the business revitalization plan, will observe all applicable laws, and will consult with workers to give due consideration to their stable employment.

5. Comment from State Ministers supervising business activities

Minister of Health, Labour and Welfare: No opinion expressed

Minister of Land, Infrastructure, Transport and Tourism: I have no objections on this matter. Regarding the support to be provided, I would like this

project to contribute to the revival of the overall regional hotel industry, and the advancement of Japan as a country of tourism including the promotion of international tourism.

6. Debt purchase application period

From Thursday December 1<sup>st</sup>, 2011 for receipt by ETIC no later than Thursday February 2<sup>nd</sup>, 2012.

7. Request for temporary suspension

Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors, other than those permitted under the corporate revitalization plan, before the end of the debt purchase period as per item 6 above.

8. Treatment of trade creditors

The decision by ETIC to provide support involves requesting rescheduling of debt repayment and other such measures from the financial institutions providing loans to Granvista. No request for support will be made with regard to trade debt. Therefore there will be no impact on trade creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

Granvista owns regionally important stand-alone operations (such as Sapporo Grand Hotel, Sapporo Park Hotel and Kamogawa Sea World), as well as hotels and Japanese inns (Shiraraso Grand Hotel, Kurobe Kanko Hotel, Shogetsu Grand Hotel) that are regional leaders.

These operations have a significant presence in each of a number of regions in which tourism is an important economic driver (as recognized under the Tourism Areas Development Act), which means that the withdrawal of Granvista from its businesses would have a not inconsiderable impact on their tourism overall.

Granvista manages added-value accommodation facilities as a chain operator of full service hotels and inns in regional cities, and as such has useful management resources. In particular, it has considerable management experience in the efficient running of multi-task operations in mid-sized facilities, managing more operations than its industry peers. In an environment in which there is a shortage of operators able to manage regional hotels and inns with their incumbent business issues, Granvista can undertake management contracts of these hotels and inns and play a role in supporting the revitalization of regional business bases through tourism.

Granvista works with more than 2,000 suppliers, agencies and other business stakeholders, and as of the end of October 2011 had just under 2,800 employees. Accordingly, another significant reason for ETIC's support is the impact of the business on the living fundamentals of the regional populace.

## 9.2 Role of ETIC

In deciding to support Granvista, ETIC's planned role is as follows:

- (1) Act as a coordinator among the financial institutions involved
- (2) Acquire existing shares
- (3) Provide capital of approximately ¥1.6 billion
- (3) Supply management personnel.

With regard to (1) above, ETIC will seek debt principal repayment rescheduling from financial institutions and other lenders to enable the early recommencement of delayed investment in maintenance and renewal of facilities, and to improve financial stability through strengthening capital. With regard to (2) above, ETIC will secure governance control by acquiring existing shares from main shareholders. With regard to (3), ETIC will underwrite a new share issue of approximately ¥1.6 billion to provide capital for strategic investment and structural reform initiatives. With regard to (4), ETIC will place management staff within the company after it is capitalized in line with (3) above, to support steady implementation of the business revitalization plan.

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**Section 1: Overview of company receiving support (as of October 31<sup>st</sup>, 2011)**

1.1 Name of company

Granvista Hotel & Resort Co., Ltd. (Hereafter, "Granvista")

1.2 Headquarters

26-9 Shinkawa 1-chome, Chuo-ku, Tokyo

1.3 Date established

August 27<sup>th</sup>, 1958

1.4 Capital

¥100 million

1.5 Shares

Ordinary shares:

Number of shares authorized                      20,000,000 shares

Number of shares outstanding                      14,135,000 shares

Class A preferred shares:

Number of shares authorized                      2,000,000 shares

Number of shares outstanding                      2,000,000 shares

1.6 Main business

Operation of hotels (city hotels, resort hotels, business hotels), contracted management of facilities, and operation of general sea leisure facilities, highway restaurants, toll roads, and golf courses

1.7 Number of employees

Full-time employees: 1,085 (including 6 executive directors)

Semi full-time employees: 1,691

Total employees: 2,776

1.8 Main facilities

Head office:

26-9 Shinkawa 1-chome, Chuo-ku, Tokyo

Operations:

City hotels (Sapporo Grand Hotel, Sapporo Park Hotel, Osaka Bay Tower)

Resort hotels (Shiraraso Grand Hotel, Kurobe Kanko Hotel, Shogetsu Grand Hotel, others)

Business hotels (Hotel Com's Ginza, others)

Aquariums (Kamogawa Sea World)

Highway restaurants (Sano, Ashigara, Otsu)

Golf courses (Tomakomai Golf Resort 72), others

#### 1.9 Main banks and other financing organizations

Sumitomo Mitsui Banking Corporation and seven other banks

#### 1.10 Financial Overview

	FY2009/3	FY2010/3	FY2011/3
Sales	¥34,945 million	¥33,299 million	¥31,218 million
EBITDA	¥3,294 million	¥3,019 million	¥3,139 million
Net profit	(¥1,498 million)	(¥1,299 million)	¥98 million
Net assets	(¥434 million)	(¥1,724 million)	(¥1,626 million)

### **Section 2: Background and circumstances leading to request for ETIC support**

Since its establishment, Granvista has managed hotels, leisure facilities and other businesses, and through a series of merger absorption acquisitions in various regions has expanded group operations to become a leading regional operator of city hotels, traditional Japanese inns and other accommodation facilities, typified by Sapporo Grand Hotel.

Granvista's approach has been to continue promoting the brand of its acquisitions, making maximal use of the historical value and regional presence of facilities while using detailed methods to improve revenues and strengthen management of individual operations and thereby contribute to group earnings.

Over the course of its business development, Granvista has accumulated extensive experience and skill in managing hotels and inns in regional cities and tourist regions. From 1970, Granvista actively expanded business hotel operations in metropolitan areas nationwide, and in the mid 1980s it acquired the coastal Kamogawa Sea World leisure facility, becoming a comprehensive tourism operator.

However, entering the 1990s, tourism demand fell and business performance declined with the collapse of the bubble economy. Interest-bearing debt rose to a high level to support parent company management, and the management situation became severe. In 2005, Granvista received partial debt forgiveness from financial institutions, and embarked on management reform with capital input from a sponsor. However, earnings fell below expectations, influenced by changes in the market after the Lehman shock and other factors. As a result of refinancing limitations from the heavy debt burden, the competitive position of facilities declined, and some operations became unprofitable. This further worsened overall

profitability.

Under these circumstances, Granvista established a three-year medium-term plan to strengthen business management in order to increase profitability, while reducing personnel and other costs, and use resulting cash flow from these to renovate facilities and restore competitiveness. However, the company struggled to meet targets in the aftermath of the Great East Japan Earthquake in March 2011, and amid considerable uncertainty with regard to overall market recovery, decided that it would face difficulty undertaking business revitalization and returning to a growth trajectory.

After discussions with its main bank SMBC, Granvista resolved to apply to ETIC, aiming to undertake business revitalization with the support of ETIC and maximize the value of debt owed to financial institutions.

### Section 3: Outline of business revitalization plan

#### 1. Basic policy

The two core elements of this plan are 1) to restore a sound operating status to the company to enable stable continuation of operations, and 2) strengthen and make optimal use of the unique management resources accumulated during the course of its development as a comprehensive tourism operator, namely its hotel and inn management experience. As part of this, as stated in 4. below, financial institutions and other lenders will be requested to reschedule debt repayment and to implement a debt equity swap (DES).

#### 2. Business plan

The main elements of the plan are as follows.

##### (1) Resume delayed investment

Cash flow arising from receiving debt repayment deferral from financial institutions will be used to implement key items of investment in maintenance and renewal of facilities. The stable annual investment will restore an appropriate standard to enable sustainable operations.

(2) Revise business portfolio

A portion of the capital provided by ETIC will be used to restructure the business portfolio by withdrawing from certain unprofitable operations. Any business withdrawals will be undertaken at an appropriate time with due consideration of business revenues and other such factors.

(3) Redefine head office functions and invest strategically in core locations

Granvista's business growth as a chain operator in the management of hotels, inns and aquarium will be further developed by redefining and strengthening its head office functions. A certain portion of the capital provided by ETIC will be used for strategic investment in particular operations, with the aim of restoring the competitive position of the operations (or at a minimum ensuring that there is no destruction of brand value of the operations).

(4) Clarify management structure, policy and decision-making process

A more dynamic organizational structure will be created by reviewing the management structure and clarifying the management policy and decision-making process. The respective roles of head office and each operating location will be adjusted, and a structure created under which the status of each operation can be analyzed and strategically shared within the context of overall group direction.

3. Business revitalization

There are no plans to conduct corporate reorganization as part of this business revitalization plan. Approximately 99% of Granvista's ordinary shares, and all of its Class A preferred shares, will be acquired by ETIC following the decision to purchase debt. Accordingly, ETIC will acquire the governance of Granvista, and move forward with the execution of this business revitalization plan. Moreover, in order to stabilize Granvista's financial base and execute this revitalization plan promptly and appropriately, Granvista will issue approximately 1.6 billion yen of ordinary shares, which are to be undertaken by ETIC. Further more, a request is to be made to SMBC that a certain portion of the debt currently owed to SMBC be converted to equity through a debt equity swap, which will be implemented through allocation of newly issued classified stock (Class B preferred stock) in exchange with the present debt for consideration-in-kind, improving financial stability through stronger capital.

4. Request for financial support from financial institutions, and other leaders.

A request to change the loan repayment schedule will be made to financial institutions. A request will also be made to SMBC to implement the abovementioned DES.

5. Financing

With the provision of financial support as outlined in this business revitalization plan, namely the injection of capital by ETIC and a facility of working capital from SMBC to deal with seasonal funding requirements, we believe Granvista will not face capital insufficiencies.

6. Conformance with standards for support

(1) Possession of effective management resources

Granvista possesses effective management resources in that it has the capacity to improve the management of its high added value facilities such as full service hotels and traditional Japanese inns through several innovations to its operations. Moreover, Granvista's facilities have a significant presence in each of a number of regions in which tourism is an important economic driver.

(2) Standard for productivity improvement

Successful implementation of this business revitalization plan is expected to increase productivity within three years of the date of the decision to provide support.

(3) Standards for financial soundness

Successful implementation of this business revitalization plan is expected to enable Granvista to meet the required standards with respect to financial soundness within three years of the date of the decision to provide support.

(4) Potential to refinance within three years

Implementation of the business revitalization plan is expected to significantly improve the financial condition of the Granvista, enabling it to reach an appropriate level of financial stability for the repayment of debt principal and interest, thereby making refinancing highly possible.

(5) Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Granvista. Accordingly, the plan has been judged as 'not hindering the resolution of structural oversupply' with reference to Article 19 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation

(6) Status of consultations with workforce

While there is no labor union connected with Granvista, it is planned that meetings with



employees will be scheduled promptly after announcement of the decision by ETIC to provide support, and opportunities provided to discuss aspects of the business revitalization plan, along with employment and working conditions.

**Section 5: Responsibility of management**

In accordance with the replacement of main shareholders, the current president, who was selected by main shareholders, and persons with concurrent posts as main shareholders, will resign from their positions.

**Section 5: Responsibility of shareholders**

The responsibility of shareholders will be shown in the erosion of their invested capital through the fair market price purchase by ETIC of remaining shares held by main shareholders.

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