Consolidated Financial Results for the Six Months Ended June 30, 2019 [Japanese GAAP]

August 8, 2019

Company name: TATERU, Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 1435
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Scheduled date of filing quarterly securities report: August 9, 2019
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for securities analysts and institutional investors)

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Six Months Ended June 30, 2019 (January 1, 2019 to June 30, 2019)

(1) Consolidated operating results (% indicates changes from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2019	14,273	(61.8)	(6,502)	-	(6,885)	-	(8,939)	-
June 30, 2018	37,352	41.2	2,308	19.9	2,187	17.2	1,420	17.0

(Note) Comprehensive income: Six months ended June 30, 2019: ¥(8,978) million [-%]
Six months ended June 30, 2018: ¥1,427 million [17.4%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2019	(100.71)	-
June 30, 2018	17.51	15.84

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	23,400	13,902	59.0
As of December 31, 2018	32,445	22,881	70.1

(Reference) Equity: As of June 30, 2019: ¥13,806 million
As of December 31, 2018: ¥22,749 million

(Note) The company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and such, starting from the beginning of the first quarter of the consolidated fiscal year ending December 31, 2019. Accordingly, the accounting standard and such has been retroactively applied to the consolidated financial position as of December 31, 2018.

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	-	5.00	-	0.00	5.00
Fiscal year ending December 31, 2019	-	0.00			
Fiscal year ending December 31, 2019 (Forecast)			-	0.00	0.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% indicates year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	19,492	(75.4)	(7,916)	-	(8,311)	-	(10,599)	-	(119.40)

(Note) Revision to the financial results forecast announced most recently: Yes

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting treatment for preparing quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of shares outstanding (common stock)

1) Total number of shares outstanding at the end of the period (including treasury stock):

June 30, 2019: 88,767,000 shares

December 31, 2018: 88,767,000 shares

2) Total number of treasury stock at the end of the period:

June 30, 2019: - shares

December 31, 2018: - shares

3) Average number of shares during the period:

Six months ended June 30, 2019: 88,767,000 shares

Six months ended June 30, 2018: 81,138,006 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available and certain assumptions judged to be reasonable. The Company makes no warranty as to the achievability of these forecasts. Actual performance, etc. may differ significantly from these forecasts due to a wide range of factors. Please refer to "1. Qualitative Information of Quarterly Financial Results, (3) Explanation of consolidated financial results forecast and other forward-looking information" on page 3 of the attachments for assumed conditions of financial results forecast and precaution statement in using financial results forecast.

Record of orders received of TATERU Apartment business which was disclosed in the previous quarterly report is omitted since the business activities are not in full operation still and it is immaterial as matters for disclosure.

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1. Qualitative Information of Quarterly Financial Results

(1) Explanation of operating results

The Japanese economy during the six months ended June 30, 2019 continued to show a moderate recovery due to the improvement of employment and income situations, as well as the improvement of personal consumption and the continued increases in capital investment, backed by the government's economic policy and the Bank of Japan's continued monetary policy. Nevertheless, the outlook remains unclear because of the uncertainty in the world economy from the impact of the prolonged trade friction between the U.S. and China.

In the real estate industry, although there are concerns such as financial institutions' tightening their policies on loans for real estate due to the change in their lending attitudes and development site prices and construction costs are surging, the strong trend is expected to last going forward thanks to the robust real estate demand due to the low interest rate environment backed by the continued monetary policy, as well as the growing demand for accommodation driven by factors such as the increasing number of foreign visitors.

Under these circumstances, in our mainstay TATERU Apartment business, the Group refrained from full-scale sales activity in order to prioritize the post-incident and confidence restoration from financial institutions on inappropriate actions by an employee of the Company which was discovered during the fiscal year ended December 31, 2018. In addition, the Company implemented delivery procedures in relation to the collective sale of real estate for sale in order to ensure new business funds, and sold stocks of related companies to strengthen its financial position and increase asset efficiency.

As a result, the performance for the six months ended June 30, 2019 was ¥6,502 million in operating loss (operating profit of ¥2,308 million for the same period of the previous fiscal year), ¥6,885 million in ordinary loss (ordinary profit of ¥2,187 million for the same period of the previous fiscal year) and ¥8,939 million in loss attributable to owners of parent (profit attributable to owners of parent of ¥1,420 million for the same period of the previous fiscal year) partly due to the recording of ¥14,273 million in net sales (down 61.8% year on year) and ¥3,198 million in loss on collective sale of real estate for sale.

The performance of each segment is as follows.

From the three months ended March 31, 2019, the Company partially changed the business segment to be presented as reportable segment and the name of the business segment. The comparison and analysis for the six months ended June 30, 2019 are based on the classification after the change.

1) TATERU Apartment business

In TATERU Apartment business, the Company refrained from full-scale sales activity in order to prioritize the post-incident and confidence restoration from financial institutions on inappropriate actions by an employee of the Company which was discovered during the fiscal year ended December 31, 2018. In addition, the Company promoted delivery procedures in relation to the collective sale of real estate for sale in order to ensure new business funds.

As a result, net sales for the six months ended June 30, 2019 was ¥13,524 million (down 62.6% year on year) and operating loss was ¥5,232 million (operating profit of ¥3,202 million for the same period of the previous fiscal year).

2) Smart hotel business

In Smart hotel business, which provides accommodation management services, the Company's subsidiary TATERU bnb, Inc., which operates the Smart hotel business, changed its name to TABICT, Inc. on April 25, 2019.

In the six months ended June 30, 2019, the Company enhanced functions of bnb kit, which enables smart accommodation management by utilizing ICT* such as smart lock and check-in tablet, planned and developed TRIP POD, an IoT smart hotel, and promoted the opening of MUSUBI HOTEL, a concept hotel.

As a result, net sales for the six months ended June 30, 2019 was ¥369 million (up 38.6% year on year) and operating profit was ¥102 million (down 8.6% year on year).

3) Robot Home business

In the Robot Home business, which concentrates on planning and development of IoT devices, provides Apartment kit, an IoT device. In

* ICT: Information and Communication Technology.

order to provide occupants with greater security and convenience and to streamline rental property management for owners and management companies, we made an effort to enhance functions. In addition, the Company started to strengthen travelling sales for IoT devices and promote introduction of a system to management companies.

As a result, net sales for the six months ended June 30, 2019 was ¥340 million (down 27.2% year on year) and operating profit was ¥35 million (down 73.9% year on year).

(2) Explanation of financial position

(Assets)

Total assets at the end of the six months ended June 30, 2019 decreased by ¥9,044 million from the end of the previous fiscal year to ¥23,400 million. This is mainly attributable to decreases in cash and deposits of ¥1,528 million, real estate for sale of ¥4,041 million, and investment securities of ¥1,469 million.

(Liabilities)

Total liabilities at the end of the six months ended June 30, 2019 decreased by ¥65 million from the end of the previous fiscal year to ¥9,497 million. This is mainly attributable to a decrease in accounts payable-trade of ¥2,542 million, despite increases in short-term loans payable of ¥3,200 million and allowance for capital loss of related companies of ¥1,133 million.

(Net assets)

Total net assets at the end of the six months ended June 30, 2019 decreased by ¥8,978 million from the end of the previous fiscal year to ¥13,902 million. This is mainly attributable to the recording of loss attributable to owners of parent of ¥8,939 million.

(3) Explanation of consolidated financial results forecast and other forward-looking information

For the consolidated financial results forecast for the full year ending December 31, 2019, we expect net sales of ¥19,492 million (down 75.4% year on year), operating loss of ¥7,916 million (operating profit of ¥721 million for the previous fiscal year), ordinary loss of ¥8,311 million (ordinary profit of ¥507 million for the previous fiscal year), and loss attributable to owners of parent of ¥10,599 million (profit attributable to owners of parent of ¥821 million for the previous fiscal year) as in the “Notice Concerning Recording of Impairment Loss and Consolidated Financial Results Forecast for the Full Year Ending December 31, 2019” announced today (August 8, 2019).

The results forecasts statements herein are expectations based on predications, outlooks, and plans related to the future at the time of this announcement, and are subject to risks and uncertainties. Actual performance may differ significantly from these forecasts stated herein due to a wide range of factors such as the economic environment and market trends regarding the Group’s business operations.

2. Consolidated Financial Statements and Primary Notes
(1) Consolidated balance sheets

(Thousand yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	11,993,824	10,465,776
Accounts receivable-trade	841,190	647,119
Merchandise and finished goods	299,951	295,571
Real estate for sale	11,105,828	7,063,866
Real estate for sale in process	1,618,758	308,899
Supplies	10,566	5,112
Other	458,140	411,547
Allowance for doubtful accounts	(15,451)	(19,189)
Total current assets	26,312,808	19,178,704
Non-current assets		
Property, plant and equipment	993,154	1,149,714
Intangible assets		
Goodwill	1,791,047	1,725,918
Other	365,348	2,494
Total intangible assets	2,156,396	1,728,413
Investments and other assets		
Investment securities	2,351,533	882,502
Other	631,119	461,326
Total investments and other assets	2,982,653	1,343,828
Total non-current assets	6,132,203	4,221,956
Total assets	32,445,011	23,400,660

(Thousand yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable-trade	2,824,725	282,191
Short-term loans payable	1,800,000	5,000,000
Current portion of long-term loans payable	401,154	400,720
Income taxes payable	568,023	95,716
Provision for bonuses	55,749	27,374
Provision for full occupancy responsibility	319,021	96,444
Allowance for capital loss of related companies	-	1,133,243
Asset retirement obligations	-	31,380
Other	2,345,720	1,302,345
Total current liabilities	8,314,393	8,369,414
Non-current liabilities		
Long-term loans payable	1,200,860	1,000,500
Asset retirement obligations	48,269	116,111
Other	-	11,861
Total non-current liabilities	1,249,129	1,128,472
Total liabilities	9,563,522	9,497,887
Net assets		
Shareholders' equity		
Capital stock	7,272,422	7,272,422
Capital surplus	7,178,610	7,178,610
Retained earnings	8,296,419	(643,191)
Total shareholders' equity	22,747,452	13,807,841
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,575	(1,476)
Foreign currency translation adjustment	22	(308)
Total accumulated other comprehensive income	1,598	(1,785)
Share acquisition rights	1,530	1,020
Non-controlling interests	130,908	95,696
Total net assets	22,881,489	13,902,772
Total liabilities and net assets	32,445,011	23,400,660

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Six months ended June 30, 2019

(Thousand yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Net sales	37,352,150	14,273,736
Cost of sales	30,861,575	17,287,789
Gross profit (loss)	6,490,575	(3,014,052)
Selling, general and administrative expenses	4,182,494	3,488,265
Operating profit (loss)	2,308,080	(6,502,318)
Non-operating income		
Interest income	472	640
Dividend income	26,691	751
Gain on investments in partnership	-	1,879
Gain on sales of goods	3,249	-
Insurance fee	-	10,000
Other	3,983	3,391
Total non-operating income	34,395	16,663
Non-operating expenses		
Interest expenses	6,882	16,217
Loss on investments in partnership	1,368	1,059
Commission fee	10,156	146,973
Share issuance cost	62,568	-
Share of loss of entities accounted for using equity method	66,786	219,915
Foreign exchange losses	121	-
Other	7,475	15,524
Total non-operating expenses	155,360	399,691
Ordinary profit (loss)	2,187,116	(6,885,346)
Extraordinary income		
Gain on sales of investment securities	1,009	-
Gain on reversal of share acquisition rights	-	510
Gain on sales of shares of subsidiaries and associates	-	60,511
Total extraordinary income	1,009	61,021
Extraordinary losses		
Provision of the reserve for capital loss of related companies	-	1,133,243
Impairment loss	-	874,719
Total extraordinary losses	-	2,007,963
Profit (loss) before income taxes	2,188,125	(8,832,287)
Income taxes	761,201	142,534
Profit (loss)	1,426,924	(8,974,822)
Profit (loss) attributable to non-controlling interests	5,988	(35,211)
Profit (loss) attributable to owners of parent	1,420,936	(8,939,610)

Consolidated statements of comprehensive income

Six months ended June 30, 2019

(Thousand yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Profit (loss)	1,426,924	(8,974,822)
Other comprehensive income		
Valuation difference on available-for-sale securities	646	(3,052)
Foreign currency translation adjustment	-	(331)
Total other comprehensive income	646	(3,383)
Comprehensive income	1,427,571	(8,978,206)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,421,582	(8,942,994)
Comprehensive income attributable to non-controlling interests	5,988	(35,211)

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable.

(Segment information, etc.)

[Segment information]

I For the six months ended June 30, 2018

1. Information on net sales and profit or loss by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	TATERU Apartment business	Smart hotel business	Robot Home business	Total				
Net sales								
Net sales to external customers	36,135,165	266,186	467,826	36,869,178	482,972	37,352,150	-	37,352,150
Inter-segment sales or transfers	9,726	-	113	9,839	26,074	35,914	(35,914)	-
Total	36,144,892	266,186	467,939	36,879,017	509,047	37,388,064	(35,914)	37,352,150
Segment profit or loss	3,202,172	112,078	136,297	3,450,548	137,641	3,588,189	(1,280,108)	2,308,080

(Notes) 1. Others refers to business segments not included in the reportable segments.
2. The adjustment to segment profit or loss mainly represents companywide expenses which have not been allocated to each reportable segment.
3. Segment profit or loss is adjusted with the operating profit under consolidated statements of income.

2. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

Not applicable.

II For the six months ended June 30, 2019

1. Information on net sales and profit or loss by reportable segment

(Thousand yen)

	Reportable segment				Others (Note 1)	Total	Adjustments (Note 2)	Amounts on consolidated statements of income (Note 3)
	TATERU Apartment business	Smart hotel business	Robot Home business	Total				
Net sales								
Net sales to external customers	13,520,675	369,032	340,427	14,230,135	43,601	14,273,736	-	14,273,736
Inter-segment sales or transfers	3,701	-	-	3,701	50,722	54,424	(54,424)	-
Total	13,524,376	369,032	340,427	14,233,836	94,324	14,328,161	(54,424)	14,273,736
Segment profit or loss	(5,232,036)	102,431	35,568	(5,094,037)	(86,579)	(5,180,616)	(1,321,701)	(6,502,318)

(Notes) 1. Others refers to business segments not included in the reportable segments.
2. The adjustment to segment profit or loss mainly represents companywide expenses which have not been allocated to each reportable segment.
3. Segment profit or loss is adjusted with the operating loss under consolidated statements of income.

2. Information on the changes, etc. to reportable segments

From the three months ended March 31, 2019, the Company changed the segment name from previous “TATERU bnb business” to “Smart hotel business.” In addition, since the importance of “TATERU Funding business” has declined, it is included in Others.

Segment information for the six months ended June 30, 2018 is prepared from the name and segment classification after the change.

3. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

The Company recorded impairment loss in TATERU Apartment business, Smart hotel business, Robot Home business, Others, and Company-wide segments. The amount of impairment loss for the six months ended June 30, 2019 are as shown in the table below.

TATERU Apartment business	¥209,151 thousand
Smart hotel business	¥76,640 thousand
Robot Home business	¥203,472 thousand
Others	¥75,016 thousand
Company-wide	¥310,438 thousand
Total	¥874,719 thousand

(Significant changes in amount of goodwill)

Not applicable

(Material profit from negative goodwill)

Not applicable

(Significant subsequent events)

(Implementation of Early Retirement Incentive Program)

The Company has resolved to implement an early retirement incentive program for employees of the Company and its wholly-owned subsidiaries at the meeting of the Board of Directors held on July 5, 2019.

1. Reason for implementing the early retirement incentive program

   The Company has decided to implement the early retirement incentive program as part of the measures to proceed with structural reforms for continuous future growth, improve profitability, and realize early recovery of business performance as well as to support diverse life plans of its employees.

2. Overview of the early retirement incentive program

(1) Eligible employees:	Full-time employees of the Company and its wholly-owned subsidiaries as of August 1, 2019 (excluding some organizations and positions)
(2) No. applicants solicited:	Approximately 160 employees
(3) Application period:	From July 8, 2019 to July 31, 2019
(4) Retirement date:	October 31, 2019 (planned)
(5) Incentives:	The Company will pay special retirement allowances, and provide re-employment support by an external outplacement service company upon request.

3. Loss due to implementation of the early retirement incentive program

   The Company plans to record special retirement allowances and other expenses associated with the implementation of the program as extraordinary losses of approximately ¥281,000 thousand in the consolidated financial results for the nine months ending September 30, 2019.

3. Others

(Significant events, etc. on going concern assumption)

For the six months ended June 30, 2019, in our mainstay TATERU Apartment business, the Group prioritized on responding to the inappropriate actions by an employee of the Company which was discovered during the fiscal year ended December 31, 2018, and has not been able to perform full-scale sales activity. In addition, as disclosed in "Notice Concerning Sale of Real Estate for Sale" on April 5, 2019, the Company recorded ¥3,198 million in loss on collective sale of real estate for sale. Accordingly, together with other factors, the Company recorded gross loss, operating loss, ordinary loss and loss attributable to owners of parent for the six months ended June 30, 2019.

Due to this situation, there exists a significant doubt on going concern assumption. However, as a result of considering the situation of fund balance as of the end of the six months ended June 30, 2019 and the future funding, there is no concern on the continuity of the business activity at the moment. The Company has decided that there is no significant uncertainty on going concern assumption.

By addressing on rebuilding TATERU Apartment business, and establishing and expanding Robot Home and Smart hotel businesses, the Company will aim for ensuring stable profit as a going concern.

(Cancellation of share transfer agreement on change in consolidated subsidiary (share transfer))

Regarding the "Notice Concerning Conclusion of Share Transfer Agreement on Change in Consolidated Subsidiary (Share Transfer)" released on March 29, 2019, the Company announced that it concluded a share transfer agreement to transfer all shares held by the Company in its consolidated subsidiary Invest Online, Inc. to Japan Investment Adviser Co., Ltd. (hereinafter, "Japan Investment Adviser"), and scheduled to execute the share transfer on April 5, 2019. However, as announced in the "Notice Concerning Postponement of Share Transfer Execution Date Relating to Change in Consolidated Subsidiary (Share Transfer)" on April 26, 2019, the Company and Japan Investment Adviser have agreed to postpone the transfer execution date.

However, the gaps that became evident on main matters could not be resolved in the subsequent discussions, and based on mutual agreement, the Company concluded an agreement to cancel the share transfer agreement as announced in the "(Cancellation of Disclosure Matters) Notice Concerning Cancellation of Share Transfer Agreement on Change in Consolidated Subsidiary (Share Transfer)" released on June 25, 2019.