Consolidated Financial Results for the Nine Months Ended September 30, 2019 [Japanese GAAP]

November 11, 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: November 12, 2019
Scheduled date of commencing dividend payments: -
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2019 (January 1, 2019 to September 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	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	17,607	(65.3)	(7,267)	-	(7,697)	-	(10,463)	-
September 30, 2018	50,814	20.1	2,551	(12.6)	2,403	(16.2)	3,212	72.4

(Note) Comprehensive income: Nine months ended September 30, 2019: ¥(10,521) million [-%]
Nine months ended September 30, 2018: ¥3,150 million [69.1%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2019	(117.87)	-
September 30, 2018	38.51	35.15

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	17,150	12,387	71.8
As of December 31, 2018	32,445	22,881	70.1

(Reference) Equity: As of September 30, 2019: ¥12,306 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: No

*** 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):

September 30, 2019: 90,167,000 shares

December 31, 2018: 88,767,000 shares

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

September 30, 2019: - shares

December 31, 2018: - shares

3) Average number of shares during the period:

Nine months ended September 30, 2019: 88,772,128 shares

Nine months ended September 30, 2018: 83,422,355 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 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 nine months ended September 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. However, 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 order to address on rebuilding TATERU Apartment business, and establishing and expanding Smart hotel and Robot Home businesses, the Group has taken several measures to proceed with structural reforms for sustainable future growth, improve profitability, and realize early recovery of business performance. As part of these measures, and in an effort to support diverse life plans of our employees, we have implemented an early retirement incentive program.

As a result, the performance for the nine months ended September 30, 2019 was ¥7,267 million in operating loss (operating profit of ¥2,551 million for the same period of the previous fiscal year), ¥7,697 million in ordinary loss (ordinary profit of ¥2,403 million for the same period of the previous fiscal year) and ¥10,463 million in loss attributable to owners of parent (profit attributable to owners of parent of ¥3,212 million for the same period of the previous fiscal year) partly due to the recording of ¥17,607 million in net sales (down 65.3% year on year) and ¥3,198 million in loss on collective sale of real estate for sale under cost of sales.

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 nine months ended September 30, 2019 are based on the classification after the change.

(TATERU Apartment business)

In TATERU Apartment business, the Company completed the delivery procedures in relation to the collective sale of real estate for sale in order to secure business funds. We also have in place a more stringent procedure to check the contract suitability of factors including purchase from or sale to a customer when concluding a purchase and sale agreement with the customer, as a measure to prevent recurrence of the series of issues discovered during the fiscal year ended December 31, 2018.

As a result, net sales for the nine months ended September 30, 2019 was ¥16,665 million (down 66.0% year on year) and operating loss was ¥5,376 million (operating profit of ¥3,896 million for the same period of the previous fiscal year).

(Smart hotel business)

In Smart hotel business, which provides accommodation management services, the Company introduced smart accommodation management services by utilizing ICT* such as smart lock and check-in tablet at 22 accommodation facilities and MUSUBI HOTEL, a concept hotel.

As a result, net sales for the nine months ended September 30, 2019 was ¥440 million (up 0.4% year on year) and operating profit was ¥23 million (down 85.4% year on year).

(Robot Home business)

In the Robot Home business, which concentrates on planning and development of IoT devices, provides Apartment kit, an IoT device. We not only modified and enhanced Apartment kit, which is designed to provide occupants with greater security and convenience and to streamline rental property management for owners and management companies, but also introduced it for ready-built houses for the first time in the Robot Home business' history.

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* ICT: Information and Communication Technology.

As a result, net sales for the nine months ended September 30, 2019 was ¥454 million (down 34.1% year on year) and operating profit was ¥14 million (down 93.8% year on year).

(2) Explanation of financial position

(Assets)

Total assets at the end of the nine months ended September 30, 2019 decreased by ¥15,294 million from the end of the previous fiscal year to ¥17,150 million. This is mainly attributable to decreases in cash and deposits of ¥3,877 million, real estate for sale of ¥6,607 million, and investment securities of ¥1,540 million.

(Liabilities)

Total liabilities at the end of the nine months ended September 30, 2019 decreased by ¥4,799 million from the end of the previous fiscal year to ¥4,763 million. This is mainly attributable to decreases in accounts payable - trade of ¥2,559 million and short-term loans payable of ¥1,800 million.

(Net assets)

Total net assets at the end of the nine months ended September 30, 2019 decreased by ¥10,494 million from the end of the previous fiscal year to ¥12,387 million. This is mainly attributable to the recording of loss attributable to owners of parent of ¥10,463 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 on 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 September 30, 2019
Assets		
Current assets		
Cash and deposits	11,993,824	8,116,017
Accounts receivable-trade	841,190	639,388
Merchandise and finished goods	299,951	346,506
Real estate for sale	11,105,828	4,498,058
Real estate for sale in process	1,618,758	466,443
Supplies	10,566	4,454
Other	458,140	472,882
Allowance for doubtful accounts	(15,451)	(41,472)
Total current assets	26,312,808	14,502,278
Non-current assets		
Property, plant and equipment	993,154	1,170,183
Intangible assets		
Goodwill	1,791,047	152,362
Other	365,348	2,230
Total intangible assets	2,156,396	154,593
Investments and other assets		
Investment securities	2,351,533	810,835
Other	631,119	512,770
Total investments and other assets	2,982,653	1,323,606
Total non-current assets	6,132,203	2,648,383
Total assets	32,445,011	17,150,661

(Thousand yen)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable-trade	2,824,725	265,592
Short-term loans payable	1,800,000	-
Current portion of long-term loans payable	401,154	400,720
Income taxes payable	568,023	34,508
Provision for bonuses	55,749	92,753
Provision for full occupancy responsibility	319,021	3,465
Asset retirement obligations	-	29,593
Other	2,345,720	1,220,494
Total current liabilities	8,314,393	2,047,127
Non-current liabilities		
Long-term loans payable	1,200,860	2,600,320
Asset retirement obligations	48,269	116,134
Total non-current liabilities	1,249,129	2,716,454
Total liabilities	9,563,522	4,763,581
Net assets		
Shareholders' equity		
Capital stock	7,272,422	7,286,422
Capital surplus	7,178,610	7,192,610
Retained earnings	8,296,419	(2,167,279)
Total shareholders' equity	22,747,452	12,311,753
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,575	(5,340)
Foreign currency translation adjustment	22	(363)
Total accumulated other comprehensive income	1,598	(5,703)
Share acquisition rights	1,530	1,020
Non-controlling interests	130,908	80,010
Total net assets	22,881,489	12,387,079
Total liabilities and net assets	32,445,011	17,150,661

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Nine months ended September 30, 2019

(Thousand yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Net sales	50,814,590	17,607,953
Cost of sales	42,049,377	20,106,333
Gross profit (loss)	8,765,213	(2,498,379)
Selling, general and administrative expenses	6,213,518	4,768,994
Operating profit (loss)	2,551,694	(7,267,373)
Non-operating income		
Interest income	1,431	1,183
Dividend income	26,691	751
Gain on investments in partnership	-	9,868
Gain on sales of goods	3,249	-
Gain on insurance cancellation	13,945	-
Insurance fee	-	10,000
Other	4,284	4,727
Total non-operating income	49,602	26,530
Non-operating expenses		
Interest expenses	9,658	23,580
Loss on investments in partnership	2,876	1,059
Commission fee	10,156	163,973
Share issuance cost	62,568	-
Share of loss of entities accounted for using equity method	102,702	219,915
Other	9,839	47,798
Total non-operating expenses	197,801	456,328
Ordinary profit (loss)	2,403,495	(7,697,172)
Extraordinary income		
Gain on sales of investment securities	2,425,815	-
Gain on reversal of share acquisition rights	-	510
Gain on sales of shares of subsidiaries and associates	-	60,511
Total extraordinary income	2,425,815	61,021
Extraordinary losses		
Loss on valuation of investment securities	-	65,814
Impairment loss	-	886,176
Special retirement expenses	-	281,000
Special survey costs, etc.	33,741	-
Amortization of goodwill	-	1,540,991
Total extraordinary losses	33,741	2,773,983
Profit (loss) before income taxes	4,795,569	(10,410,133)
Income taxes	1,579,754	104,463
Profit (loss)	3,215,815	(10,514,597)
Profit (loss) attributable to non-controlling interests	3,449	(50,898)
Profit (loss) attributable to owners of parent	3,212,366	(10,463,698)

Consolidated statements of comprehensive income

Nine months ended September 30, 2019

(Thousand yen)

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2019
Profit (loss)	3,215,815	(10,514,597)
Other comprehensive income		
Valuation difference on available-for-sale securities	(64,949)	(6,916)
Foreign currency translation adjustment	(6)	(385)
Total other comprehensive income	(64,956)	(7,302)
Comprehensive income	3,150,859	(10,521,899)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,147,410	(10,471,000)
Comprehensive income attributable to non-controlling interests	3,449	(50,898)

(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 nine months ended September 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	49,067,337	438,632	675,762	50,181,733	632,857	50,814,590	-	50,814,590
Inter-segment sales or transfers	13,235	-	12,941	26,176	97,147	123,324	(123,324)	-
Total	49,080,573	438,632	688,703	50,207,909	730,005	50,937,915	(123,324)	50,814,590
Segment profit or loss	3,896,531	159,649	233,904	4,290,085	203,999	4,494,085	(1,942,390)	2,551,694

(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 nine months ended September 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	16,661,539	440,596	453,031	17,555,167	52,786	17,607,953	-	17,607,953
Inter-segment sales or transfers	4,290	-	1,000	5,290	66,956	72,246	(72,246)	-
Total	16,665,830	440,596	454,031	17,560,458	119,742	17,680,200	(72,246)	17,607,953
Segment profit or loss	(5,376,149)	23,286	14,565	(5,338,297)	(119,773)	(5,458,070)	(1,809,303)	(7,267,373)

(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 nine months ended September 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 nine months ended September 30, 2019 is as shown in the table below.

TATERU Apartment business	¥209,151 thousand
Smart hotel business	¥79,531 thousand
Robot Home business	¥210,079 thousand
Others	¥75,016 thousand
Company-wide	¥312,396 thousand
Total	¥886,176 thousand

(Significant changes in amount of goodwill)

The Company amortized goodwill associated with the shares in its consolidated subsidiary Invest Online, Inc. in the TATERU Apartment business segment, which resulted in a decrease in goodwill. The amount of the decrease in goodwill attributable to this amortization for the nine months ended September 30, 2019 is ¥1,540,991 thousand.

(Material profit from negative goodwill)

Not applicable.

(Significant subsequent events)

Change in consolidated subsidiary (transfer of shares)

At the meeting of the Board of Directors held on October 31, 2019, the Company resolved to transfer all shares held by the Company in the Company's consolidated subsidiary Invest Online, Inc. (hereinafter, "Invest Online"), and completed the share transfer on November 1, 2019. As a result of the share transfer, the Company amortized goodwill associated with the shares in Invest Online and recorded ¥1,540 million in extraordinary losses in the third quarter of the consolidated fiscal year ending December 31, 2019.

1. Reason for the share transfer

Changes in the stances of financial institutions regarding lending has led to tightening of lending standards for real estate investment, resulting in a drastic change in the business environment for the real estate industry, to which the Group belongs. Amid this significant environmental change, from the perspective of selection and concentration of the Group's businesses and as a result of considering Invest Online's future development, the Company decided to transfer the shares.

2. Name of the company to which the shares were transferred

Aeria Investment No. 2 KK

3. Dates of the share transfer

Conclusion date of share transfer agreement	October 31, 2019
Share transfer execution date	November 1, 2019

4. Name of the subsidiary whose shares were transferred and its business

Name: Invest Online, Inc.

Business: Real estate investment consulting and matching (TATERU Apartment business)

5. Number of shares transferred, transfer value, and shareholding ratio after transfer

(1) Number of shares owned before transfer	1,346,040 shares
(2) Number of shares transferred	1,346,040 shares
(3) Transfer value	600 million yen
(4) Shareholding ratio after transfer	- %

3. Others

Significant events, etc. on going concern assumption

For the nine months ended September 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. The Company has in place a more stringent procedure to check the contract suitability of factors including purchase from or sale to a customer when concluding a purchase and sale agreement with the customer, as a measure to prevent recurrence. In addition, 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 nine months ended September 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 third quarter of the fiscal year ending December 31, 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.