Consolidated Financial Results for the Nine Months Ended September 30, 2020 [Japanese GAAP]

November 12, 2020

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Stock exchange listing: Tokyo Stock Exchange
Code number: 1435
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Scheduled date of filing quarterly securities report: November 13, 2020
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, 2020 (January 1, 2020 to September 30, 2020)

(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, 2020	5,227	(70.3)	(531)	-	(564)	-	(900)	-
September 30, 2019	17,607	(65.3)	(7,267)	-	(7,697)	-	(10,463)	-

(Note) Comprehensive income: Nine months ended September 30, 2020: ¥(902) million [-%]
Nine months ended September 30, 2019: ¥(10,521) million [-%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2020	(9.99)	-
September 30, 2019	(117.87)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2020	9,492	7,343	77.4
As of December 31, 2019	12,290	8,227	66.9

(Reference) Equity: As of September 30, 2020: ¥7,343 million
As of December 31, 2019: ¥8,226 million

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, 2019	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2020	-	0.00	-		
Fiscal year ending December 31, 2020 (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, 2020 (January 1, 2020 to December 31, 2020)

(% 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	5,962	(68.3)	(971)	-	(1,111)	-	(1,256)	-	(13.94)

(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, 2020: 91,127,000 shares

December 31, 2019: 90,167,000 shares

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

September 30, 2020: - shares

December 31, 2019: - shares

3) Average number of shares during the period:

Nine months ended September 30, 2020: 90,170,504 shares

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

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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, 2020 continued to show a moderate recovery due to improved employment and income situations, as well as an uptick in personal consumption and continued increases in capital investment, backed by the government's economic policy and the Bank of Japan's ongoing monetary policy. Nevertheless, the outlook is expected to remain unfavorable due to the impact of the spread of COVID-19 on the world economy, and uncertainty persists regarding factors such as movements in the financial and capital markets.

In the rental housing market in the real estate industry, as it is not easily affected by economic trends and COVID-19, both occupancy rates and rent levels have remained high. In addition, while there are calls for operational efficiency utilizing technologies and change to a highly transparent real estate business, a variety of services in the real estate domain have been commercialized through DX (digital transformation) utilizing cutting-edge technologies such as AI and IoT, and demand for highly convenient services including realization of smart homes suitable for diversifying lifestyles through the use of various IoT devices is expected to increase further.

Under these circumstances, the Group has proceeded with structural reforms for sustainable future growth, establishing and expanding its businesses under the medium-term business plan "NEXT TATERU VISION," which covers the three years from fiscal 2020 to fiscal 2022, with the aim of further deepening and accelerating reforms, as announced in the Notice Regarding the Medium-Term Management Plan on February 13, 2020. In addition to re-launching our PM platform business as the KANRY business, with the aim of expanding into an advanced business model to strengthen stock income, we established a new company, Sunassu Co., Ltd., through a spin-off of the Group's guarantee service business.

As a result, the performance for the nine months ended September 30, 2020 was ¥5,227 million in net sales (down 70.3% year on year), ¥531 million in operating loss (operating loss of ¥7,267 million for the same period of the previous fiscal year), ¥564 million in ordinary loss (ordinary loss of ¥7,697 million for the same period of the previous fiscal year) and ¥900 million in loss attributable to owners of parent (loss attributable to owners of parent of ¥10,463 million for the same period of the previous fiscal year) primarily due to the recording of loss on valuation of investment securities of ¥282 million under extraordinary losses.

The performance of each segment is as follows.

From the three months ended March 31, 2020, the Company partially changed the business segments to be presented as the reportable segments and business segment name. The comparison and analysis for the nine months ended September 30, 2020 are based on the classification after the change.

1) KANRY business

In the KANRY business, the Company enhanced and strengthened functions of Residence kit and promoted external sales, with the aim of increasing our rental housing units under management with the utilization of core technologies including AI/IoT and continuously increasing our share of IoT deployment. On July 13, 2020, the Company launched "Residence kit for Owner" as a new service to automate real estate management. Also, a review of the cost structure of the KANRI business was carried out, through promotion of the deployment of "Residence kit for PM," an in-house developed rental management RPA system, and the Company strived to enhance earning capacity. Meanwhile, in the guarantee service business, the Company focused on expanding the Company-guaranteed share.

As a result, net sales for the nine months ended September 30, 2020 were ¥2,249 million (up 4.8% year on year) and operating profit was ¥723 million (up 174.4% year on year), which included AI/IoT related net sales of ¥192 million and AI/IoT related operating profit of ¥61 million.

2) TATERU business

In the TATERU business, under the impact of the dramatic downturn in demand for accommodation due to the spread of COVID-19, the Company halted development of new smart hotels and recorded provision for loss on guarantees of ¥395 million to provide for further decline in demand for accommodation. As for revenue-generating real estate, on the other hand, the Company has recommenced plot procurement, carefully choosing well-located properties, and focused on planning and development aimed at promoting sale of revenue-generating real estate for affluent clients, differentiated through utilization of the IoT, as well as at enhancement of its lineup of new products. In addition, in the conversion project for dilapidated facilities, etc., using technology combined with real estate consulting, the Company

produced the general design for AddElm Chillout Village (CHILL VIL.), which is a sports and fashion complex that opened in Village of Yamanakako on September 19, 2020.

As a result, net sales for the nine months ended September 30, 2020 were ¥2,978 million (down 80.7% year on year) and operating loss was ¥407 million (operating loss of ¥5,426 million for the same period of the previous fiscal year).

(2) Explanation of financial position

(Assets)

Total assets at the end of the nine months ended September 30, 2020 decreased by ¥2,798 million from the end of the previous fiscal year to ¥9,492 million. This is mainly attributable to decreases in real estate for sale of ¥2,018 million and cash and deposits of ¥353 million.

(Liabilities)

Total liabilities at the end of the nine months ended September 30, 2020 decreased by ¥1,913 million from the end of the previous fiscal year to ¥2,149 million. This is mainly attributable to a decrease in long-term borrowings of ¥2,250 million despite an increase in provision for loss on guarantees of ¥371 million.

(Net assets)

Total net assets at the end of the nine months ended September 30, 2020 decreased by ¥884 million from the end of the previous fiscal year to ¥7,343 million. This is mainly attributable to the recording of loss attributable to owners of parent of ¥900 million.

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

No revisions have been made to the consolidated financial results forecast announced on February 13, 2020.

As for the impact of the spread of COVID-19 infections on the Company’s financial results, the Company will pay close attention to the future business environment, trends in the financial results, etc., and if the Company determines that it is necessary to revise the financial results forecast, it will announce the revision in a timely manner.

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

(Thousand yen)

	As of December 31, 2019	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	6,370,649	6,017,610
Accounts receivable - trade	514,535	507,702
Merchandise and finished goods	38,820	54,434
Real estate for sale	3,730,949	1,712,518
Real estate for sale in process	140,612	101,111
Supplies	4,720	5,230
Other	396,265	301,197
Allowance for doubtful accounts	(35,681)	(128,348)
Total current assets	11,160,871	8,571,456
Non-current assets		
Property, plant and equipment	39,940	55,400
Intangible assets		
Other	-	38,208
Total intangible assets	-	38,208
Investments and other assets		
Investment securities	721,757	422,172
Other	368,230	405,504
Total investments and other assets	1,089,988	827,676
Total non-current assets	1,129,928	921,286
Total assets	12,290,799	9,492,743

(Thousand yen)

	As of December 31, 2019	As of September 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	158,370	58,684
Current portion of long-term borrowings	400,000	300,000
Income taxes payable	42,110	49,528
Provision for bonuses	17,433	57,795
Provision for full occupancy responsibility	4,189	-
Provision for loss on guarantees	304,136	675,477
Asset retirement obligations	-	59,575
Other	821,853	947,112
Total current liabilities	1,748,094	2,148,172
Non-current liabilities		
Long-term borrowings	2,250,000	-
Asset retirement obligations	64,861	888
Total non-current liabilities	2,314,861	888
Total liabilities	4,062,955	2,149,060
Net assets		
Shareholders' equity		
Share capital	7,286,422	7,296,022
Capital surplus	7,192,610	7,202,210
Retained earnings	(6,249,263)	(7,149,416)
Total shareholders' equity	8,229,769	7,348,816
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(4,227)	(4,557)
Foreign currency translation adjustment	1,282	(576)
Total accumulated other comprehensive income	(2,945)	(5,134)
Share acquisition rights	1,020	-
Total net assets	8,227,844	7,343,682
Total liabilities and net assets	12,290,799	9,492,743

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Nine months ended September 30, 2020

(Thousand yen)

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2020
Net sales	17,607,953	5,227,627
Cost of sales	20,106,333	4,009,188
Gross profit (loss)	(2,498,379)	1,218,439
Selling, general and administrative expenses	4,768,994	1,749,882
Operating loss	(7,267,373)	(531,442)
Non-operating income		
Interest income	1,183	644
Dividend income	751	500
Gain on investments in investment partnerships	9,868	11,719
Insurance fee income	10,000	-
Other	4,727	12,496
Total non-operating income	26,530	25,360
Non-operating expenses		
Interest expenses	23,580	34,970
Loss on investments in investment partnerships	1,059	1,512
Commission expenses	163,973	18,060
Share of loss of entities accounted for using equity method	219,915	-
Other	47,798	4,095
Total non-operating expenses	456,328	58,638
Ordinary loss	(7,697,172)	(564,721)
Extraordinary income		
Gain on sales of non-current assets	-	4,938
Gain on reversal of share acquisition rights	510	1,020
Gain on sales of shares of subsidiaries and associates	60,511	-
Total extraordinary income	61,021	5,958
Extraordinary losses		
Impairment loss	886,176	35,851
Loss on valuation of investment securities	65,814	282,792
Extra retirement payments	281,000	-
Amortization of goodwill	1,540,991	-
Loss on liquidation of subsidiaries and associates	-	242
Total extraordinary losses	2,773,983	318,886
Loss before income taxes	(10,410,133)	(877,649)
Income taxes	104,463	22,746
Loss	(10,514,597)	(900,395)
Loss attributable to non-controlling interests	(50,898)	-
Loss attributable to owners of parent	(10,463,698)	(900,395)

Consolidated statements of comprehensive income

Nine months ended September 30, 2020

(Thousand yen)

	For the nine months ended September 30, 2019	For the nine months ended September 30, 2020
Loss	(10,514,597)	(900,395)
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,916)	(330)
Foreign currency translation adjustment	(385)	(1,858)
Total other comprehensive income	(7,302)	(2,188)
Comprehensive income	(10,521,899)	(902,583)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(10,471,000)	(902,583)
Comprehensive income attributable to non-controlling interests	(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.

(Additional information)

(Accounting estimates associated with the spread of COVID-19 infections)

Due to the restrictions on travel, requests to avoid nonessential and non-urgent outings and refrain from holding events, etc. in response to the spread COVID-19, the Group has been affected by the decline in demand for accommodation. Though the timing when the impact of the spread of COVID-19 is brought under control remains uncertain, we made accounting estimates for provision for loss on guarantees and valuation of investment securities based on the assumption that the impact will continue until June 2021.

This assumption is of highly uncertainty, and if the containment is delayed and occurrence of a second wave, etc. further prolongs the situation, losses may occur in the future.

(Segment information, etc.)

[Segment information]

I 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)
	KANRY business	TATERU business	Total				
Net sales							
Net sales to external customers	2,145,501	15,460,757	17,606,259	1,694	17,607,953	—	17,607,953
Inter-segment sales or transfers	1,002	4,287	5,290	66,956	72,246	(72,246)	—
Total	2,146,504	15,465,045	17,611,549	68,650	17,680,200	(72,246)	17,607,953
Segment profit or loss	263,559	(5,426,866)	(5,163,306)	(142,443)	(5,305,750)	(1,961,623)	(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 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 KANRY business, TATERU business, Others, and Company-wide segments. The amount of impairment loss for the nine months ended September 30, 2019 are as shown in the table below.

KANRY business	¥210,079 thousand
TATERU business	¥289,663 thousand
Others	¥75,016 thousand
Company-wide	¥311,416 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 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.

II For the nine months ended September 30, 2020

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)
	KANRY business	TATERU business	Total				
Net sales							
Net sales to external customers	2,249,018	2,978,584	5,227,603	24	5,227,627	—	5,227,627
Inter-segment sales or transfers	531	45	576	1,007	1,584	(1,584)	—
Total	2,249,550	2,978,629	5,228,180	1,031	5,229,211	(1,584)	5,227,627
Segment profit or loss	723,297	(407,400)	315,897	(21,565)	294,332	(825,774)	(531,442)

(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

The Group's previous three reportable segments were "TATERU Apartment business," "Smart hotel business" and "Robot Home business." However, from the three months ended March 31, 2020, the Group's reportable segments have been classified into "KANRY business," targeting stock income, and "TATERU business," targeting flow income.

The allocation of companywide expenses has also been revised, and they have been included in segment adjustments.

These revisions are due to the fact that the Group's business development, decisions on allocation of management resources, and performance evaluation methods have been reviewed in line with actual conditions.

Segment information for the nine months ended September 30, 2019 is prepared from the 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)

Omitted as it is not significant.

(Significant changes in amount of goodwill)

Not applicable.

(Material profit from negative goodwill)

Not applicable.

3. Others

Significant events, etc. on going concern assumption

The Group recorded gross loss, operating loss, ordinary loss and loss attributable to owners of parent for the fiscal year ended December 31, 2019. The Group also recorded operating loss, ordinary loss and loss attributable to owners of parent for the nine months ended September 30, 2020, despite recording gross profit.

This situation gives rise to significant doubt regarding the going concern assumption. However, as a result of considering the situation of fund balance as of the end of the nine months ended September 30, 2020 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 further expanding the KANRY business, which targets stock income, and improving the profitability of the TATERU business, which targets flow income, the Company will aim to ensure stable profit as a going concern.