Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2020 (Nine Months Ended March 31, 2020)

[Japanese GAAP]

May 14, 2020

Company name: URBANET CORPORATION Co., Ltd. Listing: Tokyo Stock Exchange (JASDAQ)
Stock code: 3242 URL: https://www.urbanet.jp/
Representative: Shinji Hattori, President and Representative Director
Contact: Wataru Akai, Senior Executive Officer, General Manager of Administration Division
Tel: +81-(0)3-6630-3051
Scheduled date of filing of Quarterly Report: May 14, 2020
Scheduled date of payment of dividend: -
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and analysts)
(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending June 30, 2020 (July 1, 2019 to March 31, 2020)

(1) Consolidated results of operations (Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Mar. 31, 2020	11,147	(38.5)	1,070	(53.4)	839	(60.3)	575	(60.8)
Nine months ended Mar. 31, 2019	18,125	36.2	2,296	35.4	2,115	37.8	1,465	39.8

Note: Comprehensive income (millions of yen) Nine months ended Mar. 31, 2020: 575 (down 60.8%)
Nine months ended Mar. 31, 2019: 1,465 (up 39.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Mar. 31, 2020	20.77	20.77
Nine months ended Mar. 31, 2019	58.28	58.28

(2) Consolidated financial condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Mar. 31, 2020	37,455	11,865	27.7
As of Jun. 30, 2019	30,467	8,363	27.4

Reference: Shareholders' equity (millions of yen) As of Mar. 31, 2020: 10,357 As of Jun. 30, 2019: 8,356

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2019	-	7.00	-	11.00	18.00
Fiscal year ending Jun. 30, 2020	-	10.00	-		
Fiscal year ending Jun. 30, 2020 (forecast)				10.00	20.00

Note: Revision to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	21,380	6.5	2,380	10.8	2,090	9.2	1,450	10.7	50.70

Note: Revisions to the most recently announced earnings forecast: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Mar. 31, 2020:	31,374,100 shares	As of Jun. 30, 2019:	25,158,100 shares

2) Number of treasury shares as of the end of the period

As of Mar. 31, 2020:	62 shares	As of Jun. 30, 2019:	62 shares

3) Average number of outstanding shares during the period

Nine months ended Mar. 31, 2020:	27,683,885 shares	Nine months ended Mar. 31, 2019:	25,149,994 shares

* The current quarterly consolidated financial results are not subject to the quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the Urbanet Group's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 3 of the attachments for assumptions for forecasts and notes of caution for usage.
- Thursday, May 14, 2020: Financial results meeting for institutional investors and analysts (streaming video on the company website)

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

For the first nine months of the fiscal year ending June 30, 2020 (hereinafter "the period under review"), the Urbanet Group companies (hereinafter "the Urbanet Group" or "the Group") reported net sales of 11,147 million yen (down 38.5% year-on-year) with operating profit of 1,070 million yen (down 53.4% year-on-year), ordinary profit of 839 million yen (down 60.3% year-on-year), and profit attributable to owners of parent of 575 million yen (down 60.8% year-on-year), closing the period with significant year-on-year decreases in both sales and profits.

As the nature of our business is developing and constructing one-room apartments for investors and wholesaling the entire buildings rather than individual units, our operating results are unaffected by seasonality and vary from quarter to quarter according to the time of purchase of land for development, the time and the length of the period required for demolition and construction by general contractors, and the timing of revenue recognition by buyers. As such, the Group believes that the year-on-year comparison of the quarterly performance is inappropriate and may significantly mislead investors' perception towards the Group.

Specifically for the period under review, the Group reported a year-on-year decrease in both sales and profits because the timing of recording sales of completed properties is skewed to the fourth quarter. We expect that the operating results for the current fiscal year will achieve the full-year earnings forecast announced on August 8, 2019 because the properties scheduled for sale in this period under review have effectively been sold out with contracts in place.

In addition, we regard the impact of the spread of the COVID-19 infection on the Group's earnings for the current fiscal year as insignificant at the end of the third quarter. Nevertheless, the Group's earnings may possibly be affected depending on factors including a potential delay of construction due to possible infection at any of construction sites of the outsourcing general contractors in the future or the trend of financing landscape surrounding one-room apartment sales. As for the impact of the COVID-19 infection on the Group and how the Group handles the issue, please refer to the materials for the financial results meeting for the third quarter of the fiscal year ending June 30, 2020 (Japanese version only), disclosed on May 14, 2020.

The Group will release information timely and appropriately as necessary, while it takes actions to protect security and safety of its executives and employees and asks its business partners to thoroughly implement measures to prevent the infection.

The performance by each business category is explained below.

It is noted that all activities of the Group belong to a single business segment—the real estate business—consisting primarily of the development, purchase, and sale of condominiums for investors and consumers. As such, we break down the operating results into the following categories within the real estate business segment.

(Real Estate Development and Sales)

The total amount of sales from this category was 10,739 million yen (down 39.0% year-on-year), with revenues from sale of 362 units in a total of eight one-room apartments for investors and three units in one store building.

(Real Estate Purchase and Sales)

The total amount of sales from this category was 70 million yen (down 61.3% year-on-year), with revenues from purchase and resale of two units.

(Others)

The total amount of sales from this category was 337 million yen (up 2.7% year-on-year), with revenues from real estate brokerage and real estate leasing among others.

(2) Explanation of Financial Condition

1) Analysis of Financial Position

Total assets on a consolidated basis amounted to 37,455 million yen at the end of the period under review, an

increase of 6,988 million yen over the end of the previous fiscal year.

This is mainly due to a large increase in inventories related to the properties to be sold in the fourth quarter as revenue recognition for our mainstay business of one-room apartments for investors is skewed to the fourth quarter, and also to a large increase in cash and deposits owing to capital enforcement by procuring over 2,000 million yen by way of the public offering and the third-party allotment in December 2019 as well as an increase of 1,500 million yen as non-controlling interests in net assets resulting from the issuance of preferred stock in March 2020 by Urbanet Living Co., Ltd., our wholly owned subsidiary.

Liabilities totaled 25,590 million yen, an increase of 3,486 million yen over the end of the previous fiscal year.

This is mainly due to increases in accounts payable-trade and borrowings, both resulting from purchase of land for development with payments for large condominiums expected in the fourth quarter.

Net assets totaled 11,865 million yen, an increase of 3,501 million yen over the end of the previous fiscal year.

This is mainly due to increases in retained earnings, paid-in capital, and non-controlling interests in net assets resulting from the issuance of preferred stock by our subsidiary.

2) Analysis of Cash Flows

Cash and cash equivalents (hereinafter "net cash") at the end of the period under review amounted to 8,526 million yen, an increase of 3,231 million yen over the end of the previous fiscal year. This was due to a cash inflow from financing activities, which was partially offset by cash outflows from operating activities and investing activities.

Cash flows from operating activities

Net cash used in operating activities for the period under review totaled 2,754 million yen (compared with net cash provided of 2,153 million yen for the same period of the previous fiscal year).

This was mainly due to successful purchases of land for development even in competitive market conditions, which surpassed sales of properties, although the number of properties sold was not plenty.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled 235 million yen (compared with net cash used of 67 million yen for the same period of the previous fiscal year).

This was mainly due to purchase of property, plant and equipment for the construction of a hotel.

Cash flows from financing activities

Net cash provided by financing activities for the period under review totaled 6,220 million yen (compared with net cash used of 558 million yen for the same period of the previous fiscal year).

This was mainly due to increases in paid-in capital as a result of the Company issuing common stock of over 2,000 million yen in December 2019 and net assets resulting from our subsidiary issuing preferred stock of 1,500 million yen, as well as an increase in long-term borrowings to use for purchasing land for development, which were partially offset by repayments of long-term borrowings resulting from recognition of sales.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

We maintain the consolidated earnings forecast for the fiscal year ending June 30, 2020 that was announced on August 8, 2019 in "Summary of Consolidated Financial Results for the Fiscal Year Ended June 30, 2019" even though the actual-to-forecast ratios at the end of the third quarter for net sales, operating profit, ordinary profit, and profit attributable to owners of parent for the period under review are all around 50%. This is because the timing of revenue recognition for completed properties is skewed to the fourth quarter and the properties scheduled for sale in this period under review have effectively been sold out with contracts in place as mentioned in "1. Qualitative Information on Quarterly Consolidated Financial Performance, (1) Explanation of Results of Operations."

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY6/19 (As of Jun. 30, 2019)	Third quarter of FY6/20 (As of Mar. 31, 2020)
Assets		
Current assets		
Cash and deposits	5,305,056	8,536,202
Real estate for sale	3,762,250	6,669,994
Real estate for sale in process	15,499,820	16,161,650
Work in process	-	2,000
Other	305,462	403,784
Total current assets	24,872,589	31,773,631
Non-current assets		
Property, plant and equipment	4,996,018	5,119,094
Intangible assets	3,172	1,820
Investments and other assets	595,429	560,950
Total non-current assets	5,594,620	5,681,865
Total assets	30,467,209	37,455,496
Liabilities		
Current liabilities		
Accounts payable-trade	2,046,486	3,155,751
Short-term borrowings	723,528	1,196,925
Current portion of long-term borrowings	8,879,044	11,297,773
Lease obligations	20,510	14,872
Income taxes payable	470,193	2,285
Provision for bonuses	-	27,413
Provision for shareholder benefit program	37,893	14,312
Other	1,331,168	926,930
Total current liabilities	13,508,823	16,636,262
Non-current liabilities		
Long-term borrowings	8,473,821	8,847,338
Lease obligations	36,161	26,053
Retirement benefit liability	48,600	48,419
Other	35,862	32,020
Total non-current liabilities	8,594,444	8,953,830
Total liabilities	22,103,268	25,590,093
Net assets		
Shareholders' equity		
Share capital	1,685,249	2,693,701
Capital surplus	1,183,376	2,191,829
Retained earnings	5,487,632	5,472,189
Treasury shares	(17)	(17)
Total shareholders' equity	8,356,240	10,357,703
Share acquisition rights	7,700	7,700
Non-controlling interests	-	1,500,000
Total net assets	8,363,940	11,865,403
Total liabilities and net assets	30,467,209	37,455,496

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Nine-month Period)

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Net sales	18,125,205	11,147,509
Cost of sales	14,847,911	9,116,897
Gross profit	3,277,293	2,030,612
Selling, general and administrative expenses	981,198	960,341
Operating profit	2,296,095	1,070,270
Non-operating income		
Interest income	31	47
Dividend income	-	150
Other	4,180	1,647
Total non-operating income	4,212	1,846
Non-operating expenses		
Interest expenses	139,890	140,404
Commission expenses	44,685	59,281
Share issuance cost	-	23,602
Other	16	8,920
Total non-operating expenses	184,592	232,208
Ordinary profit	2,115,715	839,909
Profit before income taxes	2,115,715	839,909
Income taxes-current	690,846	231,654
Income taxes-deferred	(40,796)	33,219
Total income taxes	650,050	264,873
Profit	1,465,664	575,035
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	1,465,664	575,035

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Profit	1,465,664	575,035
Other comprehensive income	-	-
Comprehensive income	1,465,664	575,035
Comprehensive income attributable to:		
Owners of parent	1,465,664	575,035
Non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First nine months of FY6/19 (Jul. 1, 2018 – Mar. 31, 2019)	First nine months of FY6/20 (Jul. 1, 2019 – Mar. 31, 2020)
Cash flows from operating activities		
Profit before income taxes	2,115,715	839,909
Depreciation	86,808	80,216
Share issuance cost	-	23,602
Increase (decrease) in provision for bonuses	43,677	27,413
Increase (decrease) in provision for shareholder benefit program	(15,190)	(23,580)
Increase (decrease) in retirement benefit liability	2,942	(181)
Interest and dividend income	(31)	(198)
Interest expenses	139,890	140,404
Decrease (increase) in investments in leases	17,791	20,354
Decrease (increase) in inventories	718,028	(3,571,934)
Increase (decrease) in trade payables	(884,603)	1,109,264
Increase (decrease) in accrued consumption taxes	(3,365)	-
Other, net	329,342	(498,213)
Subtotal	2,551,004	(1,852,943)
Interest and dividends received	32	198
Interest paid	(135,566)	(140,089)
Income taxes paid	(261,922)	(761,442)
Net cash provided by (used in) operating activities	2,153,547	(2,754,276)
Cash flows from investing activities		
Purchase of property, plant and equipment	(65,635)	(234,370)
Purchase of intangible assets	(1,425)	-
Other, net	-	(700)
Net cash provided by (used in) investing activities	(67,060)	(235,070)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	199,000	473,397
Proceeds from long-term borrowings	8,064,572	6,747,640
Repayments of long-term borrowings	(8,408,585)	(3,955,394)
Redemption of bonds	(36,000)	-
Repayments of lease obligations	(15,795)	(15,985)
Proceeds from issuance of shares	4,956	1,998,303
Dividends paid	(366,688)	(527,467)
Proceeds from share issuance to non-controlling shareholders	-	1,500,000
Other, net	(3)	-
Net cash provided by (used in) financing activities	(558,544)	6,220,492
Net increase (decrease) in cash and cash equivalents	1,527,941	3,231,146
Cash and cash equivalents at beginning of period	4,221,064	5,295,056
Cash and cash equivalents at end of period	5,749,006	8,526,202

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Segment and Other Information

Segment information

Omitted since the Urbanet Group has only a single business segment, the real estate business, which is engaged mainly in the development, purchase and sale of condominiums for investors and consumers.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.