Financial Summary of First Quarter of Fiscal Year Ending July 2020 (Japanese GAAP) (Consolidated)

December 13, 2019

Name of listed company: Meiho Enterprise Co., Ltd. Listing exchange: Tokyo Stock Exchange
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Scheduled date for submission of quarterly report: December 13, 2019 Scheduled date for start of dividend payment: —
Supplementary explanatory materials created for accounts? Yes/No: No
Accounts briefing meeting held? Yes/No: No

(Amounts are rounded down to the nearest million yen)

1. Consolidated results for the first quarter of fiscal year ending July 2020 (from August 1, 2019 to October 31, 2019)

(1) Consolidated operating results

(% figures show the rate of increase (decrease) compared with the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First quarter of fiscal year ending July 2020	2,243	61.9	47	169.0	29	—	(149)	—
First quarter of fiscal year ended July 2019	1,385	(63.7)	17	(98.1)	(18)	—	(43)	—

(Note) Comprehensive income First quarter of fiscal year ending July 2020: (150) million yen (—%) First quarter of fiscal year ended July 2019: (49) million yen (—%)

	Basic profit per share	Diluted profit per share
	yen	yen
First quarter of fiscal year ending July 2020	(6.33)	—
First quarter of fiscal year ended July 2019	(1.84)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
First quarter of fiscal year ending July 2020	10,849	3,920	36.0
Fiscal year ended July 2019	11,521	4,190	36.3

(Reference) Equity First quarter of fiscal year ending July 2020: 3,910 million yen Fiscal year ended July 2019: 4,179 million yen

2. Dividends

	Annual dividend				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal year ended July 2019	—	0.00	—	5.00	5.00
Fiscal year ending July 2020	—				
Fiscal year ending July 2020 (Forecast)		0.00	—	5.00	5.00

(Note) Revisions to the most recent dividend forecast: None

3. Consolidated earnings forecast for fiscal year ending July 2020 (from August 1, 2019 to July 31, 2020)

(% figures for the full fiscal year show the rate of increase (decrease) compared with the previous fiscal year, and % figures for the first two quarters show the rate of increase (decrease) compared with the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First two quarters	6,600	1.3	160	—	100	—	(70)	—	(2.96)
Full year	13,200	24.1	590	31.4	410	40.9	200	45.0	8.47

(Note) Revisions to the most recent earnings forecast: None

* Explanatory notes

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

Newly included: — companies (Company name) —

Excluded: — companies (Company name) —

(2) Application of accounting method specific to preparation of quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to amendment of accounting standards, etc.: None

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

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares issued and outstanding (common shares)

1) Number of shares issued and outstanding (including treasury shares) at end of the period	First quarter of fiscal year ending July 2020	24,661,000 shares	Fiscal year ended July 2019	24,661,000 shares
2) Number of treasury shares at end of the period	First quarter of fiscal year ending July 2020	1,047,160 shares	Fiscal year ended July 2019	1,047,160 shares
3) Average number of shares during the period	First quarter of fiscal year ending July 2020	24,021,089 shares	First quarter of fiscal year ended July 2019	23,613,840 shares

* Quarterly Financial Summary is outside the scope of the quarterly review by a certified public accountant or audit firm.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, actual business performance and other results may differ materially due to various reasons. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see “Attachment 1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information” on page 5.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In the first quarter of the fiscal year ending July 2020, the Japanese economy continued to see improvements in the employment and income environment, despite weaknesses being observed, mainly in exports. The future outlook was uncertain, however, given the impact of the trade conflict between the United States and China on the global economy, a downside risk in the Chinese economy, overseas economic trends including the Brexit issue, the consumption tax hike, rising oil prices and the necessity to pay attention to the impact of fluctuations in the financial markets.

In the real estate industry in which our Group is involved, the situation did not permit optimism because of some negative developments such as rising land prices, intensified competition for purchasing land, and continuously high construction costs, although the market remained firm thanks to low interest rates backed by the policy of monetary easing.

Under these business circumstances, the Group has implemented what it believes are the best exit strategies and sales plans with regards to its owned properties and has actively advanced movements to purchase, develop and sell profitable real estate and lots for new business, etc. while working to stabilize the financial base in view of maintaining profitability and recovering early. In the first quarter of the fiscal year ending July 2020, we completed the delivery of two properties, MIJAS Mitakadai (Musashino City, Tokyo) and MIJAS Nishikoyama (Meguro Ward, Tokyo), and the delivery of one premium rental apartment, EL FARO Honjo Azumabashi. Furthermore, as a secondhand property renovation resale project, we completed the delivery of one property in an inner-city neighborhood.

As a result of the above, in the first quarter of the fiscal year ending July 2020, the Group recorded net sales of 2,243 million yen (up 61.9% year on year), operating income of 47 million yen (up 169.0% year on year) and ordinary income of 29 million yen (compared with an ordinary loss of 18 million yen in the first quarter of the previous fiscal year). However, the Group recorded a loss attributable to owners of parent of 149 million yen (compared with a loss attributable to owners of parent of 43 million yen in the first quarter of the previous fiscal year) as a result of posting extraordinary losses of 135 million yen as special investigation expenses for inappropriate accounting for receivables, including loans receivable in prior years.

The performance of the segments is as follows.

[Real estate sales business]

In the real estate sales business, we sold two properties in the “MIJAS” series (apartment development project) and one property in the “EL FARO” series (premium rental apartment project) and delivered one property from the secondhand property renovation project. As a result, net sales totaled 1,643 million yen (up 113.9% year on year) and segment income totaled 15 million yen (up 362.8% year on year).

[Real estate leasing business]

In the real estate leasing business, due to property management fees and such, net sales totaled 542 million yen (down 1.0% year on year) and segment income totaled 81 million yen (up 102.7% year on year).

[Real estate brokerage business]

In the real estate brokerage business, no brokerage fees were generated. In the first quarter of the previous fiscal year, net sales were 3 million yen and segment income was 2 million yen due to brokerage fees and such.

[Contracting business]

Regarding the contracting business, due to the execution of construction contracts as well as reform work and such, net sales totaled 53 million yen (up 2.6% year on year) and segment loss totaled 2 million yen (compared with segment loss of 0 million yen in the first quarter of the previous fiscal year).

[Other]

This section refers to business segments not included in the segments to be reported. The main contribution was insurance agency operations, etc., and net sales totaled 7 million yen (down 55.7% year on year) and segment income totaled 6 million yen (down 55.5% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year ending July 2020 decreased by 671 million yen compared to the end of the previous fiscal year to 10,849 million yen.

Moreover, liabilities decreased by 400 million yen from the end of the previous fiscal year to 6,929 million yen. This was mainly due to short-term loans payable decreasing by 449 million yen due to repayments associated with the sale of properties, while long-term loans payable (including the current portion of long-term loans payable) increased by 2 million yen as funds for acquiring new development business lots, etc.

Net assets decreased by 270 million yen compared to the end of the previous fiscal year to 3,920 million yen while the equity ratio decreased by 0.3 percentage points from the end of the previous fiscal year to 36.0%.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

Regarding the outlook for the future, we will actively promote lot purchasing activities and sales activities in the real estate sales business, with the main business as the strong rental apartment brand “MIJAS” project (22 properties already supplied in the fiscal year ended July 2019), as a “comprehensive developer focusing on manufacturing” in order to become a partner for life which is our corporate philosophy. The “MIJAS” project will be developed with a planned annual supply target of around 25 properties. With the aim of securing more stable income, we will also promote business activities such as the premium rental apartment series “EL FARO” project, the real estate renovation “ME BLD.” project, and the real estate securitization business, in addition to our mainstay “MIJAS” project, by working on the development of products that will meet a range of customer needs.

As for the consolidated earnings forecast for the fiscal year ending July 2020, net sales of 13,200 million yen (up 24.1% from the previous fiscal year), operating income of 590 million yen (up 31.7% from the previous fiscal year), ordinary income of 410 million yen (up 40.9% from the previous fiscal year) and profit attributable to owners of parent of 200 million yen (up 45.0% from the previous fiscal year) are projected.

In addition, while we posted investigation expenses for the establishment of the special investigating committee and administrative monetary penalties for revisions to securities reports in prior years as extraordinary losses in the first quarter under review, the consolidated earnings forecast that we announced on September 13, 2019 remains unchanged because these expenses have already been incorporated into our full-year consolidated earnings forecast for the fiscal year ending July 2020.

If we decide that any revision to the full-year consolidated earnings forecast is necessary due to changes in the future situation, we will announce it promptly.

The base of our main business remains strong, and the status of purchasing and sales is also favorable. We will promote the business activities united as a group to further increase profits.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Fiscal year ended July 2019 (as of July 31, 2019)	First quarter of fiscal year ending July 2020 (as of October 31, 2019)
Assets		
Current assets		
Cash and deposits	1,684,961	1,516,168
Accounts receivable	34,400	38,790
Real estate for sale	3,254,500	3,855,892
Real estate for sale in process	3,760,977	2,666,684
Short-term loans receivable from subsidiaries and associates	1,550,000	1,550,000
Other	229,585	240,230
Allowance for doubtful accounts	(1,276)	(1,352)
Total current assets	10,513,149	9,866,412
Non-current assets		
Property, plant and equipment	616,704	613,866
Intangible assets	1,434	1,235
Investments and other assets		
Investment securities	40,962	39,784
Long-term loans receivable	429,732	429,618
Long-term accrued revenue	422,000	421,850
Deferred tax assets	94,297	82,455
Other	249,941	241,594
Allowance for doubtful accounts	(847,000)	(846,850)
Total investments and other assets	389,934	368,454
Total non-current assets	1,008,073	983,556
Total assets	11,521,222	10,849,968

(Unit: thousand yen)

	Fiscal year ended July 2019 (as of July 31, 2019)	First quarter of fiscal year ending July 2020 (as of October 31, 2019)
Liabilities		
Current liabilities		
Accounts payable	286,135	244,288
Short-term loans payable	2,660,020	2,210,630
Current portion of long-term loans payable	1,228,576	1,418,186
Current portion of bonds	36,000	36,000
Lease obligations	1,117	1,122
Income taxes payable	10,028	7,008
Provision for bonuses	37,191	15,954
Provision for administrative monetary penalties	—	24,000
Other	461,339	566,238
Total current liabilities	4,720,406	4,523,428
Non-current liabilities		
Long-term loans payable	2,254,090	2,067,236
Bonds payable	94,000	86,000
Lease obligations	3,674	3,392
Other	258,686	249,827
Total non-current liabilities	2,610,450	2,406,455
Total liabilities	7,330,857	6,929,884
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus	1,495,610	1,495,610
Retained earnings	2,959,739	2,692,076
Treasury shares	(380,474)	(380,474)
Total shareholders' equity	4,174,875	3,907,212
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,288	3,110
Total accumulated other comprehensive income	4,288	3,110
Non-controlling interests	11,200	9,760
Total net assets	4,190,365	3,920,084
Total liabilities and net assets	11,521,222	10,849,968

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

First quarter of fiscal year

(Unit: thousand yen)

	First quarter of fiscal year ended July 2019 (August 1, 2018 to October 31, 2018)	First quarter of fiscal year ending July 2020 (August 1, 2019 to October 31, 2019)
Net sales	1,385,279	2,243,269
Cost of sales	1,133,321	1,944,169
Gross profit	251,958	299,100
Selling, general and administrative expenses	234,119	251,112
Operating income	17,839	47,987
Non-operating income		
Interest income	14,302	11,741
Penalty income	164	8,701
Other	1,118	1,302
Total non-operating income	15,584	21,745
Non-operating expenses		
Interest expenses	34,826	32,965
Commissions paid	17,042	7,103
Other	198	287
Total non-operating expenses	52,066	40,356
Ordinary income (loss)	(18,643)	29,376
Extraordinary losses		
Provision for administrative monetary penalties	-	24,000
Special investigation expenses	-	135,467
Total extraordinary losses	-	159,467
Profit (loss) before income taxes	(18,643)	(130,091)
Income taxes - current	375	7,099
Income taxes - deferred	24,171	11,842
Total income taxes	24,547	18,941
Profit (loss)	(43,190)	(149,033)
Profit attributable to non-controlling interests	218	559
Profit (loss) attributable to owners of parent	(43,409)	(149,593)

Consolidated Statement of Comprehensive Income

First quarter of fiscal year

(Unit: thousand yen)

	First quarter of fiscal year ended July 2019 (August 1, 2018 to October 31, 2018)	First quarter of fiscal year ending July 2020 (August 1, 2019 to October 31, 2019)
Profit (loss)	(43,190)	(149,033)
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,240)	(1,177)
Total other comprehensive income	(6,240)	(1,177)
Comprehensive income	(49,431)	(150,211)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(49,649)	(150,771)
Comprehensive income attributable to non-controlling interests	218	559

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in Amount of Shareholders' Equity)

Not applicable.

(Segment Information, etc.)

I. First Quarter of the Previous Fiscal Year (from August 1, 2018 to October 31, 2018)

1. Information on Net Sales and Income or Loss Amounts by Reporting Segment

(Unit: thousand yen)

	Reporting segment					Other (Note 3)	Total	Reconciliation (Note 1)	Amount recorded in quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate brokerage business	Contracting business	Total				
Net sales									
Net sales to external customers	768,192	547,342	3,000	50,770	1,369,305	15,974	1,385,279	—	1,385,279
Intersegment net sales or transfers	—	—	—	1,563	1,563	—	1,563	(1,563)	—
Total	768,192	547,342	3,000	52,333	1,370,868	15,974	1,386,843	(1,563)	1,385,279
Segment income (loss)	3,388	40,196	2,917	(936)	45,566	14,726	60,293	(42,454)	17,839

(Note 1) The reconciliation of segment income (loss) of -42,454 thousand yen is comprised of 11,627 thousand yen of elimination of inter-segment transactions and -54,081 thousand yen of company expenses not distributed to the reporting segments. Company expenses are primarily general and administrative expenses that are not attributable to the reporting segments.

(Note 2) Segment income (loss) is adjusted to the operating income in quarterly consolidated statement of income.

(Note 3) The “Other” section represents business segments not included in the reporting segments and is primarily comprised of the insurance agency operations.

2. Information on Impairment Loss on Non-Current Assets or Goodwill by Reporting Segment

Not applicable.

II. First Quarter of the Fiscal Year Ending July 2020 (from August 1, 2019 to October 31, 2019)

1. Information on Net Sales and Income or Loss Amounts by Reporting Segment

(Unit: thousand yen)

	Reporting segment					Other (Note 3)	Total	Reconciliation (Note 1)	Amount recorded in quarterly consolidated statement of income (Note 2)
	Real estate sales business	Real estate leasing business	Real estate brokerage business	Contracting business	Total				
Net sales									
Net sales to external customers	1,643,388	542,119	—	50,676	2,236,184	7,084	2,243,269	—	2,243,269
Intersegment net sales or transfers	—	—	—	3,005	3,005	—	3,005	(3,005)	—
Total	1,643,388	542,119	—	53,682	2,239,190	7,084	2,246,274	(3,005)	2,243,269
Segment income (loss)	15,683	81,463	—	(2,352)	94,794	6,553	101,348	(53,360)	47,987

(Note 1) The reconciliation of segment income (loss) of -53,360 thousand yen is comprised of -1,308 thousand yen of elimination of inter-segment transactions and -52,052 thousand yen of company expenses not distributed to the reporting segments. Company expenses are primarily general and administrative expenses that are not attributable to the reporting segments.

(Note 2) Segment income (loss) is adjusted to the operating income in quarterly consolidated statement of income.

(Note 3) The “Other” section represents business segments not included in the reporting segments and is primarily comprised of the insurance agency operations.

2. Information on Impairment Loss on Non-Current Assets or Goodwill by Reporting Segment

Not applicable.