Financial Summary of First Quarter of Fiscal Year Ending July 2021 (Japanese GAAP) (Consolidated)

December 15, 2020

Name of listed company: Meiho Enterprise Co., Ltd. Listing exchange: Tokyo Stock Exchange

Code: 8927 URL: http://www.meiho-est.com/

Representative: (Name) Mitsuru Yabuki (Position) President & Representative Director

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Scheduled date for submission of quarterly report: December 15, 2020 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 2021 (from August 1, 2020 to October 31, 2020)

(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 2021	1,776	(20.8)	102	112.9	87	199.1	66	—
First quarter of fiscal year ended July 2020	2,243	61.9	47	169.0	29	—	(149)	—

(Note) Comprehensive income: First quarter of fiscal year ending July 2021: 68 million yen (—%) First quarter of fiscal year ended July 2020: (150) million yen (—%)

	Basic profit per share	Diluted profit per share
	yen	yen
First quarter of fiscal year ending July 2021	2.84	—
First quarter of fiscal year ended July 2020	(6.33)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
First quarter of fiscal year ending July 2021	10,652	4,320	40.5
Fiscal year ended July 2020	11,448	4,372	38.1

(Reference) Equity: First quarter of fiscal year ending July 2021: 4,310 million yen Fiscal year ended July 2020: 4,361 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 2020	—	0.00	—	5.00	5.00
Fiscal year ending July 2021	—				
Fiscal year ending July 2021 (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 2021 (from August 1, 2020 to July 31, 2021)

(% 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	4,400	(24.1)	230	(29.1)	230	(18.3)	180	77.4	7.62
Full year	10,600	7.0	590	6.9	500	12.4	320	45.8	13.55

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

* Explanatory notes

(1) Changes in significant subsidiaries during the period None

(Changes in specified subsidiaries resulting in change in scope of consolidation):

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 2021	24,661,000 shares	Fiscal year ended July 2020	24,661,000 shares
2) Number of treasury shares at end of the period	First quarter of fiscal year ending July 2021	1,047,160 shares	Fiscal year ended July 2020	1,047,160 shares
3) Average number of shares during the period	First quarter of fiscal year ending July 2021	23,613,840 shares	First quarter of fiscal year ended July 2020	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 7.

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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 31, 2021, the Japanese economy deteriorated rapidly due to the impact of the COVID-19 pandemic. After the end of the emergency declaration, however, various restrictions on activities have gradually been lifted and economic activities reopened step by step. Accordingly, there have been signs of recovery in recent months.

In the real estate industry in which the Meiho Group operates, consumer appetite remains firm, attributable to government measures to support housing acquisition and the low interest rate environment. However, careful consideration is still required for the current situation, including concerns about a resurgence of COVID-19 infections, continuous increases in real estate prices caused by rises in costs such as land prices, and the costs of construction work.

Under these business circumstances, the Group made the following efforts in each business segment.

In the real estate sales business, the Group concentrated its efforts on sales activities geared towards the main brand MIJAS business, including the sales of properties which had been planned in the previous fiscal year and delayed due to the stagnation and scaling down of sales activities following the declaration of a state of emergency. As a result, the delivery of five properties (three properties in the same period of the previous fiscal year) was completed, including MIJAS Nishishinjuku (Shinjuku-ku, Tokyo), MIJAS Hamadayama (Suginami-ku, Tokyo) and MIJAS Mejiro (Toshima-ku, Tokyo).

In the real estate leasing business, although the Group was forced to discontinue seminars for existing owners which it had been holding regularly, it conducted non-face-to-face communication activities, customer satisfaction questionnaires and other initiatives to ensure continuous information sharing and exchange with existing owners. For its main brands, the MIJAS and EL FARO series, the Group offers a one-stop service, from the creation of products to their management, thereby endeavoring to maintain high quality and high occupancy rates. Consequently, the series are creating synergies within the Group, with their good recognition as highly profitable real estate investment products, which has been triggering repeated purchases of real estate investment product series.

In the real estate brokerage business, the Group is working to increase revenues by introducing properties in line with customer needs through the use of its unique information network comprising real estate sales business and other businesses.

In the contracting business, the Group worked to raise earnings through the design and construction of two properties in the MIJAS series and remodeling and renovations to suit the characteristics of other properties under management.

As a result, consolidated net sales in the first quarter of the fiscal year ending July 31, 2021, stood at 1,776 million yen (down 20.8% year on year), mainly reflecting stable profits and margins secured in the investment real estate development business including the completion of the sale of properties that had been delayed from the previous fiscal year. Operating income and ordinary income rose to 102 million yen (up 112.9%) and 87 million yen (up 199.1%), respectively. Profit attributable to owners of parent amounted to 66 million yen (compared with a loss attributable to owners of parent of 149 million yen in the first quarter of the previous fiscal year).

The performance of the segments is as follows.

[Real estate sales business]

In the real estate sales business, the Group delivered five properties in the MIJAS series (apartment development project). As a result, net sales totaled 1,203 million yen (down 26.8% year on year) and segment income totaled 54 million yen (up 247.0% year on year).

[Real estate leasing business]

In the real estate leasing business, due to property management fees and such, net sales totaled 527 million yen (down 2.6% year on year) and segment income totaled 92 million yen (up 13.8% year on year).

[Real estate brokerage business]

In the real estate brokerage business, net sales totaled 0 million yen and segment income totaled 0 million yen, reflecting brokerage fees. No brokerage fees, etc. were generated in the same period of the previous fiscal year.

[Contracting business]

Regarding the contracting business, due to the execution of construction contracts as well as reform work and such, net sales totaled 43 million yen (down 18.1% year on year) and segment income totaled 1 million yen (compared with segment loss of 2 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 5 million yen (down 17.0% year on year) and segment income totaled 5 million yen (down 13.5% year on year).

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year ending July 2021 decreased by 795 million yen compared to the end of the previous fiscal year to 10,652 million yen.

Moreover, liabilities decreased by 743 million yen from the end of the previous fiscal year to 6,331 million yen. This was mainly due to long-term loans payable (including the current portion of long-term loans payable) decreasing by 324 million yen and short-term loans payable decreasing by 429 million yen, due to repayments associated with sales of properties, etc.

Net assets decreased by 52 million yen compared to the end of the previous fiscal year to 4,320 million yen while the equity ratio increased by 2.4 percentage points from the end of the previous fiscal year to 40.5%.

(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, where the main business is the rental apartment project under the brand name MIJAS (which performed well, and nine properties were supplied in the fiscal year ended July 2020) and the premium rental apartment project under the brand name EL FARO (five properties were supplied in the fiscal year ended July 2020), as a “comprehensive developer focusing on manufacturing” in order to become a partner for life, 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 2021, net sales of 10,600 million yen (up 7.0% from the previous fiscal year), operating income of 590 million yen (up 6.9% from the previous fiscal year), ordinary income of 500 million yen (up 12.4% from the previous fiscal year) and profit attributable to owners of parent of 320 million yen (up 45.8% from the previous fiscal year) are projected.

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

The Company has actively introduced a range of measures to prevent the spread of COVID-19, including staggering working hours, urging employees to work from home and promoting teleworking, and is putting health considerations for its officers, employees and customers at the forefront of its operating activities. It is currently difficult to forecast the impact of COVID-19 on the Group’s consolidated earnings, including the outlook for the real estate market. However, if, in the light of changing circumstances in the future, the Company judges revision of the full-year consolidated earnings forecasts necessary, the Company will make a timely announcement of its decision.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Fiscal year ended July 2020 (as of July 31, 2020)	First quarter of fiscal year ending July 2021 (as of October 31, 2020)
Assets		
Current assets		
Cash and deposits	2,344,133	1,444,607
Accounts receivable	30,776	32,152
Real estate for sale	3,476,655	3,697,405
Real estate for sale in process	2,932,945	2,760,268
Short-term loans receivable	1,550,000	1,550,000
Other	78,642	127,269
Allowance for doubtful accounts	(833)	(1,073)
Total current assets	10,412,321	9,610,630
Non-current assets		
Property, plant and equipment	608,911	605,866
Intangible assets	639	440
Investments and other assets		
Investment securities	35,007	35,529
Long-term loans receivable	429,276	429,161
Long-term accrued revenue	421,400	421,250
Deferred tax assets	146,357	132,395
Other	240,844	263,372
Allowance for doubtful accounts	(846,400)	(846,250)
Total investments and other assets	426,485	435,458
Total non-current assets	1,036,035	1,041,765
Total assets	11,448,357	10,652,395

(Unit: thousand yen)

	Fiscal year ended July 2020 (as of July 31, 2020)	First quarter of fiscal year ending July 2021 (as of October 31, 2020)
Liabilities		
Current liabilities		
Accounts payable	127,076	135,531
Short-term loans payable	1,596,507	1,167,466
Current portion of long-term loans payable	1,569,968	1,927,174
Current portion of bonds	36,000	36,000
Lease obligations	1,713	1,724
Income taxes payable	18,021	6,275
Provision for bonuses	45,805	14,450
Other	685,790	740,729
Total current liabilities	4,080,883	4,029,352
Non-current liabilities		
Long-term loans payable	2,694,981	2,013,043
Bonds payable	58,000	50,000
Lease obligations	4,932	4,497
Other	236,574	234,532
Total non-current liabilities	2,994,488	2,302,073
Total liabilities	7,075,372	6,331,426
Net assets		
Shareholders' equity		
Capital stock	100,000	100,000
Capital surplus	1,495,610	1,495,610
Retained earnings	3,147,668	3,096,588
Treasury shares	(380,474)	(380,474)
Total shareholders' equity	4,362,804	4,311,724
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,666)	(1,144)
Total accumulated other comprehensive income	(1,666)	(1,144)
Non-controlling interests	11,847	10,389
Total net assets	4,372,984	4,320,968
Total liabilities and net assets	11,448,357	10,652,395

(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 2020 (August 1, 2019 to October 31, 2019)	First quarter of fiscal year ending July 2021 (August 1, 2020 to October 31, 2020)
Net sales	2,243,269	1,776,160
Cost of sales	1,944,169	1,412,240
Gross profit	299,100	363,919
Selling, general and administrative expenses	251,112	261,770
Operating income	47,987	102,149
Non-operating income		
Interest income	11,741	11,744
Penalty income	8,701	215
Compensation received	150	5,150
Government subsidies received	-	5,349
Other	1,152	726
Total non-operating income	21,745	23,185
Non-operating expenses		
Interest expenses	32,965	32,372
Commissions paid	7,103	3,090
Other	287	2,012
Total non-operating expenses	40,356	37,475
Ordinary income	29,376	87,859
Extraordinary losses		
Provision for administrative monetary penalties	24,000	-
Special investigation expenses	135,467	-
Total extraordinary losses	159,467	-
Profit (loss) before income taxes	(130,091)	87,859
Income taxes - current	7,099	6,365
Income taxes - deferred	11,842	13,961
Total income taxes	18,941	20,327
Profit (loss)	(149,033)	67,531
Profit attributable to non-controlling interests	559	542
Profit (loss) attributable to owners of parent	(149,593)	66,989

Consolidated Statement of Comprehensive Income

First quarter of fiscal year

(Unit: thousand yen)

	First quarter of fiscal year ended July 2020 (August 1, 2019 to October 31, 2019)	First quarter of fiscal year ending July 2021 (August 1, 2020 to October 31, 2020)
Profit (loss)	(149,033)	67,531
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,177)	521
Total other comprehensive income	(1,177)	521
Comprehensive income	(150,211)	68,053
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(150,771)	67,510
Comprehensive income attributable to non-controlling interests	559	542

(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, 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.

II. First Quarter of the Fiscal Year Ending July 2021 (from August 1, 2020 to October 31, 2020)

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	1,203,222	527,836	952	38,266	1,770,277	5,882	1,776,160	—	1,776,160
Intersegment net sales or transfers	—	—	—	5,675	5,675	—	5,675	(5,675)	—
Total	1,203,222	527,836	952	43,941	1,775,953	5,882	1,781,835	(5,675)	1,776,160
Segment income	54,421	92,682	892	1,964	149,961	5,671	155,632	(53,482)	102,149

(Note 1) The reconciliation of segment income of -53,482 thousand yen is comprised of -5,160 thousand yen of elimination of inter-segment transactions and -48,322 thousand yen of company expenses not distributed to the reporting segments. Company expense consists of primarily general and administrative expenses that are not attributable to the reporting segments.

(Note 2) Segment income 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.