DRAFT

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Consolidated Financial Results for the Fiscal Year Ended December 31, 2021 (Japanese GAAP)

February 14, 2022

Company name: DRAFT Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5070
URL: https://draft.co.jp/en/
Representative: Taiju Yamashita, President and Representative Director
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Scheduled date to hold the ordinary general meeting of shareholders: March 24, 2022
Scheduled date to commence dividend payments: March 25, 2022
Scheduled date to file the annual securities report: March 25, 2022
Availability of supplementary briefing materials on financial results: Yes
Schedule of briefing session on financial results: Yes (For analysts and institutional investors)

(Amounts of less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(1) Consolidated operating results (Percentage figures indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2021	8,032	—	955	—	947	—	574	—
December 31, 2020	4,313	—	384	—	354	—	240	—

(Note) Comprehensive income: Fiscal year ended December 31, 2021: ¥576 million (—%)
Fiscal year ended December 31, 2020: ¥241 million (—%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Return on assets	Operating profit margin
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2021	61.97	61.67	23.2	19.9	11.9
December 31, 2020	26.58	25.94	13.1	8.6	8.9

(Reference) Equity in earnings of affiliates: Fiscal year ended December 31, 2021: ¥ — million
Fiscal year ended December 31, 2020: ¥ — million

(Notes) 1. The Company changed its fiscal year-end from March 31 to December 31, effective from the fiscal year ended December 31, 2020. As a result, the reporting period of the current fiscal year (January 1, 2021 to December 31, 2021) is different from the previous fiscal year (April 1, 2020 to December 31, 2020). Therefore, the percentage change from the previous fiscal year is not provided.
2. On December 15, 2020, the Company conducted a 2-for-1 split of common stock. Basic earnings per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the fiscal year ended December 31, 2020.
3. The Company uses ordinary profit when calculating return on assets.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2021	5,840	3,009	51.4	299.27
December 31, 2020	3,690	1,947	52.8	210.47

(Reference) Shareholders' equity: As of December 31, 2021: ¥3,003 million
As of December 31, 2020: ¥1,947 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2021	1,253	(555)	246	2,138
December 31, 2020	338	(829)	(178)	1,193

2. Dividends

	Annual dividends					Total dividend paid	Payout ratio (Consolidated)	Dividend on equity (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
December 31, 2020	—	0.00	—	4.00	4.00	37	15.0	2.0
December 31, 2021	—	0.00	—	5.00	5.00	50	8.1	2.0
Fiscal year ending December 31, 2022 (forecast)	—	0.00	—	5.00	5.00		8.4	

3. Consolidated financial forecast for the fiscal year ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(Percentage figures indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	4,500	26.7	275	-40.0	270	-41.3	170	-39.9	16.94
Full year	10,000	24.5	960	0.5	950	0.3	600	4.4	59.78

Notes

(1) Changes in major subsidiaries during the fiscal year ended December 31, 2021 (changes in specified subsidiaries accompanying changes in scope of consolidation): No
Newly added: — subsidiaries (Company name) —
Excluded: — subsidiaries (Company name) —

(2) Changes in accounting policies, changes in accounting estimates, and restatement
1) Changes in accounting policies due to amendment of accounting standards, etc.: No
2) Changes in accounting policies other than 1): No
3) Changes in accounting estimates: No
4) Restatement: No

(3) Number of issued shares (common stock)
1) Number of issued shares at the end of the period (including treasury stock)
December 31, 2021: 10,036,800 shares
December 31, 2020: 9,251,000 shares
2) Number of treasury stock at the end of the period
December 31, 2021: — shares
December 31, 2020: — shares
3) Average number of shares outstanding for the period
Fiscal year ended December 31, 2021: 9,273,658 shares
Fiscal year ended December 31, 2020: 9,048,487 shares
(Note) On December 15, 2020, the Company conducted a 2-for-1 split of common stock. The number of issued shares at the end of the period and the average number of shares outstanding for the period are calculated assuming the stock split occurred at the beginning of the fiscal year ended December 31, 2020.

(Reference) Summary of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2021 (April 1, 2021 to December 31, 2021)

(1) Non-consolidated operating results

(Percentage figures indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2021	8,032	—	940	—	933	—	563	—
December 31, 2020	4,313	—	377	—	348	—	237	—

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
December 31, 2021	60.81	60.52
December 31, 2020	26.20	25.57

(Notes) 1. The Company changed its fiscal year-end from March 31 to December 31, effective from the fiscal year ended December 31, 2020. As a result, the reporting period of the current fiscal year (January 1, 2021 to December 31, 2021) is different from the previous fiscal year (April 1, 2020 to December 31, 2020). Therefore, the percentage change from the previous fiscal year is not provided.

2. On December 15, 2020, the Company conducted a 2-for-1 split of common stock. Basic earnings per share and diluted earnings per share are calculated assuming the stock split occurred at the beginning of the fiscal year ended December 31, 2020.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2021	5,820	2,931	50.3	291.45
December 31, 2020	3,671	1,880	51.2	203.32

(Reference) Shareholders' equity: As of December 31, 2021: ¥2,925 million
As of December 31, 2020: ¥1,880 million

* The consolidated financial results statements are not subject to review by a certified public accountant or auditing firm.

* Explanation regarding proper use of financial forecast, and other notes
Forward-looking statements in this document, including outlook on future performance, are based on currently available information and certain assumptions that the Company regards as reasonable, and the Company does not in any way guarantee their achievement.

1. Business results

(1) Summary of business results

In the fiscal year ended December 31, 2021, the future outlook of the Japanese economy remained uncertain as no end to the spread of COVID-19 was in sight, with the government declaring a state of emergency and taking quasi-emergency measures intermittently and the emergence of a new Omicron strain identified in December. The prolonged spread of COVID-19 has affected not only the economy, but in many other areas such as the way people communicate with each other, the way they work, the way they behave, and the spaces they occupy.

The DRAFT Group ("the Group"), a creative organization that focuses on design, has been creating new value in fields such as office, architecture, and urban design, seeing this situation as an opportunity to solve social issues while also expanding the business. Amid changes in the way society behaves due to the spread of COVID-19, the needs for the Group's design services continue to be robust. We have steadily built a track record in projects such as redesigning entire buildings (mainly architectural design and interior design) and large-scale office design.

As a result, net sales for the fiscal year ended December 31, 2021 came to ¥8,032,744 thousand. Net sales have continued to increase since the Group's establishment (excluding irregular accounting periods), reaching a record high. As the previous fiscal year was an irregular nine-month period for the Group, a year-on-year comparison cannot be made with net sales in the previous fiscal year. That said, compared to the combined figure for net sales from January to December 2020, net sales increased 12.9% year on year.

On the profit front, all profit lines exceeded our forecast, mainly due to winning orders for design and planning projects with high profit margins and reduction of activity expenses due to the spread of COVID-19. Consequently, operating profit was ¥955,601 thousand (+19.4% versus the same period of the previous year), ordinary profit was ¥947,032 thousand (+27.5%), and profit attributable to owners of parent was ¥574,672 thousand (+18.5%), reaching record highs.

Segment information is omitted since the Group operates in the single segment of Design. The breakdown of sales in the Design segment by category is shown below.

Sales by category (Reference)

Category	January–December 2020	Fiscal year ended December 31, 2021 (January–December 2021)	
	Results	Results	Year-on-year change
	Thousands of yen	Thousands of yen	
Office	4,507,997	5,150,612	+14.3%
Commercial space	300,281	429,953	+43.2%
Urban development, environmental design, other	2,309,440	2,452,178	+6.2%
Total	7,117,719	8,032,744	+12.9%

(2) Summary of financial position

(Assets)

Total assets as of December 31, 2021 were up ¥2,149,824 thousand from December 31, 2020 to ¥5,840,407 thousand. This change was primarily due to increases of ¥944,731 thousand in cash and deposits stemming from the issuance of new shares by public offering and ¥786,733 thousand in accounts receivable–trade. In addition, there was a ¥274,663 thousand rise in goodwill accompanying an absorption-type merger.

(Liabilities)

Liabilities as of December 31, 2021 were up ¥1,087,335 thousand from December 31, 2020 to ¥2,830,833 thousand. This change was chiefly due to increases of ¥713,968 thousand in accounts payable–trade and ¥321,977 thousand in income taxes payable as a result of the irregular nine-month accounting period in the previous fiscal year.

(Net assets)

Net assets as of December 31, 2021 were up ¥1,062,488 thousand from December 31, 2020 to ¥3,009,573 thousand. This change was mainly due to the recording of ¥574,672 thousand in profit attributable to owners of parent, in addition to an increase in share capital and capital surplus of ¥517,475 thousand due to the issuance of new shares by public offering.

(3) Cash flows

Cash and cash equivalents as of December 31, 2021 were ¥2,138,161 thousand, up ¥944,730 thousand from December 31, 2020.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,253,697 thousand (versus net cash of ¥338,618 thousand provided in the previous fiscal year). Primary sources of cash were ¥947,252 thousand in profit before income taxes and a ¥711,860 thousand increase in trade payables, partially offset by an outflow of ¥779,584 thousand due to an increase in trade receivables.

(Cash flows from investing activities)

Net cash used in investing activities was ¥555,416 thousand (versus net cash of ¥829,199 thousand used in the previous fiscal year). The primary use of cash was expenditures associated with the absorption-type merger of SATISONE Co., Ltd. of ¥391,510 thousand and payments of leasehold and guarantee deposits of ¥104,625 thousand.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥246,253 thousand (versus net cash of ¥178,141 thousand used in the previous fiscal year). The primary contributing factor was an inflow of ¥515,644 thousand due to proceeds from issuance of shares, partially offset by outflows of ¥232,244 thousand due to a decrease in borrowings and ¥37,004 thousand in dividends paid.

(4) Business performance outlook

The Group prepares the full-year forecast for net sales by comprehensively taking into account the status of the project stock (Note 1) and project forecast (Note 2).

In the medium-term management plan (Mid-term Business Plan and Potential Growth) announced on October 29, 2021, the Group set the net sales target for the fiscal year ending December 31, 2022 at ¥10,000 million. This target was based on assuming a project stock of ¥5,100 million as of December 31, 2021 and a project forecast of ¥173 million. The actual project stock as of December 31, 2021 came in slightly higher than the forecast as of October, at ¥5,322 million. However, considering the still uncertain outlook on the social situation due to factors such as the accelerating expansion of the Omicron variant of COVID-19, we decided to keep the net sales target at ¥10,000 million (+24.5% year on year), the same amount as in our medium-term management plan.

The ratio of the project stock as of the beginning of the fiscal year ending December 2022 was approximately 1:1 (3:2 in the previous fiscal year), meaning that order backlogs are expected to be recorded as net sales evenly between the first half (first and second quarters) and the second half (third and fourth quarters). Considering that most orders received during the period will be recorded as net sales in the second half, the net sales weighting for the fiscal year ending December 31, 2022 is likely to be larger in the second half than in the first half. Consequently, we have set our net sales forecast for the first half at ¥4,500 million and for the second half at ¥5,500 million. We do not expect the gross profit margin to vary significantly between the first and second halves.

We have set our assumption for selling, general and administrative expenses at a level that would allow us to actively carry out necessary growth investments while also achieving increased profits. Specifically, we have factored in expenses associated with the opening of a flagship store that will also serve as a showroom for “DAFT about DRAFT,” a new brand that we plan to launch by April 2022, and with the scheduled establishment of a new subsidiary in the Republic of Serbia. In addition, we will continue our branding activities carried out since the fiscal year ended December 31, 2021 (e.g., sponsoring Yokohama F. Marinos’s soccer uniform). As a result, we forecast operating profit of ¥960 million, ordinary profit of ¥950 million, and profit attributable to owners of parent of ¥600 million.

(Notes) 1. Project stock: Sum of order backlogs (for which contacts and other documents to confirm the receipt of orders exist) and expected orders.

2. Project forecast: Estimated amount of orders to be acquired during the fiscal year under review, calculated by multiplying the average number of inquiries per week by 39 weeks and the close rate.

2. Basic stance toward the selection of accounting standards

In consideration of the comparability of the Group’s consolidated financial statements across different fiscal years and with those of other companies, the Company plans to prepare its consolidated financial statements based on Japanese GAAP for the foreseeable future. Our policy is to address the adoption of IFRS as necessary, taking into account various developments in Japan and abroad.