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Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2022 (Japanese GAAP)

August 12, 2022

Company name: DRAFT Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5070
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Scheduled date to file quarterly securities report: August 12, 2022
Scheduled date to commence dividend payments: —
Availability of supplementary briefing materials on quarterly financial results: Yes
Schedule of briefing session on quarterly financial results: Yes

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

1. Consolidated financial results for the six months ended June 30, 2022 (January 1, 2022 to June 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2022	3,103	(12.6)	(100)	—	(113)	—	(99)	—
June 30, 2021	3,551	—	458	—	460	—	282	—

(Note) Comprehensive income: Six months ended June 30, 2022: -¥96 million (—%)
Six months ended June 30, 2021: ¥285 million (—%)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2022	(9.93)	—
June 30, 2021	30.59	30.46

(Notes) 1. The Company changed its fiscal year-end from March 31 to December 31, beginning in the fiscal year ended December 31, 2020. As the first six months of the previous fiscal year (January 1 to June 30, 2021) and the first six months of the fiscal year ended December 31, 2020 (April 1 to September 30, 2020) represent different periods, figures for year-on-year changes are not provided herein.
2. While dilutive shares existed, diluted earnings per share for the six months ended June 30, 2022 is not provided as the Company recorded a loss per share during the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
June 30, 2022	5,015	2,867	57.0
December 31, 2021	5,840	3,009	51.4

(Reference) Shareholders' equity: As of June 30, 2022: ¥2,857 million
As of December 31, 2021: ¥3,003 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, 2021	—	0.00	—	5.00	5.00
Fiscal year ending December 31, 2022	—	0.00			
Fiscal year ending December 31, 2022 (forecast)			—	5.00	5.00

(Note) Changes in dividend forecast subsequent to most recent announcement: No

3. Consolidated financial results 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
Full year	10,000	24.5	960	0.5	950	0.3	600	4.4	59.78

(Note) Changes in financial results forecast subsequent to most recent announcement: No

Notes

(1) Changes in major subsidiaries during the six months ended June 30, 2022 (changes in specified subsidiaries accompanying changes in scope of consolidation): No

Newly added: — subsidiaries (Company name) —
Excluded: — subsidiaries (Company name) —

(2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No

(3) 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

(4) Number of issued shares (common stock)

1) Number of issued shares at the end of the period (including treasury stock)
June 30, 2022: 10,038,800 shares
December 31, 2021: 10,036,800 shares

2) Number of treasury stock at the end of the period
June 30, 2022: — shares
December 31, 2021: — shares

3) Average number of shares outstanding for the period
Six months ended June 30, 2022: 10,038,469 shares
Six months ended June 30, 2021: 9,251,137 shares

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

* Explanation regarding proper use of financial results 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. Actual results may differ substantially from the projections herein depending on various factors. For the preconditions of and precautions in using the financial results forecast, please refer to “1. Qualitative information concerning the quarterly results, (3) Explanation of consolidated financial results forecast and other forward-looking information” on page 2 of the Attachment.

1. Qualitative information concerning the quarterly results

(1) Explanation of business results

In the first six months of the fiscal year ending December 31, 2022, economic conditions in Japan remained harsh as businesses and consumers alike were forced to continue practicing caution in their activities amid a sixth wave of the COVID-19 pandemic, despite the lifting of all initially implemented pandemic-related restrictions. Lifestyle changes brought about by the pandemic, especially changes in the general perception of living and workspaces, provide a tailwind for the Draft Group (hereafter “the Group”), which has provided innovative, unprecedented space designs since founding. That said, the prolonged pandemic has had a considerable impact on our business activities and financial results.

Under these circumstances, net sales in the six months ended June 30, 2022 came to ¥3,103,577 thousand, down 22.6% year-on-year, resulting in gross profit amounting to ¥907,212 thousand (-17.0% year-on-year).

Regarding the decline in net sales, as was the case in the three-month period ended March 31, 2022, inquiries were robust, exceeding initial expectations, but orders for projects whose scheduled completion dates fell in the six months under review were slow to grow. Deadlines for most projects whose orders were acquired by June 30, 2022 are in the second half of the fiscal year under review or later, with the project stock* as of the same date up 10% year-on-year.

At the operating level, we recorded a loss of ¥100,880 thousand (profit down by ¥559,529 thousand from the same period of the previous year). SG&A expenses do not vary significantly from quarter to quarter, and the Group may fall into the red at the operating level when quarterly net sales are low. In addition to lagging net sales, SG&A expenses rose 58.8% year-on-year due to increased spending aimed at growth, including for increased personnel and the launch of activities for new lifestyle brand DAFT about DRAFT, resulting in an operating loss for the six months ended June 30, 2022. In the previous fiscal year, SG&A expenses fell substantially below the budget due to continued restrictions on business activities caused by the pandemic. For this reason, operating profit in each quarter of the previous fiscal year exceeded projections, and operating profit in the first six months of the previous fiscal year was substantially greater than that in the current fiscal year. The Group reported a recurring loss of ¥113,662 thousand (profit down ¥573,980 thousand year-on-year) and a loss attributable to owners of parent of ¥99,717 thousand (profit down ¥382,704 thousand year-on-year).

* Terminology
Project stock refers to the total value of projects—order backlogs (finalized orders for which contracts have been signed) and projected order backlogs—for which sales are expected to be booked in the fiscal year under review.

(2) Explanation of financial position

1. Status of assets, liabilities, and net assets

(Assets)

Total assets as of June 30, 2022 were down ¥825,268 thousand from December 31, 2021 to ¥5,015,138 thousand. This change was primarily due to decreases of ¥796,546 thousand in cash and deposits and ¥391,564 thousand in accounts receivable–trade, partially offset by an increase of ¥204,605 thousand in prepaid expenses.

(Liabilities)

Liabilities as of June 30, 2022 were down ¥683,248 thousand from December 31, 2021 to ¥2,147,584 thousand. This change was primarily due to decreases of ¥343,078 thousand in accounts payable–trade and ¥329,610 thousand in income taxes payable

(Net assets)

Net assets as of June 30, 2022 were down ¥142,020 thousand from December 31, 2021 to ¥2,867,553 thousand. This change was primarily due to the recording of ¥99,717 thousand in loss attributable to owners of parent and dividend payment of ¥50,184 thousand.

2. Cash flows

Cash and cash equivalents as of June 30, 2022 were ¥1,341,615 thousand, down ¥796,546 thousand from December 31, 2021.

(Cash flows from operating activities)

Net cash used in operating activities was ¥761,666 thousand (versus net cash of ¥202,687 thousand provided in the first six months of the previous fiscal year). This was largely due to a ¥343,078 thousand decline in trade receivables and income taxes paid of ¥316,059 thousand.

(Cash flows from investing activities)

Net cash used in investing activities was ¥224,600 thousand (versus net cash of ¥438,636 thousand used in the first six months of the previous fiscal year). Primary use of cash was expenditures of ¥172,769 thousand for the purchase of property, plant and equipment and ¥35,902 thousand for the purchase of intangible assets.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥187,912 thousand (versus net cash of ¥240,509 thousand provided in the first six months of the previous fiscal year). Primary contributing factor was short-term borrowings of ¥200,000 thousand, partially offset by ¥50,184 thousand in dividends paid.

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

The Group's forecast for net sales is based on three indicators: the project stock, average weekly value of inquiries, and the acquisition rate (of the total value of inquiries, the share of projects [their value] that actually lead to orders).

Of these indicators, the acquisition rate was slightly below initial expectations, but the project stock as of end-June 30, 2022 was 10% higher year-on-year, with the average weekly value of inquiries also exceeding initial plan. As a result, the Group maintained its initial net sales forecast. That said, we are cautious about the fact that the current project stock is heavily weighted toward Q4 (October–December), and about the heightened risk of project delays due to the pandemic.

As with net sales, no change has been made to the initial projections for operating profit, recurring profit, and profit attributable to owners of parent. However, the Group is considering to consolidate and relocate its offices in Tokyo* and may incur expenses in this regard in the fiscal year under review. The timing of relocation and its impact on earnings are yet to be determined, but we will promptly disclose any matters that require public disclosure.

Note: The Group currently has five offices scattered across Tokyo. In tandem with a steady expansion of the scope of our business, we are seeing a continued increase in personnel, but our current offices cannot accommodate further growth in headcount. Workspace interactions, including communication among employees, are crucial for value creation for the Group whose business is based on creating designs, but having dispersed offices hinders active workspace communications from taking place. For this reason, the Group is considering to establish a new office, to which it will consolidate and relocate its existing five offices scattered across Tokyo. Since founding, the Group has believed that office is an important infrastructure for its growth as a corporation, and has considered it an investment target rather than a mere cost item. The Group's offices embody our such beliefs through their design, and they not only serve as a place for carrying out business functions, but also as a showroom where clients can see and experience first-hand the Group's new designs. The new office will embody designs representative of the evolving concept of workspace prompted by the pandemic. We expect to make a certain level of investment in establishing the new office and consolidating/relocating existing offices, but believe this is necessary to achieve further growth.