DRAFT

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (Japanese GAAP)

February 14, 2023

Company name: DRAFT Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5070
URL: https://draft.co.jp/en/
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Scheduled date to hold the ordinary general meeting of shareholders: March 30, 2023
Scheduled date to commence dividend payments: March 31, 2023
Scheduled date to file the annual securities report: March 31, 2023
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, 2022 (January 1, 2022 to December 31, 2022)

(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, 2022	8,287	3.2	108	(88.7)	87	(90.8)	21	(96.3)
December 31, 2021	8,032	—	955	—	947	—	574	—

(Note) Comprehensive income: Fiscal year ended December 31, 2022: ¥26 million (95.4%)
Fiscal year ended December 31, 2021: ¥576 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, 2022	2.10	2.10	0.7	1.5	1.3
December 31, 2021	61.97	61.67	23.2	19.9	11.9

(Reference) Equity in earnings of affiliates: Fiscal year ended December 31, 2022: ¥ — million
Fiscal year ended December 31, 2021: ¥ — million

(Notes) 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 previous fiscal year (January 1, 2021 to December 31, 2021) is different from the fiscal year for comparison (April 1, 2020 to December 31, 2020). Therefore, year-on-year percentage changes are not provided.

(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, 2022	5,724	2,994	52.0	296.79
December 31, 2021	5,840	3,009	51.4	299.27

(Reference) Shareholders' equity: As of December 31, 2022: ¥2,979 million
As of December 31, 2021: ¥3,003 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, 2022	(207)	(587)	152	1,495
December 31, 2021	1,253	(555)	246	2,138

2. Dividends

	Annual dividends					Total dividend	Payout ratio (Consolidated)	Dividend on equity
	1st	2nd	3rd	Year-end	Total			

	quarter-end	quarter-end	quarter-end			paid		(Consolidated)
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
December 31, 2021	—	0.00	—	5.00	5.00	50	8.1	2.0
December 31, 2022	—	0.00	—	5.00	5.00	50	238.1	1.7
Fiscal year ending December 31, 2023 (forecast)	—	0.00	—	5.00	5.00		16.7	

3. Consolidated financial forecast for the fiscal year ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(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	3,800	22.4	(287)	—	(294)	—	(294)	—	(29.28)
Full year	10,000	20.7	480	427.0	466	508.6	300	1,420.7	29.89

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, 2022: 10,040,000 shares
December 31, 2021: 10,036,800 shares
2) Number of treasury stock at the end of the period
December 31, 2022: — shares
December 31, 2021: — shares
3) Average number of shares outstanding for the period
Fiscal year ended December 31, 2022: 10,038,839 shares
Fiscal year ended December 31, 2021: 9,273,658 shares

(Reference) Summary of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2022 (April 1, 2022 to December 31, 2022)

(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, 2022	8,287	3.2	97	(89.6)	80	(91.4)	17	(96.8)
December 31, 2021	8,032	—	940	—	933	—	563	—

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
December 31, 2022	1.78	1.78
December 31, 2021	60.81	60.52

(Notes) 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 previous fiscal year (January 1, 2021 to December 31, 2021) is different from the fiscal year for comparison (April 1, 2020 to December 31, 2020). Therefore, year-on-year percentage changes are not provided.

(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, 2022	5,750	2,908	50.3	288.16
December 31, 2021	5,820	2,931	50.3	291.45

(Reference) Shareholders' equity: As of December 31, 2022: ¥2,893 million
As of December 31, 2021: ¥2,925 million

＜Reasons for differences between non-consolidated financial results and previous fiscal year's results＞

In the current fiscal year, although inquiries remained steady as in the previous fiscal year, there were more than a few projects that were scheduled to be completed in the next fiscal year or in the fourth quarter but were postponed to the next fiscal year, resulting in a lower close rate and only a slight increase in net sales. However, profit fell sharply owing to factors such as initiating SG&A expenses that could not be deployed in the previous fiscal year due to the COVID-19 pandemic, personnel expansion, and carrying out full-scale marketing activities as planned, as well as a final extraordinary loss of approximately ¥10 million related to office relocation. As a result, there are major differences between the actual results for the previous fiscal year and those for the current fiscal year.

* 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. 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. Business results, (4) Business performance outlook" on page 2 of the Attachment.

1. Business results

(1) Summary of business results

In the fiscal year ended December 31, 2022, stabilizing the Japanese economy remained highly challenging due to the still strong impact of the COVID-19 pandemic, as well as the rapid exchange rate fluctuations and the accompanying rise in prices.

On the other hand, corporate economic activities are beginning to pick up as companies set their sights on the post-COVID world, and this has triggered a demand for new approaches to communication, work styles, behavior, and space in a variety of fields.

For the DRAFT Group, which has long been offering new and unconventional space design, the transformation of society itself toward a post-COVID world has been a tailwind, but the unstable aspects of the world, such as the pandemic and exchange rate fluctuations, as well as the accompanying sharp rise in prices, have had a considerable impact on corporate activities and the resulting business performance trends.

Although demand for the designs provided by the Group remained strong, there were many projects scheduled for delivery in the next fiscal year or later, or projects that were scheduled for delivery in the current fiscal year but postponed to the next fiscal year. While net sales have continued to increase since the Group’s establishment, net sales only rose 3.2% year on year to ¥8,287,762 thousand.

Meanwhile, there were fewer variable factors for the Group's SG&A expenses, including costs associated with office relocations.

As a result, each profit line fell slightly short of the revised plan, but remained roughly in line with the revised plan, with operating profit of ¥108,385 thousand (11.3% of the figure in the same period of the previous year), ordinary profit of ¥87,592 thousand (9.2%), and profit attributable to owners of parent of ¥21,116 thousand (3.7%).

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. In the past, we classified sales by category into “Office", “Commercial space", and "Urban development, environmental design, other,” but in light of the current status of our design capabilities and their significance, our operations focus more on the combined categories of “Commercial space” and “Urban development, environmental design, other”, as well as the “Office” category. To reflect this, we reclassified our sales by category into “Office” and “Commercial space, urban development, environmental design, other” in the current fiscal year. In accordance with this change, the figures for the previous fiscal year has also been presented under the new classification.

Net sales by category (Reference)

Category	January–December 2021	Fiscal year ended December 31, 2022 (January–December 2022)	
	Results	Results	Year-on-year change
	Thousands of yen	Thousands of yen	
Office	5,150,612	4,372,825	-15.1%
Commercial space, urban development, environmental design, other	2,882,131	3,914,937	+35.8%
Total	8,032,744	8,287,762	+3.2%

(2) Summary of financial position

(Assets)

Total assets as of December 31, 2022 were down ¥115,474 thousand from December 31, 2021 to ¥5,724,932 thousand. This change was primarily due to a decrease of ¥642,525 thousand in cash and deposits, an increase of ¥275,834 thousand in accounts receivable-trade, and an increase of ¥261,013 thousand in leasehold and guarantee deposits.

(Liabilities)

Liabilities as of December 31, 2022 were down ¥100,623 thousand from December 31, 2021 to ¥2,730,210 thousand. This change was chiefly due to an increase of ¥500,000 thousand in short-term borrowings, a decrease of ¥331,974 thousand in income taxes payable, and a decrease of ¥272,051 thousand in long-term borrowings.

(Net assets)

Net assets as of December 31, 2022 were down ¥14,850 thousand from December 31, 2021 to ¥2,994,722

thousand. This change was mainly due to the recording of ¥21,116 thousand in profit attributable to owners of parent and ¥50,184 thousand in dividends paid.

(3) Cash flows

Cash and cash equivalents as of December 31, 2022 were ¥1,495,635 thousand, down ¥642,526 thousand from December 31, 2021.

(Cash flows from operating activities)

Net cash used in operating activities was ¥207,655 thousand (versus net cash of ¥1,253,697 thousand provided in the previous year). This was mainly due to an increase of ¥271,013 thousand in trade receivables and ¥508,402 thousand in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was ¥587,476 thousand (versus net cash of ¥555,416 thousand used in the previous fiscal year). The primary use of cash was for purchases of property, plant and equipment totaling ¥243,590 thousand and payments of leasehold and guarantee deposits of ¥282,029 thousand.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥152,220 thousand (versus net cash of ¥246,253 thousand provided in the previous fiscal year). The primary contributing factor was a net increase (decrease) of ¥500,000 thousand in short-term borrowings, ¥400,000 thousand in proceeds from long-term borrowings, and ¥690,517 thousand in repayments of long-term borrowings.

(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).

As mentioned in the "Notice Concerning Revision of Earnings Forecast" released on October 27, 2022, the Group has already been thoroughly examining the degree to which it expects to receive orders under this scheme. Specifically, in addition to a thorough overall evaluation of the feasibility of each project itself, the Group has also revised its sales management system to enable a higher degree of certainty in sales management by thoroughly considering the timing of sales recording, since the number of long-term projects that require multiple years for delivery is increasing.

Based on this revision, the project stock as of the end of December 31, 2022 is ¥5,800 million. Based on the most recent average weekly inquiries of ¥170 million and a close rate of 70%, our net sales target is ¥10,000 million (+20.7% versus the fiscal year ended December 31, 2022).

We have set our assumption for selling, general, and administrative expenses at a level that will allow us to continue to steadily and actively carry out the investments necessary for medium- to long-term growth while achieving increased profits. Specifically, we have factored in an increase in personnel expenses aimed at expanding our workforce and global branding activities, including the new lifestyle brand "DAFT about DRAFT," which we launched in the previous fiscal year. As a result, we forecast operating profit of ¥480 million, ordinary profit of ¥466 million, and profit attributable to owners of parent of ¥300 million.

(Notes) 1. Project stock: Sum of order backlogs (for which contacts and other documents to confirm the receipt of orders exist) expected to be recorded as sales in the fiscal year ending December 31, 2023 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.