Note: This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2023 (Japanese GAAP)

May 12, 2023

Company name: DRAFT Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5070
URL: https://draft.co.jp/en/
Representative: Taiju Yamashita, Representative Director
Contact: Hisataka Kumagawa, Senior Corporate Officer
Telephone: +81-3-5412-1001

Scheduled date to file quarterly securities report: May 12, 2023
Scheduled date to commence dividend payments: —
Availability of supplementary briefing materials on quarterly financial results: Yes
Schedule of briefing session on quarterly financial results: No

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

1. Consolidated financial results for the three months ended March 31, 2023 (January 1, 2023 to March 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2023	1,590	63.8	(206)	—	(212)	—	(171)	—
March 31, 2022	971	(38.0)	(167)	—	(171)	—	(129)	—

(Note) Comprehensive income: Three months ended March 31, 2023: (169) million yen (—%)
Three months ended March 31, 2022: (129) million yen (—%)

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2023	(17.09)	—
March 31, 2022	(12.86)	—

(Notes) 1. Diluted earnings per share for the first three months of the fiscal year ended December 31, 2022 and the first three months of the fiscal year ending December 31, 2023 are not shown in the above table despite the existence of dilutive shares as the Company posted a net loss per share for the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
March 31, 2023	5,224	2,778	52.9
December 31, 2022	5,724	2,994	52.0

(Reference) Shareholders' equity: As of March 31, 2023: ¥2,761 million
As of December 31, 2022: ¥2,979 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, 2022	—	0.00	—	5.00	5.00
Fiscal year ending December 31, 2023	—				
Fiscal year ending December 31, 2023 (forecast)		0.00	—	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, 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

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

Notes

(1) Changes in major subsidiaries during the three months ended March 31, 2023 (changes in specified subsidiaries accompanying changes in scope of consolidation): No
Newly added: — subsidiary (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)
March 31, 2023: 10,040,700 shares
December 31, 2022: 10,040,000 shares
2) Number of treasury stock at the end of the period
March 31, 2023: — shares
December 31, 2022: — shares
3) Average number of shares outstanding for the period
Three months ended March 31, 2023: 10,040,008 shares
Three months ended March 31, 2022: 10,038,133 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. 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 attached materials for the assumptions used in forecasting financial results and precautions regarding the use of the financial results forecast.

1. Qualitative information concerning the quarterly results

(1) Explanation of business results

In the first three months of the fiscal year ending December 31, 2023, the Japanese economy continued to face challenges to stabilization owing to such factors as the protracted conflict in Ukraine and the depreciation of the yen in the foreign exchange market.

On the other hand, there are concrete signs that the economy is moving past the COVID-19 pandemic, as corporate economic activities pick up and society moves to eliminate restrictions on various activities, enhance freedom, and review rules and regulations in preparation for the post-COVID world.

In light of these changes in society, in the medium-term business plan released in October 2021, we unveiled an initiative to classify our projects into the three categories of “regular projects [Note 1],” “proposal projects [Note 2],” and “leading projects [Note 3],” positioning regular projects as the building blocks of our earnings base, while promoting new business formats and design values through proposal projects and leading projects, centered on the "TJ Institute of Design & Architecture," which has been established as an independent organization.

Net sales in the three months ended March 31, 2023 totaled ¥1,590,600 thousand (163.8% year-on-year), as demand for the designs provided by the Group based on these activities remained strong against the backdrop of increased corporate economic activity. This included ¥831,795 thousand (119.3% year-on-year) in the office category, which has traditionally been the mainstay of the business, while the commercial space, urban development, environmental design, and other category grew substantially to ¥758,805 thousand (276.8% year-on-year).

On the other hand, SG&A expenses for the first three months of the fiscal year ending December 31, 2023 rose significantly year-on-year owing to an increase in rent in connection with office relocation, double rent for the previous office, and planned preparation expenses for the exhibition of DAFT about DRAFT at the Salone del Mobile in Milan. As a result, the Company posted an operating loss of ¥206,303 thousand (a decrease of ¥39,180 thousand year-on-year). Ordinary loss amounted to ¥212,731 thousand (down ¥40,798 thousand year-on-year) after taking into account foreign exchange losses (non-operating losses), etc. Loss attributable to owners of parent was ¥171,558 thousand (down ¥42,490 thousand year-on-year) after recording a loss on retirement of fixed assets due to office relocation as an extraordinary loss.

* Terminology

(Notes) 1. “Regular projects” are order-based projects that begin with a request from the client side. They include office designs for which we receive high acclaim, and form the Group’s earnings base.

2. “Proposal projects” are positioned between regular projects and leading projects. They include projects, which the Group plans, proposes, and at times invests in upfront. In these projects, we intend to realize an earnings model different from that of order-based projects.

3. “Leading projects” are challenging projects we take on through large-scale architectural and design competitions. They represent our initiative to cultivate new design domains and enhance the Group’s design skills and brand value.

(2) Explanation of financial position

(Assets)

Total assets as of March 31, 2023 were down ¥500,325 thousand from December 31, 2022 to ¥5,224,607 thousand. This change was primarily due to a decrease of ¥1,264,334 thousand in notes and accounts receivable-trade, and contract assets, partially offset by a ¥329,151 thousand increase in cash and deposits and a ¥246,978 thousand increase in prepaid expenses.

(Liabilities)

Liabilities as of March 31, 2023 were down ¥284,531 thousand from December 31, 2022 to ¥2,445,678 thousand. This change was chiefly due to decreases of ¥587,793 thousand in accounts payable-trade and ¥100,000 thousand in short-term borrowings, which was partially offset by a ¥477,451 thousand increase in long-term borrowings.

(Net assets)

Net assets as of March 31, 2023 were down ¥215,794 thousand from December 31, 2022 to ¥2,778,928 thousand. This change was primarily due to the recording of ¥171,558 thousand in loss attributable to owners of parent and dividend payment of ¥50,200 thousand.

(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 at the beginning of the fiscal year (prospective order backlog), average weekly inquiries during the term, and acquisition rate (of the total value of all inquiries, the percentage of projects that actually lead to orders). In particular, for projects scheduled to be recorded in the fiscal year ending December 31, 2023, we have enhanced the accuracy of the management scheme based on these calculations and are operating with a higher degree of certainty. As all three indicators are generally in line with plan, and SG&A expenses are also in line with plan, we have not changed our consolidated earnings forecast for the first half and the full year of the fiscal year ending December 31, 2023 from those figures shown in the "Consolidated Financial Results for the Fiscal Year Ended December 31, 2022" announced on February 14, 2023.