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

August 14, 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
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Scheduled date to file quarterly securities report: August 14, 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: Yes

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

1. Consolidated financial results for the six months ended June 30, 2023 (January 1, 2023 to June 30, 2023)

(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, 2023	3,905	25.8	(96)	—	(112)	—	(112)	—
June 30, 2022	3,103	(12.6)	(100)	—	(113)	—	(99)	—

(Note) Comprehensive income: Six months ended June 30, 2023: -¥99 million (—%)
Six months ended June 30, 2022: -¥96 million (—%)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2023	(11.21)	—
June 30, 2022	(9.93)	—

(Note) Diluted earnings per share for the first six months of the fiscal year ended December 31, 2022 and the first six 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	%
June 30, 2023	5,261	2,849	53.8
December 31, 2022	5,724	2,994	52.0

(Reference) Shareholders' equity: As of June 30, 2023: ¥2,831 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	—	0.00			
Fiscal year ending December 31, 2023 (forecast)			—	6.00	6.00

(Note) Changes in dividend forecast subsequent to most recent announcement: Yes

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
Full year	10,500	26.7	780	619.7	750	756.2	450	—	44.82

(Note) Changes in financial results forecast subsequent to most recent announcement: Yes

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, 2023: 10,040,700 shares

December 31, 2022: 10,040,000 shares

2) Number of treasury stock at the end of the period

June 30, 2023: — shares

December 31, 2022: — shares

3) Average number of shares outstanding for the period

Six months ended June 30, 2023: 10,040,356 shares

Six months ended June 30, 2022: 10,038,469 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 3 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 six months of the fiscal year ending December 31, 2023, the Japanese economy remained on a clear recovery path, supported by the ongoing revitalization of corporate economic activity with the reclassification of COVID-19 as a Class 5 infectious disease on May 8, as well as the rapid revitalization of society as a whole, including individual consumer activities, despite rising prices, especially for raw materials, due to the Ukraine-Russia war and forex fluctuations.

Under these circumstances, in the medium-term business plan released in October 2021, the Group 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 six months ended June 30, 2023 totaled ¥3,905,230 thousand (+25.8% year-on-year), as demand for the designs provided by the Group based on these activities manifested and became more concrete, propelled by the revitalization of corporate economic activity and society as a whole. Net sales broke down to ¥1,771,081 thousand (-18.8% year-on-year) from the office category, which has traditionally been the mainstay of the Group’s business, and ¥2,134,148 thousand (+131.2% year-on-year) from the commercial space, urban development, environmental design, and other category. As such, the Group’s sales channels have become even more diverse.

In the six-month period under review, SG&A expenses—expenses for participating in major exhibitions, such as Salone Del Mobile in Milan for DAFT about DRAFT, office relocation-related expenses, including double rent for the former office, and higher personnel expenses resulting from increased headcount—were largely in line with plan. However, owing to greater-than-expected net sales, the operating loss of ¥96,429 thousand was narrower than expected (improvement of ¥4,451 thousand year-on-year). Ordinary loss amounted to ¥112,439 thousand (narrowed ¥1,223 thousand year-on-year), after taking into account a non-operating loss attributed to foreign exchange losses, etc. Loss attributable to owners of parent was ¥112,571 thousand (expanded ¥12,853 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

1. Status of assets, liabilities, and net assets

(Assets)

Total assets as of June 30, 2023 were down ¥463,563 thousand from December 31, 2022 to ¥5,261,369 thousand. This change was primarily due to decreases of ¥482,356 thousand in accounts receivable–trade and contract assets.

(Liabilities)

Liabilities as of June 30, 2023 were down ¥318,262 thousand from December 31, 2022 to ¥2,411,947 thousand. This change was primarily due to decreases of ¥381,584 thousand in accounts payable–trade and ¥300,000 thousand in short-term borrowings, partially offset by an increase of ¥392,119 thousand in long-term borrowings.

(Net assets)

Net assets as of June 30, 2023 were down ¥145,301 thousand from December 31, 2022 to ¥2,849,421 thousand. This change was primarily due to the recording of ¥112,571 thousand in loss attributable to owners of parent and dividend payment of ¥50,200 thousand.

2. Cash flows

Cash and cash equivalents as of June 30, 2023 were ¥1,522,159 thousand, up ¥26,524 thousand from December 31, 2022.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥213,274 thousand (versus net cash of ¥761,666 thousand used in the first six months of the previous fiscal year). This was largely due to a decrease of ¥491,002 thousand in accounts receivable–trade, a decrease of ¥381,584 thousand in accounts payable–trade, and income taxes refund of ¥150,240 thousand.

(Cash flows from investing activities)

Net cash used in investing activities was ¥445,993 thousand (versus net cash of ¥224,600 thousand used in the

first six months of the previous fiscal year). Primary use of cash was expenditures of ¥539,361 thousand for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥257,884 thousand (versus net cash of ¥187,912 thousand provided in the first six months of the previous fiscal year). Primary contributing factor was long-term borrowings of ¥750,000 thousand, partially offset by a decline of ¥300,000 thousand in short-term borrowings and ¥139,889 thousand in repayments of long-term borrowings.

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

As the economic recovery from the COVID-19 pandemic is becoming increasingly more evident, demand for the design business of the Group, which prides itself in its exceptional design and planning capabilities, is greater than initially expected, due to growth not only in short-term demand but also in demand for medium- to long-term projects. We expect net sales to exceed the initial forecast, backed by strong business performance.

In addition to the projected net sales growth, gross profit is also expected to surpass the initial plan owing to progress in the acquisition of high-margin projects, such as design projects solely handled by the Company, while SG&A expenses are projected to be largely in line with plan. As a result, we forecast operating profit, ordinary profit, and profit attributable to owners of parent to substantially exceed the previous forecast.