DRAFT

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

November 13, 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 file quarterly securities report: November 13, 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 nine months ended September 30, 2023 (January 1, 2023 to September 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	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2023	6,084	45.9	52	—	31	—	(21)	—
September 30, 2022	4,169	(17.8)	(377)	—	(394)	—	(310)	—

(Note) Comprehensive income: Nine months ended September 30, 2023: -¥6 million (—%)
Nine months ended September 30, 2022: -¥303 million (—%)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2023	(2.11)	—
September 30, 2022	(30.95)	—

(Note) Diluted earnings per share for the first nine months of the fiscal year ended December 31, 2022 and the first nine 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	%
September 30, 2023	5,280	2,941	55.4
December 31, 2022	5,724	2,994	52.0

(Reference) Shareholders' equity: As of September 30, 2023: ¥2,923 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: 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
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: No

Notes

(1) Changes in major subsidiaries during the nine months ended September 30, 2023 (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)
September 30, 2023: 10,041,500 shares
December 31, 2022: 10,040,000 shares

2) Number of treasury stock at the end of the period
September 30, 2023: — shares
December 31, 2022: — shares

3) Average number of shares outstanding for the period
Nine months ended September 30, 2023: 10,040,475 shares
Nine months ended September 30, 2022: 10,038,580 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 outlooks 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 nine months of the fiscal year ending December 31, 2023, the Japanese economy has been on a recovery trend as a whole, reflecting the normalization of overall social activities encompassing both corporate and individual activities. Although the impact of continued high raw material prices and energy costs is undeniable, a rebound in demand in general life and the expansion of demand from visitors to Japan have also become evident.

Since its establishment, the Group has aimed to solve social issues through design, such as by offering new and unconventional spatial design, under the slogan "ALL HAPPY BY DESIGN.” In our classification of our projects into three categories, we have positioned “regular projects [Note 1]” as the building blocks of our earnings base, while promoting new business formats and design values through "proposal projects [Note 2]" and "leading projects [Note 3]," centered on the "TJ Institute of Design & Architecture," which has been established as an independent organization. Among these projects, the Kanematsu Corporation Tokyo Head Office (Chiyoda-ku, Tokyo), which is positioned as one of the regular projects designed by Taiju Yamashita, won the Ministry of Economy, Trade, and Industry Award at the 36th Nikkei New Office Award in August 2023, and in November, it received the Asia Winner in the Office Design Over 2,000 SqM category of the SBID International Design Awards 2023 held in London.

Net sales in the nine months ended September 30, 2023 totaled ¥6,084,597 thousand (+145.9% year-on-year), as demand for the designs provided by the Group based on these activities remained robust against the backdrop of increased corporate activity and the overall normalization trend in society. Net sales broke down to ¥3,005,153 thousand (+110.9% year-on-year) from the office category, which has traditionally been the mainstay of the Group’s business, versus ¥3,079,443 thousand (+211.1% year-on-year) from the commercial space, urban development, environmental design, and other category. While both categories grew, the non-office category saw significant growth, accounting for the majority.

In the nine-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, have significantly increased from the previous year. However, these were all in line with the plan, and despite the increase in individual expense categories, overall SG&A expenses as well remained in line with the plan. Meanwhile, operating profit was ¥52,511 thousand (up ¥429,661 thousand year-on-year) due to the combination of net sales significantly exceeding those of the previous year and gross profit growing more than net sales. Due to the addition of non-operating expenses such as foreign exchange losses, ordinary profit was ¥31,908 thousand (up ¥426,006 thousand year-on-year). Loss attributable to owners of parent was ¥21,220 thousand (a year-on-year improvement of ¥289,519 thousand) due to higher income taxes from non-deductible items such as asset retirement obligations related to the office relocation.

* 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. Assets, liabilities, and net assets

(Assets)

Total assets as of September 30, 2023 were down ¥444,377 thousand from December 31, 2022 to ¥5,280,555 thousand. This was primarily due to a decrease of ¥547,355 thousand in accounts receivable–trade and contract assets.

(Liabilities)

Liabilities as of September 30, 2023 were down ¥391,311 thousand from December 31, 2022 to ¥2,338,898 thousand. This was mainly due to decreases of ¥443,739 thousand in accounts payable–trade and ¥300,000 thousand in short-term borrowings, partially offset by an increase of ¥306,787 thousand in long-term borrowings.

(Net assets)

Net assets as of September 30, 2023 were down ¥53,065 thousand from December 31, 2022 to ¥2,941,656 thousand. This change was primarily due to the recording of ¥21,220 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 calculates a forecast for net sales based on three indicators: “the project stock at the beginning of the fiscal year (anticipated order balance),” “the average weekly value of inquiries,” and “the acquisition rate (the share of projects [in value terms] that actually lead to orders versus the total value of inquiries).” In particular, for projects scheduled to be recorded in the fiscal year ending December 2023, we have improved the accuracy of our management scheme based on such calculations compared to the previous year and are operating it with higher accuracy. Accordingly, as each of the three indicators has remained generally in line with the plan and SG&A expenses have not diverged from the plan, the Company’s consolidated financial results forecast for the fiscal year ending December 31, 2023 remains unchanged from that announced on August 14, 2023 in the “Consolidated Financial Results for the First Six Months of the Fiscal Year Ending December 31, 2023” and the “Notice Regarding Revision of Earnings and Dividend Forecasts (Dividend Increase).”