DRAFT®

Medium-Term Management Plan

FY12/24 – FY12/26

(Explanatory material on business plan and growth potential)

TSE Growth / Ticker: 5070

February 13, 2024

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01

BUSINESS OVERVIEW

Company Overview

Company name:	**DRAFT Inc.**
Established:	**April 1, 2008**
Listed:	**Growth market of the Tokyo Stock Exchange (ticker: 5070)**
Capital:	**¥807 million**
Number of employees:	**189 (consolidated basis as of December 31, 2023)**
Consolidated subsidiaries:	**Two companies (overseas)**
Sales bases:	**Three bases in Japan (Tokyo, Osaka, and Fukuoka)**
Business:	**Design business**
Fiscal year-end:	**December 31**

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Corporate Philosophy

ALL HAPPY BY DESIGN



DRAFT strives to contribute to global society by creating a cycle of happiness through the power of design.

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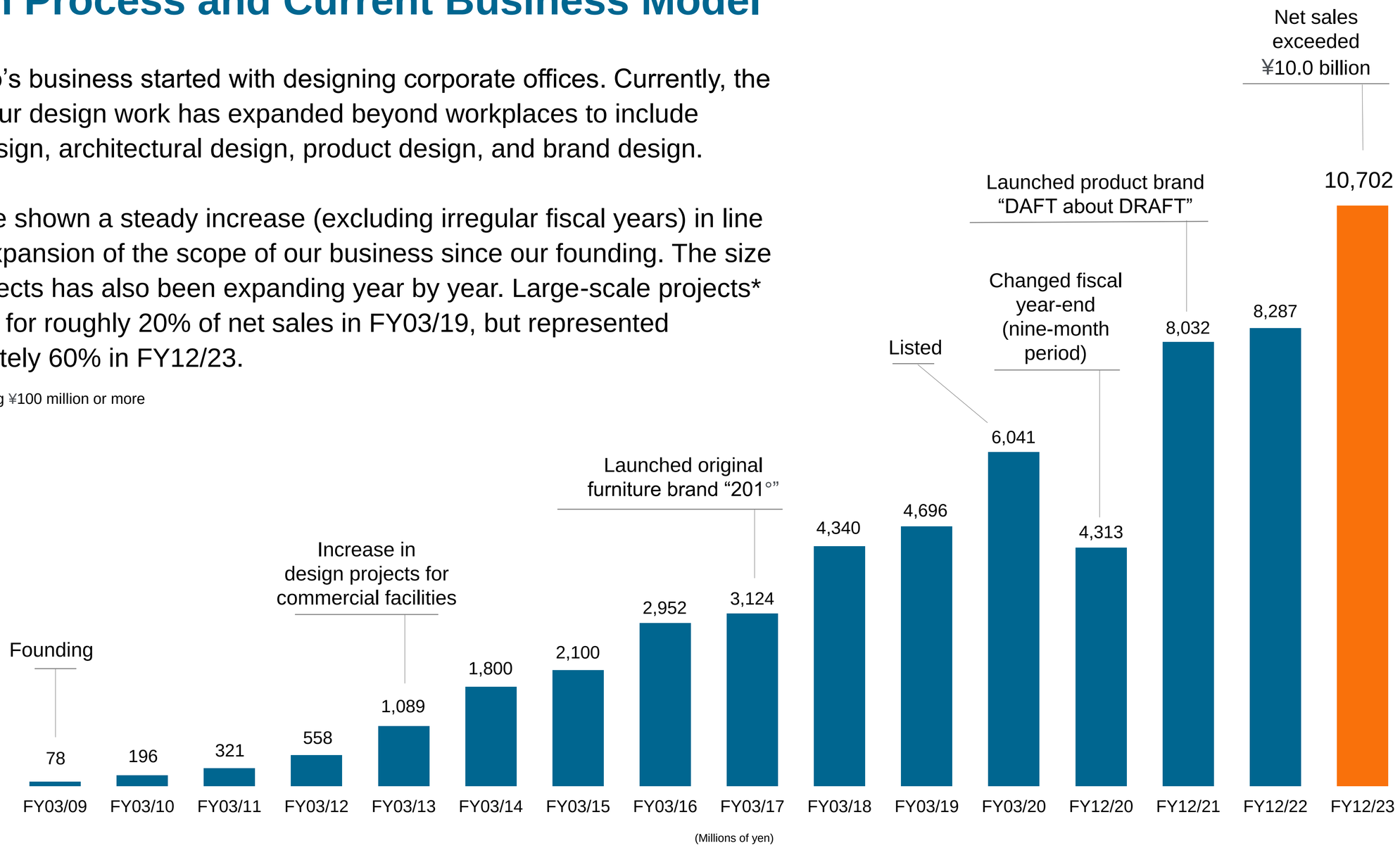
Growth Process and Current Business Model

The Group’s business started with designing corporate offices. Currently, the scope of our design work has expanded beyond workplaces to include display design, architectural design, product design, and brand design.

Sales have shown a steady increase (excluding irregular fiscal years) in line with the expansion of the scope of our business since our founding. The size of our projects has also been expanding year by year. Large-scale projects* accounted for roughly 20% of net sales in FY03/19, but represented approximately 60% in FY12/23.

* Projects totaling ¥100 million or more



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Business Domains

Our Group operates as a single segment focused 100% on the Design business. We engage in interdisciplinary activities centered on design, including work on interiors, architectural design, products, and branding, to address business and societal challenges through the power of design.



Workplace Consultancy



Retail



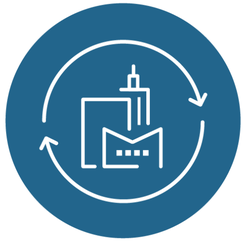
Hospitality



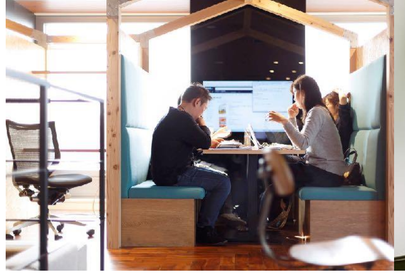
Architecture



Product



Urban Design







ADASTRIA Wantedly GENIEE KEIO

KDDI KDDI Web Communications Coca-Cola BoConcept TORIDOLL

CyberAgent GA TECHNOLOGIES JR東日本 JAXA

SonyMusic dip Labor force solution company 東急不動産 野村不動産

東京建物 三井不動産 MITSUI FUDOSAN 三菱地所 YAHOO! JAPAN







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Business

WORKPLACE &DESIGN

Design for the Japanese office

When Taiju Yamashita established DRAFT in 2008, the prevailing trend in Japanese office design was a crammed style that prioritized economic efficiency. With the belief that “since offices are places where people spend a significant amount of time, it's important to create comfortable spaces,” Yamashita has designed many workspaces that are not only comfortable but also stimulate motivation, enhance engagement, and generate added value. He has worked to spread these concepts throughout Japan.







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INTERIOR &DESIGN





Expanding the possibilities of new interior design through the pursuit of excellent design and specialized techniques

As our projects began receiving numerous design awards, our scope expanded to encompass interior design for various lifestyle areas such as hotels, commercial spaces, and coworking spaces. Through the utilization of data and advancements in specialized techniques, we have been pursuing interior design that offers exciting shopping experiences and flexible workspaces that cater to a better way of living and working.

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ARCHITECTURE &DESIGN

Design work extending to architecture and all urban spaces

The scope of Taiju Yamashita’s design work has continued to rapidly expand, including into the field of architecture. It has broadened to include human-scale architecture that emphasizes the perspective of individuals, the redesign of entire buildings using 3D technology, and even urban planning that tackles sustainability and the challenges of the next generation.









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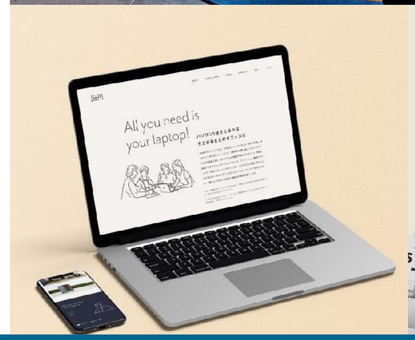



SOCIETY &DESIGN

By expanding into new areas and pursuing excellence in design, our aim is to become a comprehensive design firm that contributes to a better society.

DRAFT performs design work in various domains, ranging from interior and architectural design to design of products that people interact with, websites that serve as touchpoints, and branding strategies. We aim to change society for the better, constantly challenging ourselves to explore new designs.

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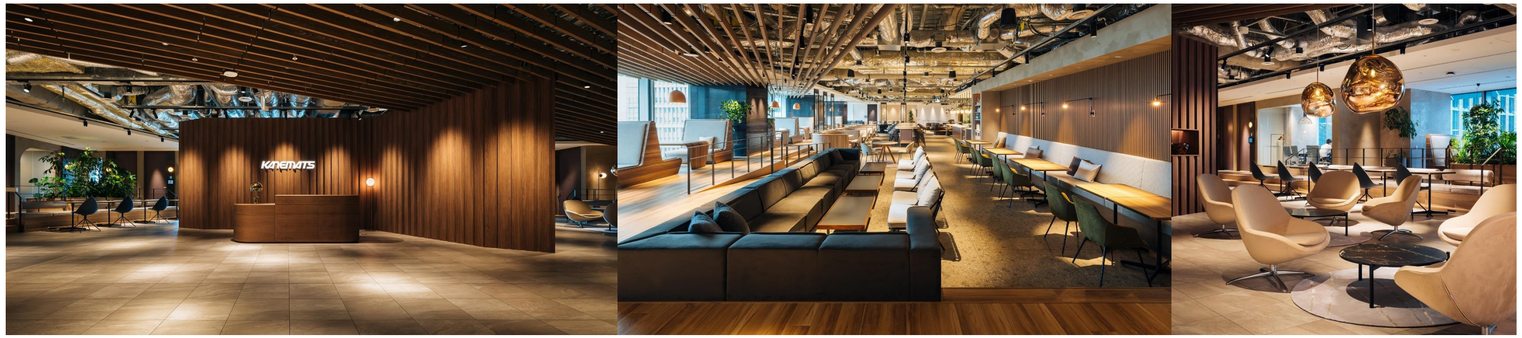
Case Studies



Kanematsu Corporation, Tokyo Head Office



Frontier Grand Nishi-Shinjuku



Mikan Shimokita



Original brand “DAFT about DRAFT”



Brand design

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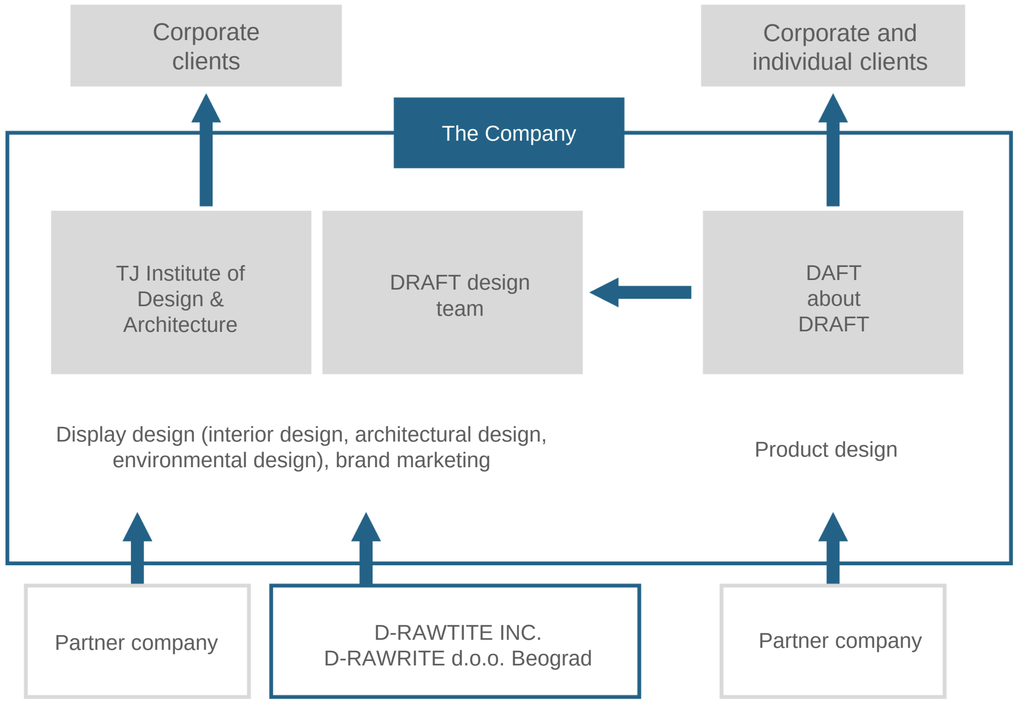
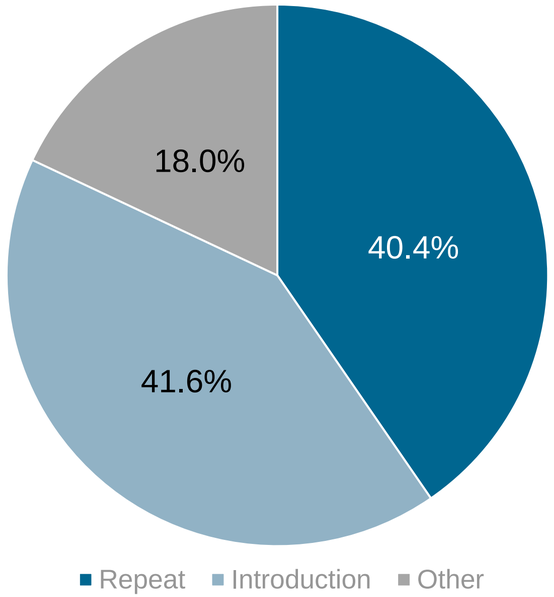
Business Structure

The following diagram illustrates the Group’s business structure.



Order Types

Group sales are primarily driven by repeat orders and referrals from clients who appreciate our designs. The following diagram shows the breakdown of order types as a percentage of total sales in FY12/23.



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Profit Structure

The Group places emphasis on direct profit (management accounting) derived from deducting outsourcing expenses and material costs from net sales.

Net sales

–) **Outsourcing and material costs** — Various outsourcing and material costs

Direct profit
(Management accounting)

–) **Labor and other costs** — Personnel expenses for projects
Rent expenses on land and buildings and other indirect costs, etc.

–) **Work in progress in previous term**
+) Work in progress in current term

Gross profit

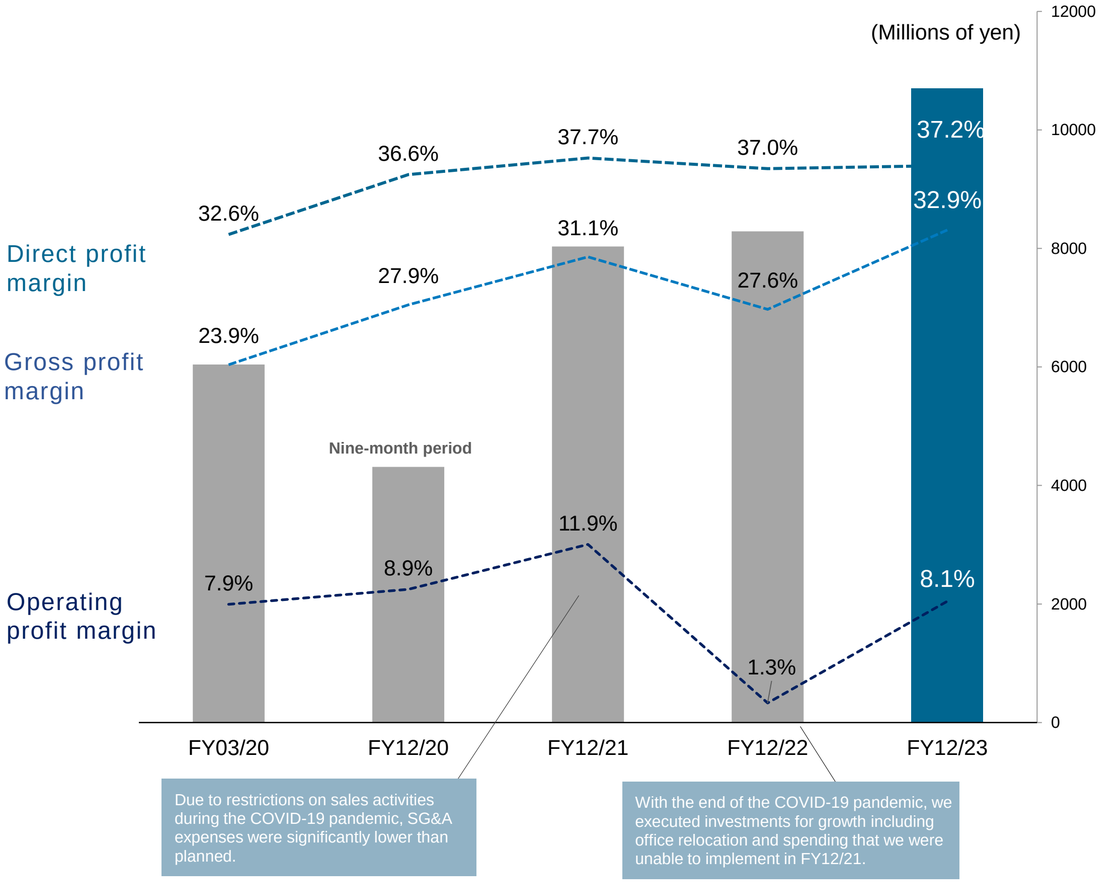
–) **SG&A expenses** — Personnel expenses and other costs (a portion is allocated to cost of sales and work in progress)

Operating profit

Profit Results

Net sales and profit margin trends

The direct profit margin, which is the ratio of direct profit to net sales, has been steadily improving. At present, we believe that the current direct profit margin is generally at an appropriate level in terms of the contribution to clients and the growth of the Group.



- The direct profit margin calculation excludes profits from the brand design business and DAFT about DRAFT external sales. For management accounting purposes, the direct profit margin is calculated by subtracting direct outsourcing costs and material costs from net sales.
- Please note that the fiscal year-end changed from March 31 to December 31 in FY2020, making the transitionary FY12/20 fiscal year a nine-month accounting period covering April 1, 2020 to December 31, 2020.

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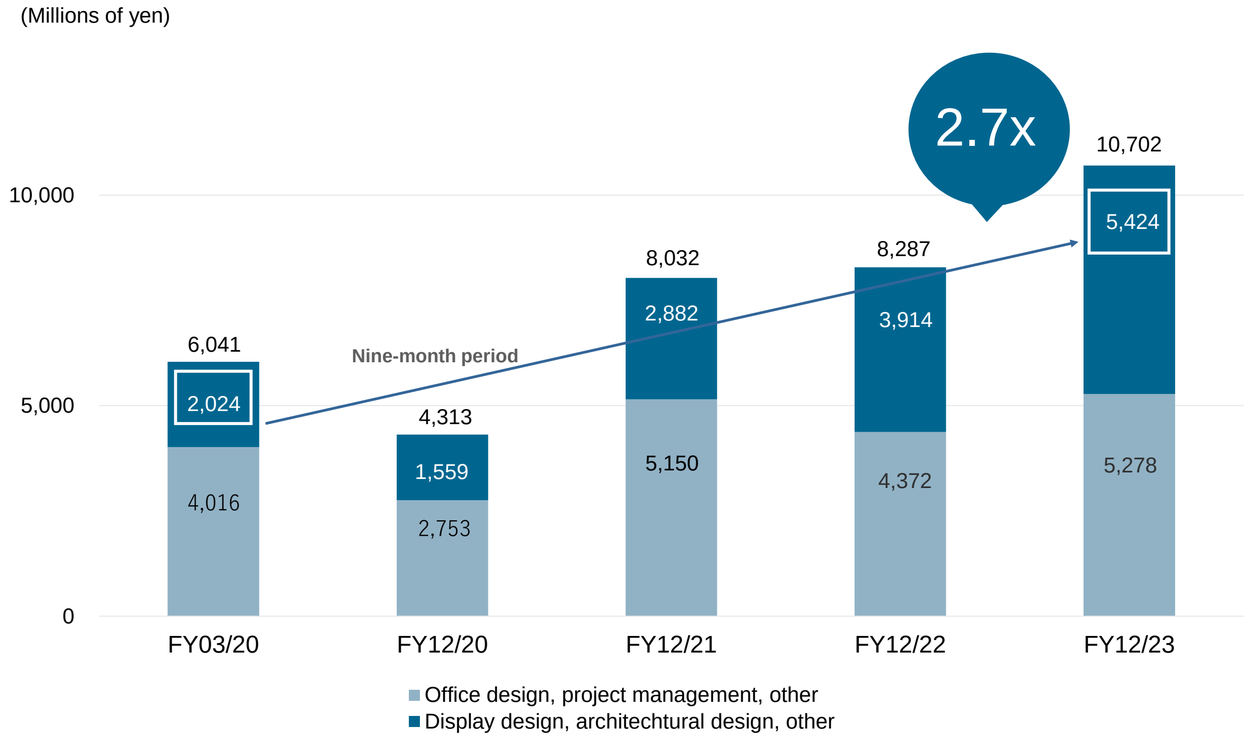
Net Sales Breakdown

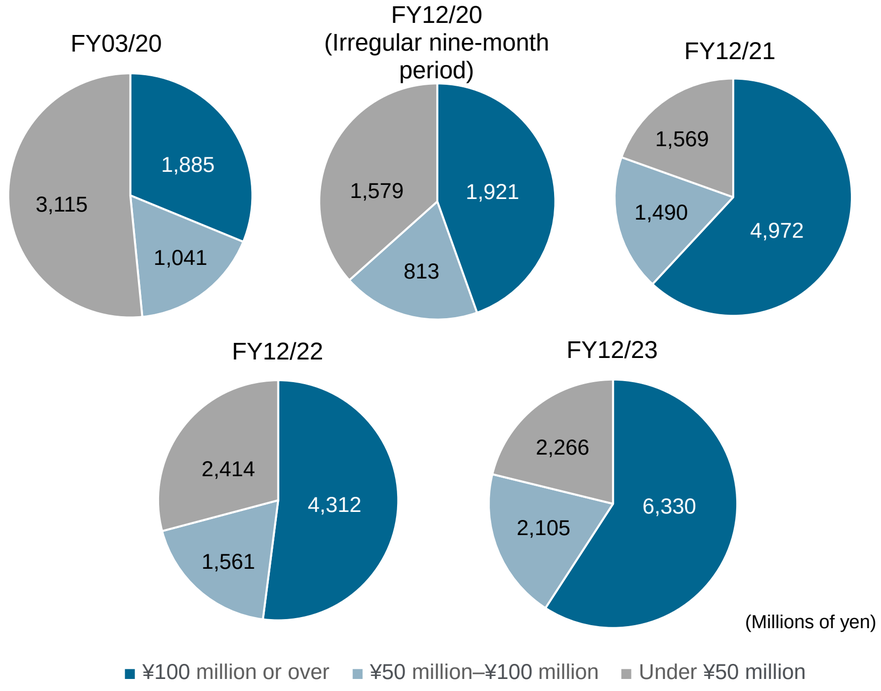
By category

The size of each category has been increasing, and in recent years, the display design, architectural design, and other category has experienced particularly significant growth (increased 2.7x versus FY03/20).



By project size

The proportion of large-scale projects (¥100 million and above) continues to increase. In FY12/23, large-scale projects accounted for approximately 60% of the total amount.



- The company has changed the classification to "Display design, architectural design, and other" and "Office design, project management, and other" starting from the current consolidated fiscal year.
- Please note that the fiscal year-end changed from March 31 to December 31 in FY2020, making the transitionary FY12/20 fiscal year a nine-month accounting period covering April 1, 2020 to December 31, 2020.

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STOCK& FORECAST

KPI Tool to Visualize Business Performance
“STOCK&FORECAST”

In order to improve the accuracy of net sales forecasting, the DRAFT Group uses the KPI tool “STOCK & FORECAST,” which is based on project stock, forecast, and acquisition rate.

Project Stock

Order backlog (Contracted) + Prospective projects (Pre-contract) Acquisition rate × 70%

DRAFT uses “project stock,” which is the sum of the order backlog that can be recorded as sales during the fiscal year and prospective projects that are likely to be received, as an indicator of the accumulated amount. Prospective projects include those awaiting the results of competitions, special orders, and repeat orders that have not yet been signed. In addition, by improving the accuracy of prospective projects, we have maintained our previous acquisition rate.

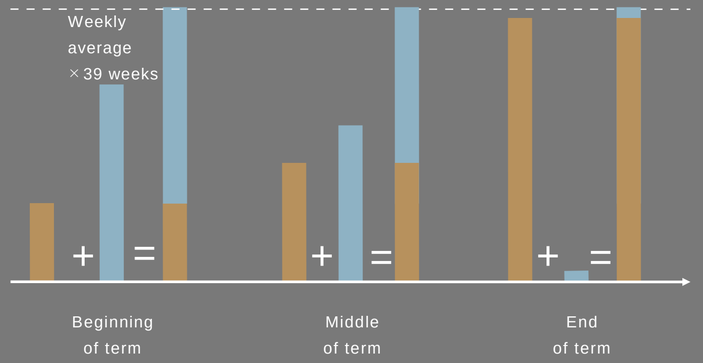
\+

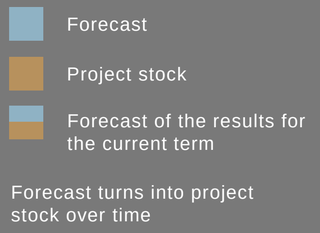
Forecast

Per week average amount of inquiries × 39 weeks × Acquisition rate 70%

Based on the statistical data of past project inquiries, the amount of future inquiries per week is predicted as a historical forecast. We then multiply this by the “acquisition rate” converted from the competition win rate and special order rate to calculate the expected amount of projects that have not yet materialized. Since there is a time lag of more than three months between the receipt of an order and its completion, the number of weeks that can be accounted for in the current fiscal year is 39.

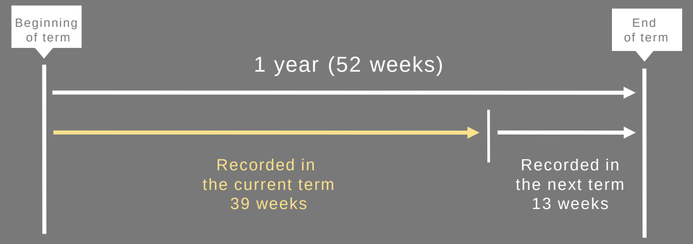
= Net Sales Forecast for the Current Term





Forecast turns into project stock over time

Timing of the recording of the forecast



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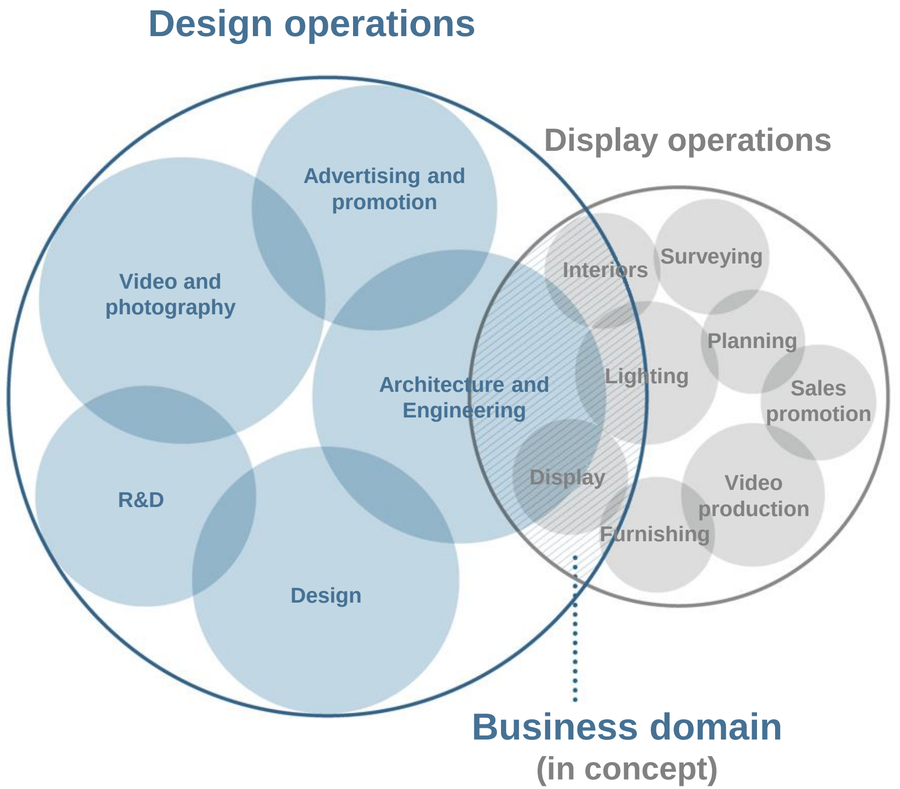
Business Environment (Market and Competition)

The Group focuses on design as the core of its business.
While our main design projects revolve around spaces such as urban areas, commercial facilities, and offices, we also engage in brand design to support our clients' brand-building efforts based on their specific requests. Additionally, our business scope includes product design, such as the design, planning, manufacture, and sale of original furniture, as well as the development of our own interior brand. The Group's business, which aims to enhance the value of spaces, also incorporates elements of the display business.

Given the uniqueness of our business, we believe there are no direct competitors that offer the same combination of services. However, there are competitors within specific business domains. For example, we compete with renowned design firms and comprehensive display companies in the field of large-scale commercial space design. In the case of office space design, we compete with dedicated office design companies and major office furniture manufacturers. When it comes to urban planning (area design), in some cases we are in competition with major real estate companies and their group companies.



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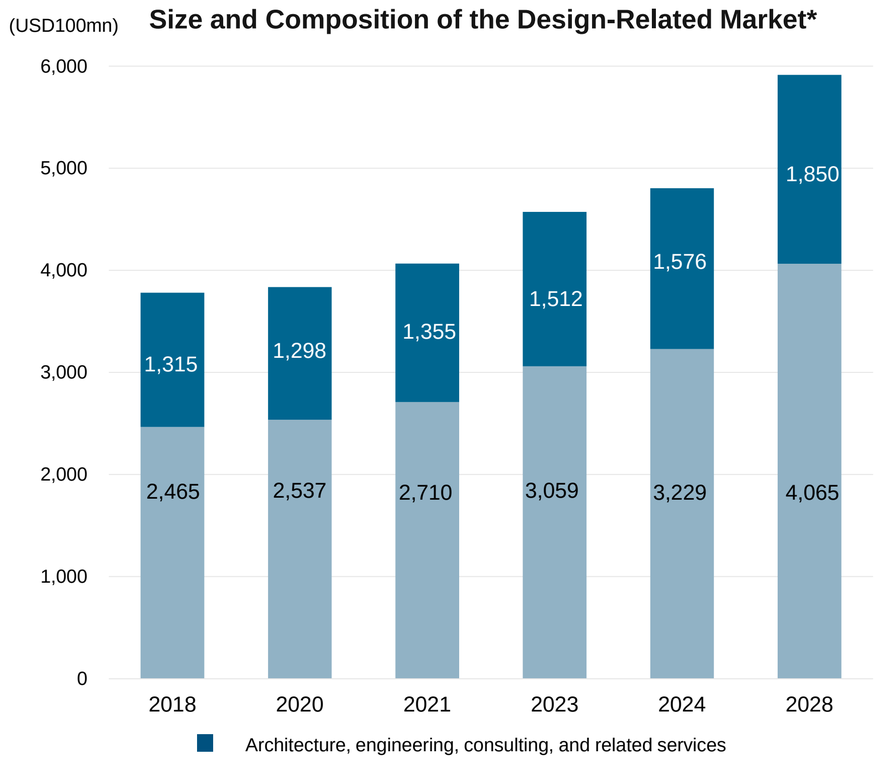
Design-Related Market

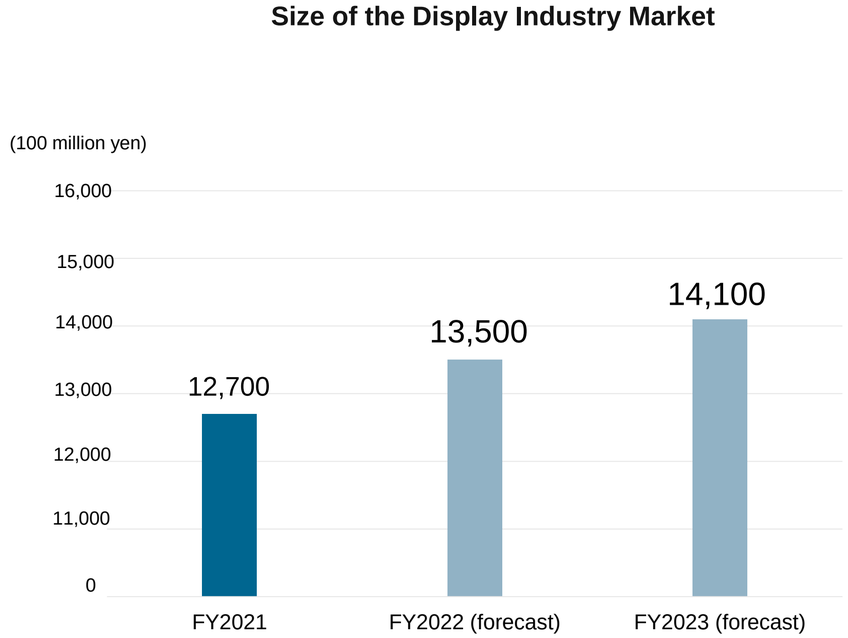
The design-related market has been expanding annually due to increased global demand. According to a study by Business Research Company, the design-related (professional services) market is expected to grow to approximately $5.9 trillion (¥839 trillion) by 2028. Furthermore, the architectural design and engineering consulting field, which accounts for over 30% of this market, is projected to expand to ¥262 trillion by 2028.



* Architecture and engineering, specialized design, research and development, advertising and promotion, video and photography, consulting, etc.

Display Industry Market

The display industry has significantly expanded its scope, encompassing not only commercial and cultural facilities but also schools, offices, and residential spaces. The market in Japan is projected to increase by approximately 11% from FY2021 to FY2023, reaching ¥1.41 trillion, driven by the economic recovery from the COVID-19 pandemic. A further expansion of approximately 10% is expected in FY2025 compared to FY2023*.



*1 Business sales basis

*2 Estimated figures for FY2022, projected figures for FY2023 and beyond (as of April 2023)

* Source: Yano Research Institute, Ltd. “Market Outlook and Business Strategy for the Display Industry (2023)”

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Competitive Advantage

1. Cutting-edge design led by TJ Institute of Design & Architecture

The design work led by Taiju Yamashita, who heads DRAFT, is not limited to one individual artistic style. The Company constantly updates its style to keep with the times and strives to create new value through design.

The TJ Institute of Design & Architecture, established as an internal organization in 2022, actively engages in the development of cutting-edge designs and landmark designs that attract attention. By reflecting the knowledge, expertise, and brand power gained from these activities into our regular project work, we aim to further expand our business.



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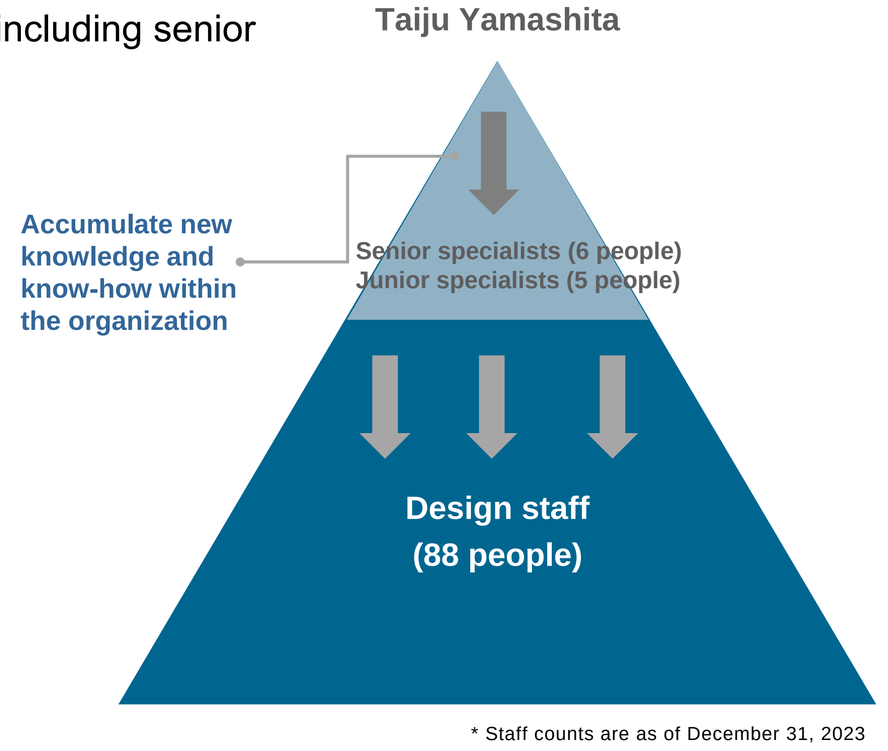
2. A strong organizational model that systematizes and passes down know-how

Through systematization of know-how and continuous initiatives aimed at improving project processes, the Company passes down know-how from advanced projects led by Taiju Yamashita to the design staff, who account for approximately 70% of the Group's members, including senior and junior specialists.

Staff members who have studied the drafting designs form teams and work on subsequent projects. The new insights and expertise gained here are accumulated within the organization through further systematization and project process improvement initiatives.
This mechanism is one of the factors that has enabled rapid expansion of the Company's scale.

We consider this style of passing down design expertise and putting it into practice as one of the Group's strengths.



* Staff counts are as of December 31, 2023



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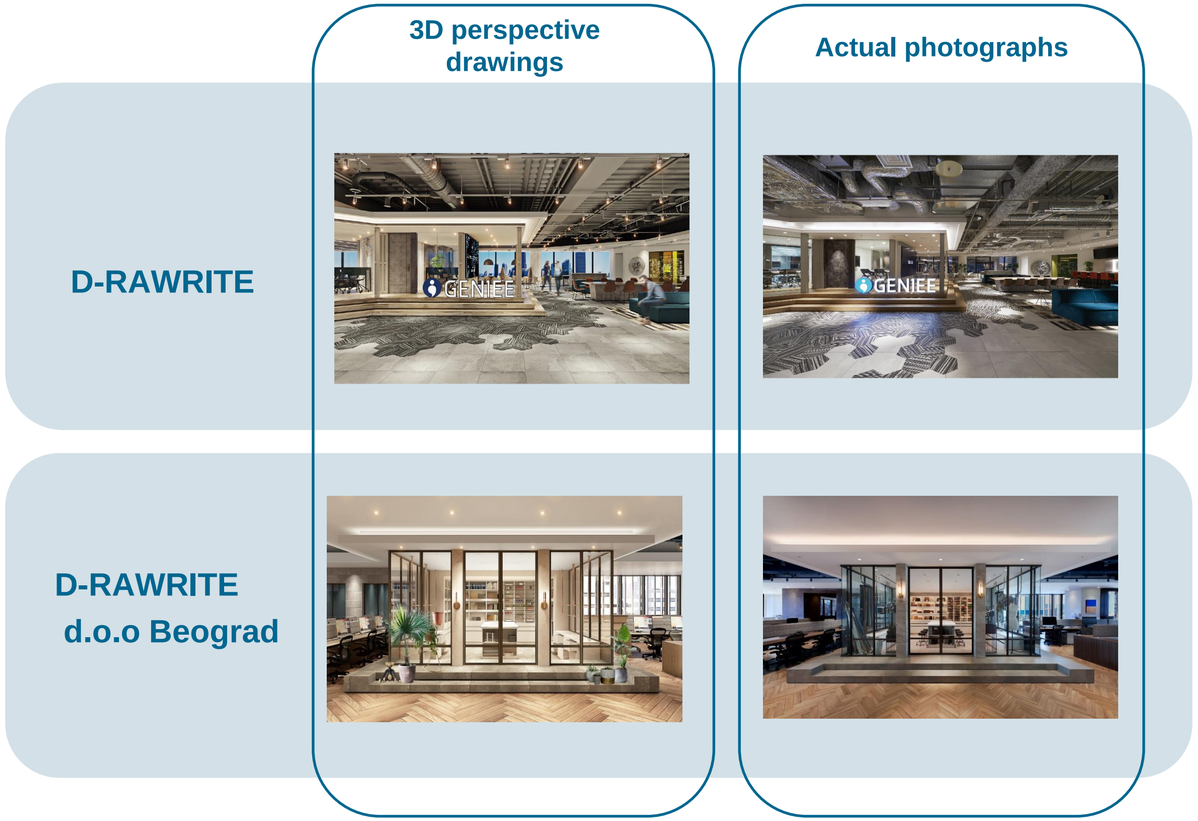
3. Proprietary 3D Technology and R&D

Data-driven design and technological development are essential elements in the architecture and design industry, especially in the display field. Within the Group, we constantly conduct research on new design processes that integrate design and data, aiming to enhance not only the architectural design itself but also the efficiency of the design process.

In 2013, the Group established D-RAWRITE INC. in the the Philippines, and in 2022, D-RAWRITE d.o.o Beograd in Serbia to bring the production of 3D perspective drawings (visual representations based on design drawings) in-house.
The production of high-quality 3D perspective drawings greatly contributes to reducing discrepancies in client perception and human errors, leading to increased orders and smooth progress.



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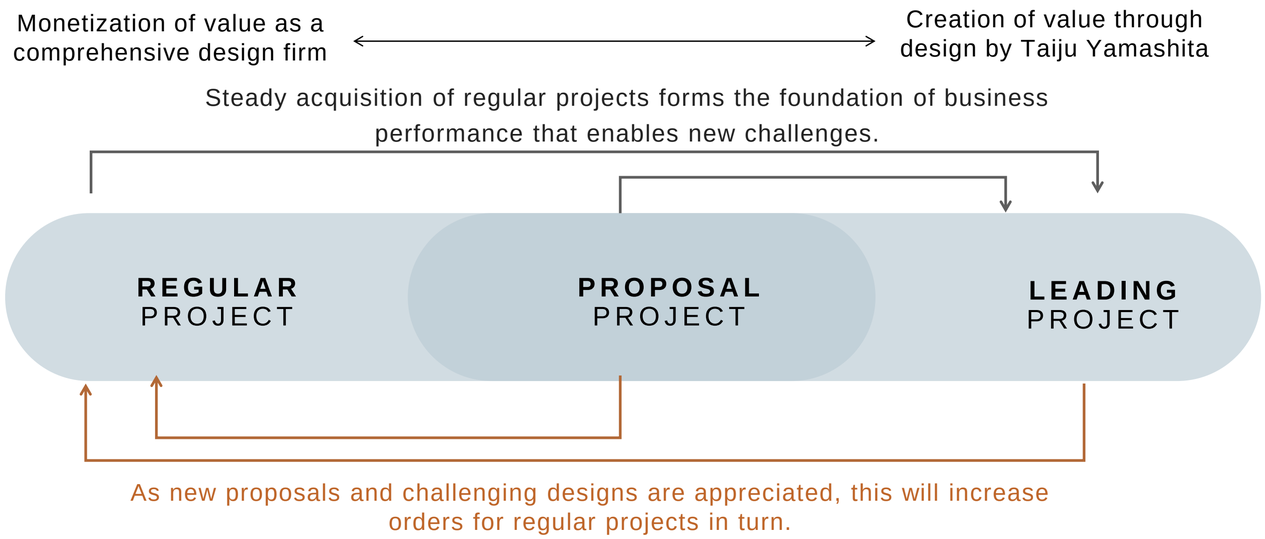
02

LOOKING BACK ON THE PREVIOUS MEDIUM-TERM MANAGEMENT PLAN (FY12/21–FY12/23)

Growth Strategy (Policy) and Results

Policy 1. Project type strategy to cycle monetization and value creation



We classify our core business of interior and architecture into three types of projects.

By simultaneously circulating regular projects that form the foundation of our business performance, proposal projects that increase business opportunities, and leading projects that improve our brand value, we aim to further expand our business.

- **As regular projects expanded, we recorded sales for large-scale contracts from leading projects, with FY12/23 net sales exceeding ¥10.0 billion.**
- **The cycle from leading projects to regular projects began and the number of referrals from clients increased from eight cases (FY03/20) to 28 cases (FY12/23).**
- **Realizing projects that garner attention in society**



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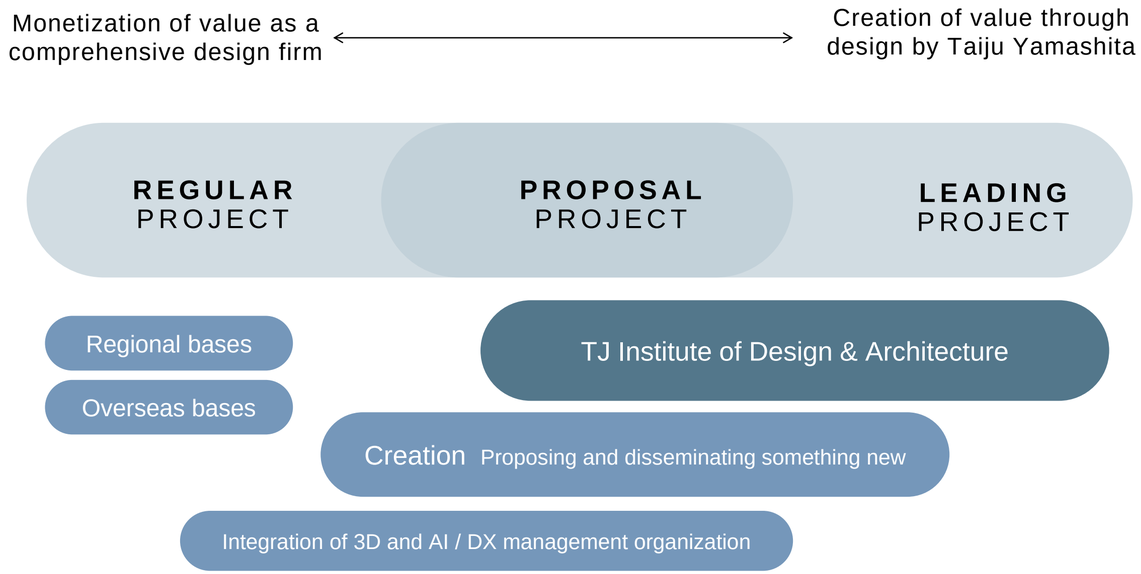
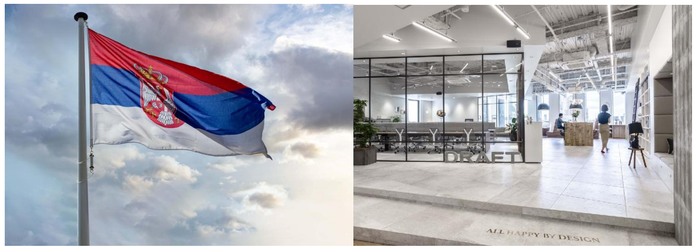
Policy 2. Strengthening the organizational structure for continuous innovation



As another measure to support business growth under our growth strategy, we have strengthened our organizational structure and furthered efforts to create new value through new planning and content development.

- **As the flagship leading project, established TJ Institute of Design & Architecture as an in-house organization.**
- **Established an overseas subsidiary in Serbia to expand the 3D design team.**
- **Set up a sales base in Fukuoka to capture the demand in the Kyushu region, where urban redevelopment is progressing.**
- **Launched the lifestyle brand “DAFT about DRAFT” as part of the creation business.**
- **Appointed a digital transformation promotion officer and strengthened the 3D team to drive R&D.**



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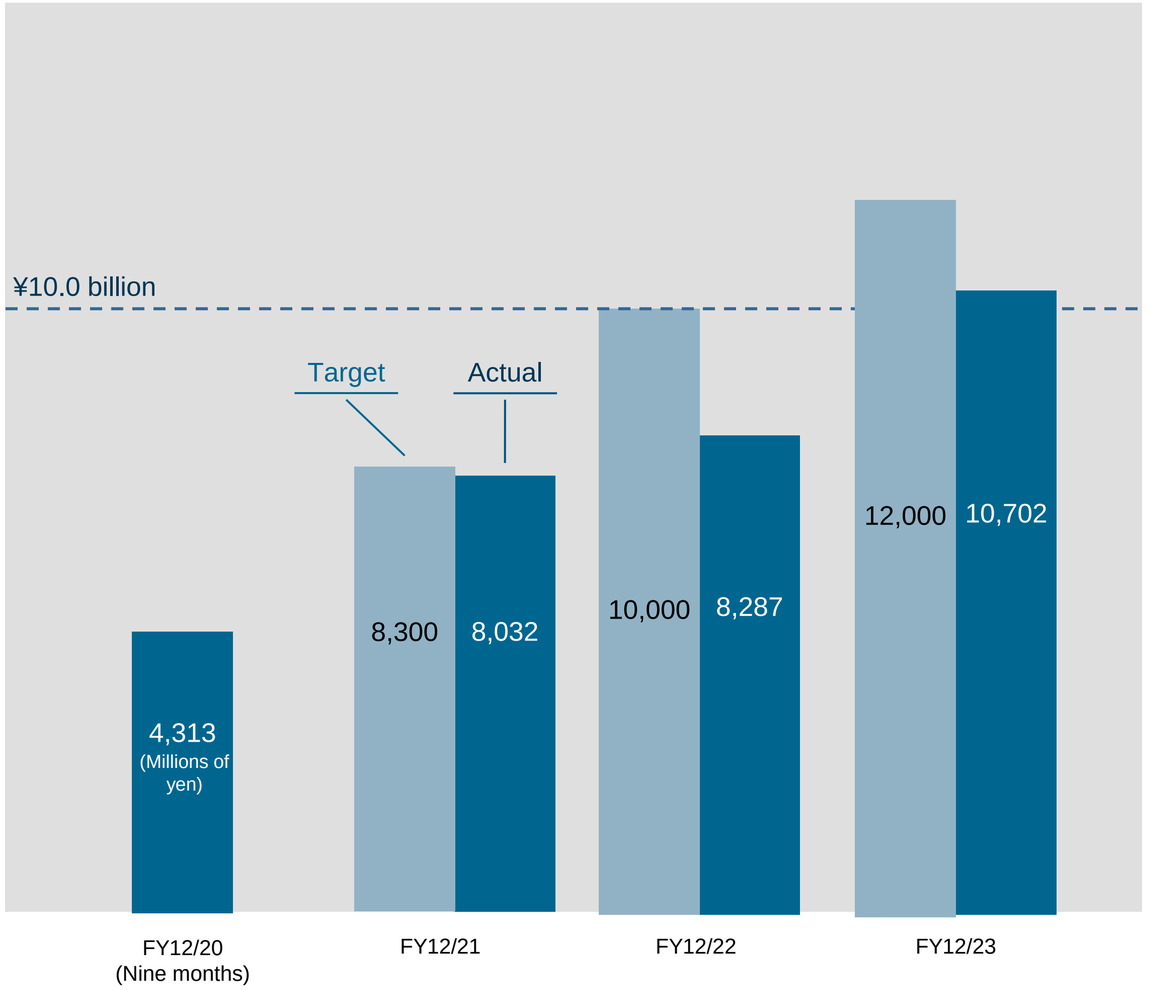
Numerical targets and results

Results versus the numerical targets of the previous medium-term management plan (announced in 2021) are as shown in the figure on the right.

We had set a target of ¥10.0 billion in sales for FY12/22, but due to the loss of major projects and poor estimation accuracy of project stocks, we were unable to achieve the target.

However, we improved the accuracy of project management through review and systematization, achieving the target of ¥10.0 billion in sales for FY12/23, one year later than originally planned.



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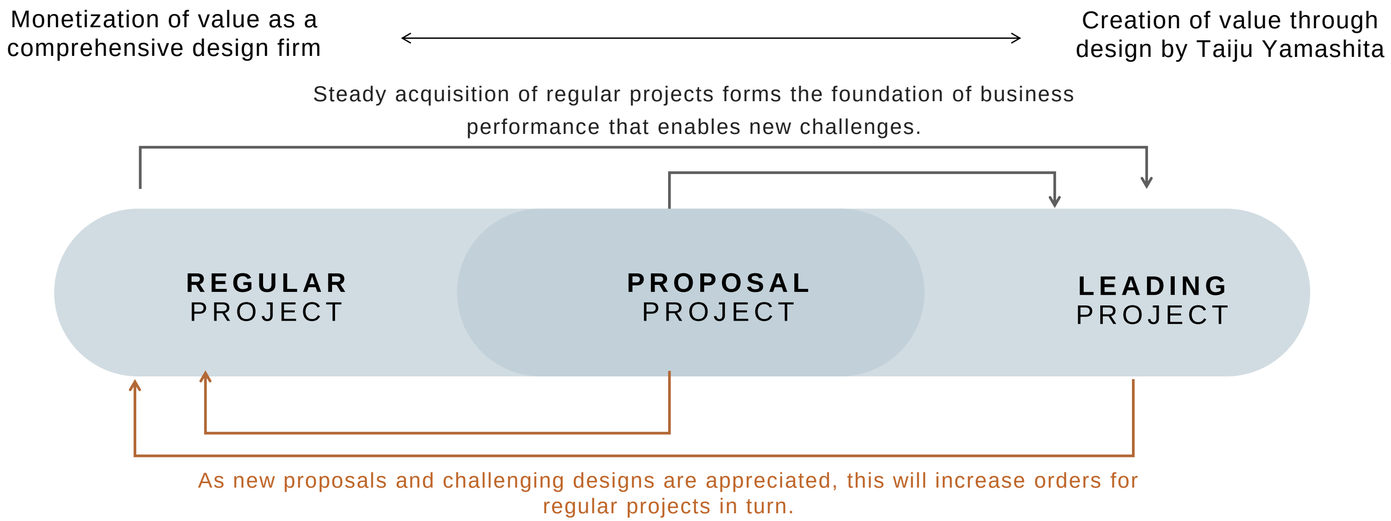
03

MEDIUM-TERM MANAGEMENT PLAN (FY12/24–FY12/26)

Growth Strategy and Awareness of Issues

Basic policy: Project type strategy to cycle monetization and value creation

(Continuation of the basic policy of the previous medium-term management plan)



The Group’s strength lies in its design capabilities, which drive value creation. To sustain continuous growth, it is crucial that we maximize the utilization of this strength in our business expansion. Therefore, we will continue to adopt a project type strategy, with leading projects serving as the engine.

On the other hand, it is essential to secure the human resources for each project to implement this strategy. Further enhancing our talent pool through robust recruitment and educational systems remains a critical management issue for our rapidly growing group.

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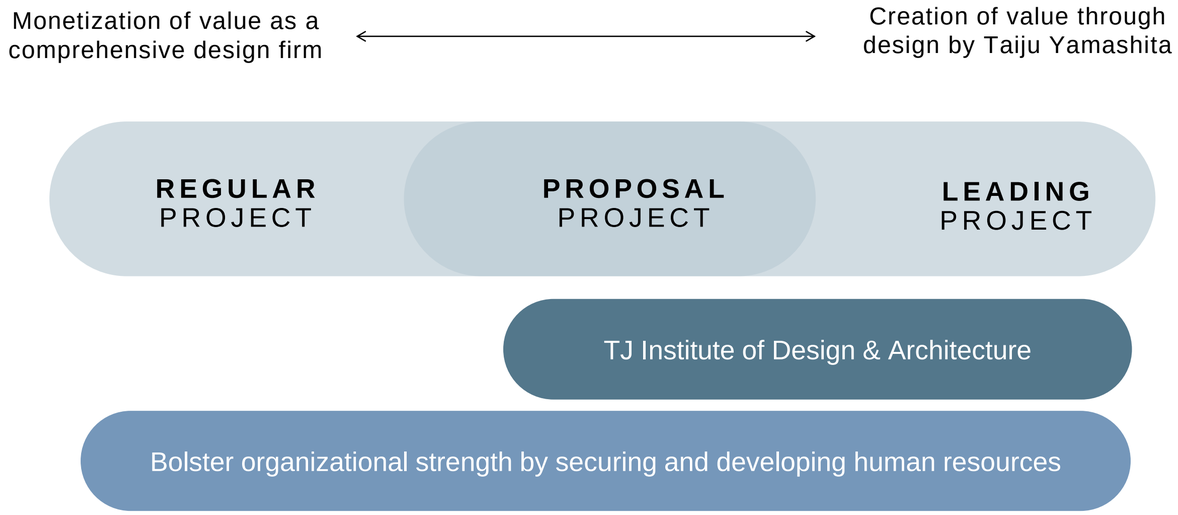
Initiative 1. Realization of new designs through the activities of the TJ Institute of Design & Architecture and expansion of business based on these designs

The creation of value through innovative design not only serves as a driving force for project acquisition but also enhances brand value. We will achieve business expansion through the proactive efforts of TJ Institute of Design & Architecture, a leader in cutting-edge design.



Initiative 2. Strengthen organizational strength by securing and developing human resources

To secure and develop the people who are the driving force behind our growth, we will establish and implement basic principles regarding our talent strategy. For more information on our talent strategy, please refer to “04 Human Capital-Related.”

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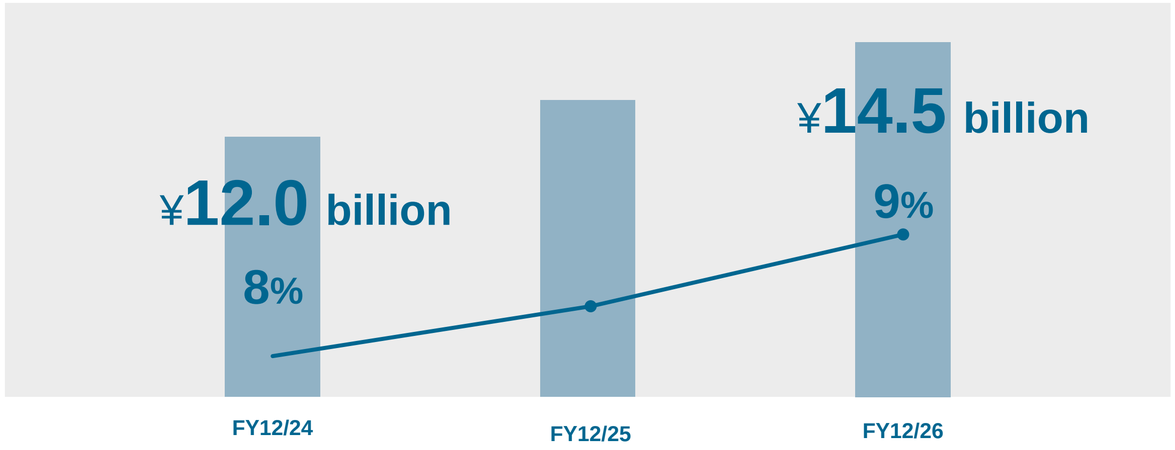
Target KPIs

FY12/26

Net sales target	¥14.5 billion
Operating profit margin target	9%



Due to the increased size of the projects, we anticipate a wider range of fluctuations in growth during the period of the medium-term management plan. We have therefore set net sales and operating profit margin as targets for the final year of the medium-term management plan and will conduct our business accordingly.

Net sales

The Group’s brand awareness has been increasing year by year through large-scale projects and landmark designs.
Additionally, the design and display markets are in an uptrend, allowing for continued growth in line with our current business implementation structure.
To achieve long-term growth, we believe it is necessary to diversify our earnings models, and we are actively considering diversification within the period of the current medium-term management plan. We will announce any developments accordingly.

Operating profit margin

The Group’s has maintained its gross profit margin at around 30% and does not anticipate significant fluctuations during the period of the medium-term management plan.
On the other hand, the main components of SG&A expenses are personnel expenses and rent. While personnel expenses are planned to increase in line with workforce expansion, we have already completed the relocation to an office that can accommodate the increased staff, so rental will remain at a similar level, causing the ratio of rent in SG&A expenses to decline.
We have set the target of 9% on the assumption of maximizing profit while making necessary investments for growth.

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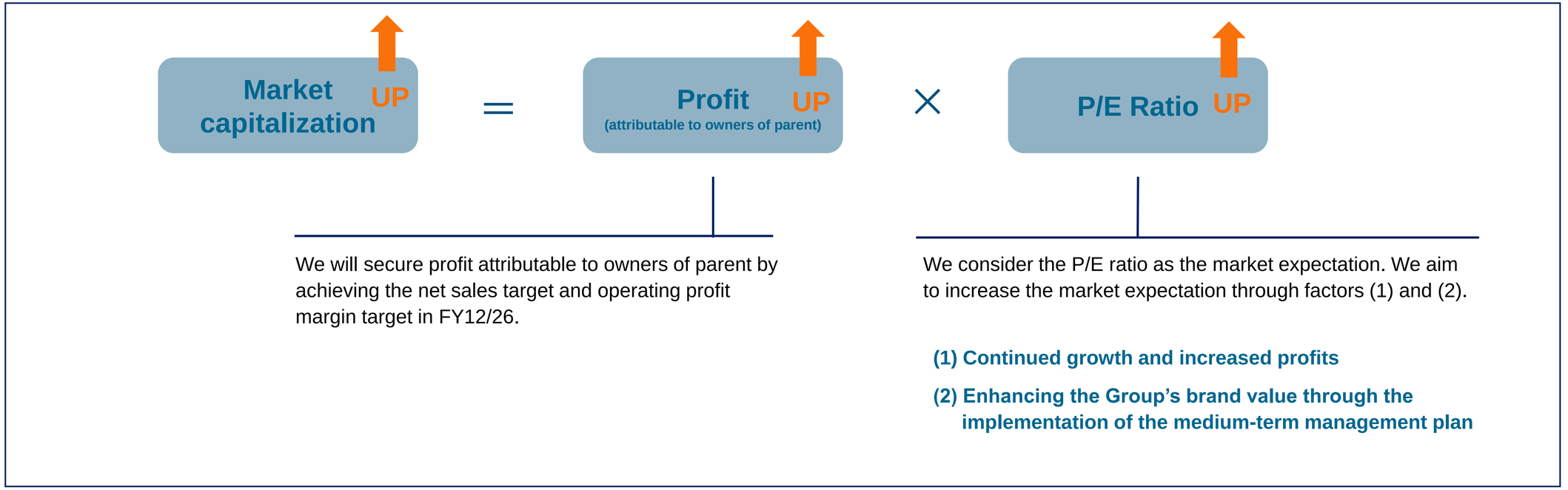
We consider market capitalization (stock price) as a measure to quantify the Company’s value.
The Company has set market capitalization as a KPI in its medium-term management plan.

As of the end of December 2026

Market capitalization target **¥15.0 billion**

As of the end of December 2023

Market capitalization:	¥7.1 billion
Stock price:	¥707
P/E ratio:	13.8x



We will secure profit attributable to owners of parent by achieving the net sales target and operating profit margin target in FY12/26.

We consider the P/E ratio as the market expectation. We aim to increase the market expectation through factors (1) and (2).

(1) Continued growth and increased profits

(2) Enhancing the Group’s brand value through the implementation of the medium-term management plan

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04

HUMAN CAPITAL-RELATED

Basic Policy

Our Group operates under the corporate philosophy of “ALL HAPPY BY DESIGN.” Through this philosophy, DRAFT strives to contribute to global society by creating a cycle of happiness through the power of design. We aim to realize this philosophy by creating spaces that enhance human experience (HX). As a company engaged in the design business, we value the people who belong to our team as the driving force behind our operations. We believe the following three elements are crucial to realizing “ALL HAPPY BY DESIGN” and achieving sustainable growth:

1. **Having happy group employees**
2. **Ensuring diversity**
3. **Fostering personnel who resonate with our corporate philosophy and can uphold our corporate culture**

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1. Measures toward “having happy group employees”

While the meaning of happiness varies from person to person, the working environment is undoubtedly an important factor in ensuring the happiness of employees. The Group supports the happiness of its employees by addressing both the hard and soft aspects of the working environment.

Hard	**Head office relocation** (implemented in December 2022) Our CEO, Mr. Yamashita, personally designed a visually appealing and efficient office space to create a comfortable working environment. This design promotes communication among employees and fosters a sense of unity within the company. Additionally, the spacious layout allows for more a comfortable work life.
Soft	**Optional three-day weekend system** Employees have the option to choose a three-day weekend schedule on a quarterly basis. The system has been designed to ensure that even if an employee chooses the three-day weekend schedule, their salary will not decrease. **Housing expense subsidy program** For the Company, which specializes in designing spaces, the residences of our employees are also important spaces. We partially subsidize the expenses for employees who use residences that meet a certain standard. **Company exclusive babysitter** (in trial operation) This service allows both men and women to entrust their children to the care of another with peace of mind. **In-house concierge service** (in trial operation) We hire external professional concierges to support employees’ daily lives.

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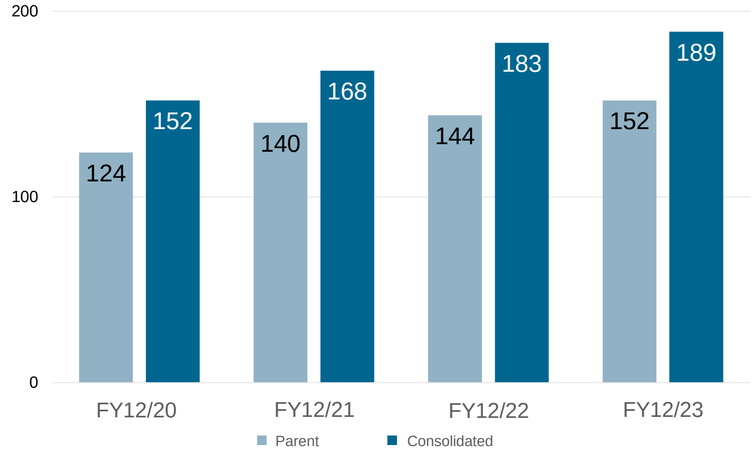
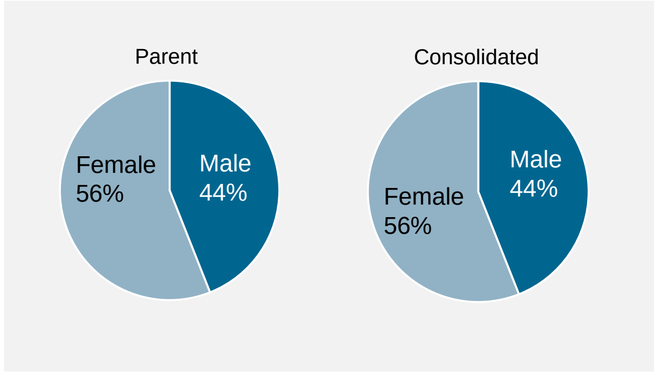
2. Measures toward “ensuring diversity”

To continuously generate outstanding designs, it is essential for employees with diverse skills and abilities to demonstrate their individuality and work toward solving clients’ challenges.
The Group has therefore managed talent based on their capabilities and achievements since its founding, without considering factors such as gender, age, or nationality. We will continue to uphold this policy moving forward.

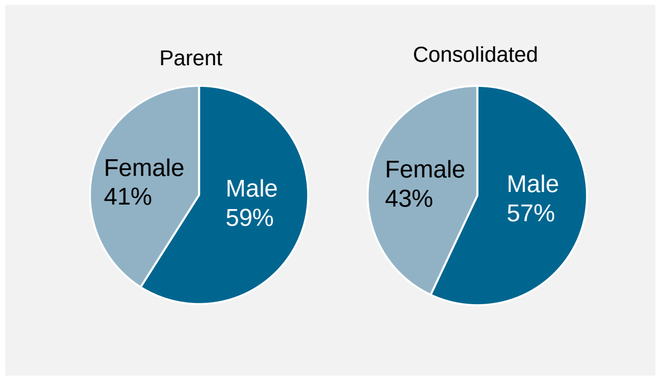
■ Number of employees



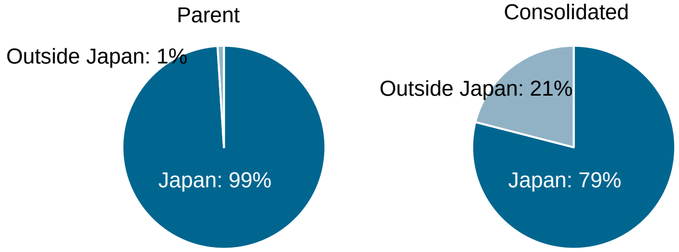
■ Male-to-female ratio (employees)



■ Male-to-female ratio (managers)



■ Employees by nationality



■ Return-to-work rate from parental leave (January–December 2023)

Parent

	Parental leave takers	Return-to-work rate
Men	2	100%
Women	3	100%

Consolidated

	Parental leave takers	Return-to-work rate
Men	3	100%
Women	4	100%

* All figures are as of December 31, 2023

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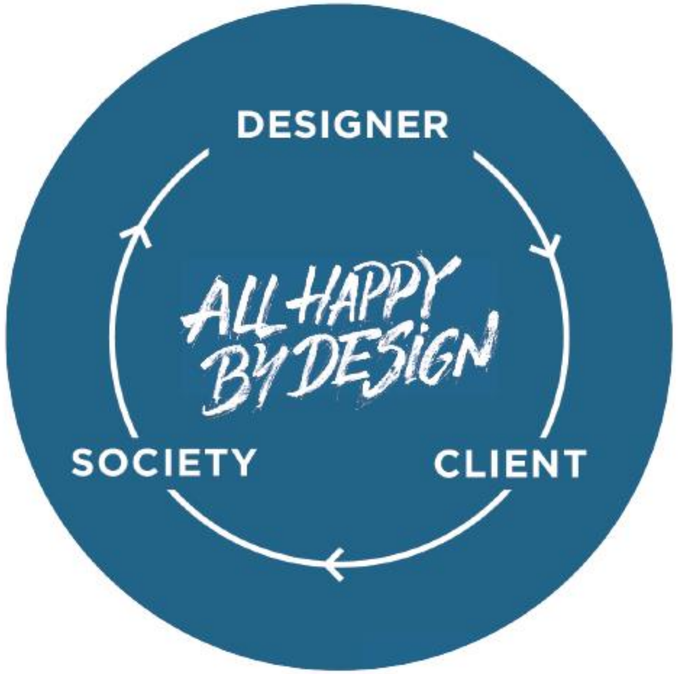
3. Measures toward “fostering personnel who resonate with our corporate philosophy and can uphold our corporate culture”

It requires a significant amount of time and effort to have intangibles like corporate philosophy and corporate culture permeate a company. At DRAFT, CEO and founder, Taiju Yamashita, takes the lead in promoting the spread of our corporate philosophy and corporate culture.

Through day-to-day communication and various events such as company-wide meetings (quarterly conferences) held several times a year, kick-off events at the beginning of the year, and others, we strive to promote the permeation of our culture and the sharing of our management policies. We will continue to implement these measures as we move forward.



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MANAGEMENT STRUCTURE

Management structure from 2024 onward

Starting from FY12/24, two representative directors will work together to manage the Company*.

Taiju Yamashita × Masahiko Aranami

As a designer, Mr. Yamashita will focus on creating new value and business growth.
On the management side, he will oversee the DRAFT Group, a group of designers, as the CEO.

Mr. Aranami will share responsibility for governance and risk management, supporting the executive team while ensuring stable growth.
He will reflect the opinions of the capital market in management decisions through communication with shareholders and investors.

Board of directors

Representative director	**Taiju Yamashita**
Representative director	**Masahiko Aranami**
Director*	**Daisuke Yuki**
Director* (audit)	**Mitsuru Hirata**
Director* (audit)	**Naoko Omura**
Director* (audit)	**Mariko Mishiro**

* = Outside director; (audit) = Audit & Supervisory Committee Member

Executive officers

CEO	**Taiju Yamashita**		
Senior executive officer	**Hitomi Miki**		
Senior executive officer	**Hisataka Kumagawa**		
Senior executive officer	**Toshitaka Nasu**		
Executive officer	**Saeko Takahashi**	**Executive officer**	**Takayuki Yoshioka**
Executive officer	**Akihiro Ishiyama**	**Executive officer**	**Toshiyuki Kozawa**

* Mr. Aranami, who currently serves on the Board of Directors, is scheduled to assume the position of representative director following the Ordinary General Meeting of Shareholders and meeting of the Board of Directors scheduled for March 2024.

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RISKS

The “Risks of Business, etc.” section of the Annual Securities Report contains items of particular interest to shareholders and investors.

Risks of design imitation or obsolescence

The DRAFT Group is expanding its business by leveraging its design capabilities as a competitive edge. It is difficult to protect the rights of spatial designs, and there is a possibility that they may be imitated and offered at low prices. In addition, there is a possibility that the designs provided by us may become obsolete and out of step with current trends.

To avoid such risks, the Group, centered on the TJ Institute of Design & Architecture, will continue to develop cutting-edge designs and create a cycle of happiness in the world with designs that cannot be imitated by others and are always ahead of their time.

Dependence on a specific person

Taiju Yamashita, Representative Director, who has led the DRAFT Group’s business since its establishment, is also an active designer and plays an extremely important role in planning and implementing management policies and business strategies, as well as in promoting our business.

To avoid excessive dependence on Mr. Yamashita, the Group will actively share its design know-how and other resources and strengthen its design team. We will further bolster our current structure and develop our business as an organization, while continuing to operate under the banner of Taiju Yamashita and the TJ Institute of Design & Architecture.

Risks related to fluctuations in the timing of sales recognition (timing of service delivery)

The DRAFT Group’s business mainly consists of order-driven services in which the schedule for service delivery is planned based on the client’s preferences. As a result, the scheduled completion date of service delivery may deviate from the initial plan due to schedule changes made by the client, or from natural disasters such as earthquakes, typhoons, or floods.

In recent years, the Group has experienced a trend of concentrated net sales in Q4 (October to December). If there are changes in the timing of service delivery in this quarter, it can have an impact on the full-year financial results. The Group is thus actively working to flatten quarterly net sales to mitigate this effect.

Risks related to goodwill impairment

The Group in some cases uses M&A as part of its business expansion strategy, and as of the end of December 2023, it had goodwill of approximately ¥150 million on its consolidated balance sheet. This goodwill arose from the acquisition and merger of SATISONE Co., Ltd., a company focused on brand marketing, in 2021. Currently, our brand marketing business is progressing well, but if there is a need to recognize impairment losses in the future, it could have a significant impact on the Group’s performance.

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Notes on the use of this document

This document has been prepared for the purpose of providing an understanding of DRAFT and is not intended as a solicitation for investment. The forward-looking statements and strategies contained in this document are based on information available to the Company at the time this document was prepared. Therefore, they involve risks and uncertainties, and we do not make any guarantees that they will be realized. We plan to explain the progress of various indicators in the semiannual financial results presentation materials. The business plan will be updated when the full-year results for FY12/24 are announced.