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Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2024 (Japanese GAAP)

May 13, 2024

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: May 13, 2024
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, 2024 (January 1, 2024 to March 31, 2024)

(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, 2024	2,777	74.6	302	—	289	—	185	—
March 31, 2023	1,590	63.8	(206)	—	(212)	—	(171)	—

(Note) Comprehensive income: Three months ended March 31, 2024: 193 million yen (—%)
Three months ended March 31, 2023: (169) million yen (—%)

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	18.42	18.35
March 31, 2023	(17.09)	—

(Note) Diluted earnings per share for the first three months of the fiscal year ended December 31, 2023 is 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, 2024	7,210	3,608	49.8
December 31, 2023	7,465	3,475	46.3

(Reference) Shareholders' equity: As of March 31, 2024: ¥3,590 million
As of December 31, 2023: ¥3,457 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, 2023	—	0.00	—	6.00	6.00
Fiscal year ending December 31, 2024	—				
Fiscal year ending December 31, 2024 (forecast)		0.00	—	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, 2024 (January 1, 2024 to December 31, 2024)

(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	6,000	53.6	480	—	470	—	310	—	30.87
Full year	12,000	12.1	980	12.6	960	13.2	580	12.3	57.75

(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, 2024: 10,043,600 shares
December 31, 2023: 10,043,300 shares
2) Number of treasury stock at the end of the period
March 31, 2024: — shares
December 31, 2023: — shares
3) Average number of shares outstanding for the period
Three months ended March 31, 2024: 10,043,303 shares
Three months ended March 31, 2023: 10,040,008 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, 2024 (the “first quarter”), the Japanese economy was on a moderate recovery track, mainly due to the normalization of economic activities owing to the end of the COVID-19 pandemic, along with the increase in spending by inbound travelers. On the other hand, the protracted war in Ukraine, conflicts in the Middle East, and rapid weakening of the yen, among other factors, continued to make the future outlook unclear.

The DRAFT Group operates across various disciplines such as interior, architecture, product, and branding under the common thread of “designing.” Although we do not belong to any specific market, in the display (space designing) market, which is the closest to our field, major general display companies have all been performing strongly. Given the robust demand for the creation of new spatial value through the power of design, including interior and architectural design, the economic environment surrounding the Group in the first quarter was favorable overall, despite the high level of uncertainty regarding the entire economic outlook.

Against this backdrop, the Group has pressed on with the design business, positioning as its basic policy the “project type strategy,” which seeks to cycle monetization and value creation. The strategy under which our projects are classified into the three categories of “regular projects (Note 1),” “proposal projects (Note 2),” and “leading projects (Note 3)” is our initiative to create a cycle of business expansion through the synergy effects of projects with varying traits. TJ Institute of Design & Architecture, established as an independent organization, primarily takes on the role of proposing new design values to society and creating new business formats. It seeks to achieve commercialization in the form of leading projects and proposal projects. The recognition, expertise, and results gained in the leading and proposal projects are then passed on to the regular projects, becoming a part of the new norm in our regular operations, thereby bolstering the Group’s earnings base and enabling business expansion. The virtuous cycle of recognition earned by TJ Institute of Design & Architecture leading to the next set of projects was reflected in the Group’s financial results as well, with net sales in the first quarter marking significant growth year-on-year at ¥2,777 million (174.6% year-on-year). By business domain, net sales in display design, architectural design, and other totaled ¥1,498 million (197.5% year-on-year) while net sales in office design, project management, and other came to ¥1,278 million (153.7% year-on-year), showing that sales have expanded without inclining toward a particular field.

In addition to the persistently strong demand for the Group’s design work, the leveling out of quarterly results was a major factor contributing to the significant increase in net sales. In the past, the Group’s quarterly net sales were low in the first and third quarters but tended to rise in the second and fourth quarters, being skewed toward the fourth quarter (October–December) in particular. In the past two fiscal years, 40–50% of full-year net sales concentrated in the fourth quarter. As this situation posed a risk, the Group worked to win orders in such a way that quarterly sales leveled out. These efforts were reflected in the net sales posted in the first quarter and also resulted in an increase in sales that are recorded based on the progress level of performance obligations. In light of these factors, we believe we have made headway to a certain extent in leveling out net sales over the full year.

Gross profit reached ¥915 million (205.6% year-on-year) as the gross profit margin rose, mainly due to net sales growth and lower indirect costs. SG&A expenses declined to ¥613 million (94.1% year-on-year) since the significant decrease in office-related expenses more than offset the slight increase in personnel expenses (head office relocation-related expenses were posted in the same quarter of the previous fiscal year). As a result, operating profit stood at ¥302 million, up ¥508 million year-on-year. Ordinary profit, after adding non-operating income and deducting interest expenses, foreign exchange losses, and other non-operating expenses, was ¥289 million (up ¥502 million year-on-year). Profit attributable to owners of parent was ¥185 million (up ¥356 million year-on-year).

* Terminology

(Notes) 1. “Regular projects” are order-driven projects that begin with a request from the client side. They form the Group’s earnings base.
2. “Proposal projects,” positioned between regular projects and leading projects, are those 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, 2024 were down ¥254,745 thousand from December 31, 2023 to ¥7,210,526 thousand. This change was primarily due to increases of ¥144,705 thousand in cash and deposits, ¥498,936 thousand in prepaid expenses, and ¥421,000 thousand in construction in progress, which were partially offset by a ¥1,233,412 thousand decrease in accounts receivable–trade and contract assets.

(Liabilities)

Liabilities as of March 31, 2024 were down ¥387,631 thousand from December 31, 2023 to ¥3,602,036 thousand. This change was chiefly due to increases of ¥200,000 thousand in short-term borrowings and ¥413,770 thousand in contract liabilities, which were partially offset by decreases of ¥940,260 thousand in accounts payable–trade and ¥200,109 thousand in income taxes payable.

(Net assets)

Net assets as of March 31, 2024 were up ¥132,885 thousand from December 31, 2023 to ¥3,608,490 thousand. This change was primarily due to the recording of ¥185,018 thousand in profit attributable to owners of parent and dividend payment of ¥60,259 thousand.

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

No changes have been made to the consolidated earnings forecast for the first half and full year of the period under review shown in the “Consolidated Financial Results for the Fiscal Year Ended December 31, 2023” announced on February 13, 2024.