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

August 13, 2024

Company name: DRAFT Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 5070
URL: https://ir.draft.co.jp/en/
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Scheduled date to file quarterly securities report: August 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: Yes

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

1. Consolidated financial results for the six months ended June 30, 2024 (interim period from January 1, 2024 to June 30, 2024)

(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, 2024	6,685	71.2	579	—	559	—	342	—
June 30, 2023	3,905	—	(96)	—	(112)	—	(112)	—

(Note) Comprehensive income: Six months ended June 30, 2024: ¥355 million (—%)
Six months ended June 30, 2023: -¥99 million (—%)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2024	34.15	34.01
June 30, 2023	(11.21)	—

(Note) Diluted earnings per share for the first six 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	%
June 30, 2024	6,774	3,771	55.4
December 31, 2023	7,465	3,475	46.3

(Reference) Shareholders' equity: As of June 30, 2024: ¥3,753 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	—	0.00			
Fiscal year ending December 31, 2024 (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, 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
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 six months ended June 30, 2024: No
Newly added: — subsidiaries (Company name) —
Excluded: — subsidiaries (Company name) —

(2) Application of special accounting treatment in preparing the interim 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, 2024: 10,043,600 shares
December 31, 2023: 10,043,300 shares
2) Number of treasury stock at the end of the period
June 30, 2024: — shares
December 31, 2023: — shares
3) Average number of shares outstanding for the period
Six months ended June 30, 2024: 10,043,452 shares
Six months ended June 30, 2023: 10,040,356 shares

* The interim consolidated financial results are not subject to review by a certified public accountant or an 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 interim results

(1) Explanation of business results

In the first six months of the fiscal year ending December 31, 2024 (the “interim period”), the Japanese economy was on a moderate recovery track, mainly supported by improvements in the employment and income conditions and a surge in inbound demand. Meanwhile, the protracted war in Ukraine, conflicts in the Middle East, and soaring raw material and energy prices caused by the prolonged depreciation of the yen, among other risk factors, continued to cloud the economic outlook going forward.

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 interim period was favorable overall, despite some risk factors, such as higher prices and labor shortages.

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.

Net sales for the interim period increased significantly, amounting to ¥6,685 million (+71.2% year-on-year), owing to the steady rollout of the project type strategy. Major factors contributing to the sales growth also included robust demand for the Group’s design work and the leveling out of fluctuations in quarterly sales. Until recently, the Group’s sales tended to be skewed toward the fourth quarter (October–December) of each fiscal year, with 40%–50% of net sales for the past two fiscal years being concentrated in the fourth quarter. In terms of six-month results, about 60% of net sales were recorded in the second half of a fiscal year. Owing to the Group’s efforts to level out fluctuations in quarterly sales and an increase in sales recorded based on the progress in the fulfilment of performance obligations, the fluctuations in quarterly sales are gradually evening out.

By category, sales were ¥3,153 million for display design, architecture design, and other, and ¥3,532 million for office design, project management, and other. Sales steadily increased for both categories, but the sales growth for office design, project management, and other were particularly strong in the interim period. This was attributed to the completion of a large office design project that had been ongoing since the previous fiscal year and the resulting recording of sales corresponding to the interim period, as well as a large additional order from an existing client.

Gross profit reached ¥2,076 million (+63.4% year-on-year) on the back of the substantial sales growth. SG&A expenses were ¥1,497 million (+9.5% year-on-year), as increases in personnel and advertising expenses were largely offset by a sharp decline in office-related expenses. The increase in personnel expenses was due to a higher headcount and salary increases, and the increase in advertising expenses resulted from expenses for participating in the Salone del Mobile.Milano 2024 exhibition; we see these expenditures as investments for future growth. The decline in office-related expenses was because we no longer paid double rents as we did in the same period of the previous fiscal year (due to head office relocation).

As a result, operating profit increased by ¥675 million year-on-year to ¥579 million (from a loss of ¥96 million in the same period of the previous fiscal year). Ordinary profit increased ¥671 million year-on-year to ¥559 million (from a loss of ¥112 million in the same period of the previous fiscal year), reflecting non-operating income and non-operating expenses (interest payments, foreign exchange losses, etc.), and profit attributable to owners of parent grew ¥455 million to ¥342 million (from a loss of ¥112 million).

The Group operates in a single reportable segment, the Design business, and hence omitted results by segment.

* 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

1. Status of assets, liabilities, and net assets

(Assets)

Total assets as of June 30, 2024 were down ¥690 million from December 31, 2023 to ¥6,774 million. This change was primarily due to a decrease of ¥2,023 million in accounts receivable–trade and contract assets, offsetting increases of ¥758 million in cash and deposits and ¥421 million in construction in progress.

(Liabilities)

Liabilities as of June 30, 2024 were down ¥986 million from December 31, 2023 to ¥3,003 million. This change was primarily due to decreases of ¥532 million in accounts payable–trade, ¥300 million in short-term borrowings, and ¥155 million in long-term borrowings.

(Net assets)

Net assets as of June 30, 2024 were up ¥295 million from December 31, 2023 to ¥3,771 million. This change was primarily due to the recording of ¥342 million in profit attributable to owners of parent and dividend payment of ¥60 million.

2. Cash flows

Cash and cash equivalents as of June 30, 2024 were ¥2,507 million, up ¥985 million from December 31, 2023.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,733 million (versus net cash of ¥213 million provided in the first six months of the previous fiscal year). This was largely due to a decrease of ¥2,033 million in accounts receivable–trade and a decrease of ¥532 million in accounts payable–trade.

(Cash flows from investing activities)

Net cash used in investing activities was ¥441 million (versus net cash of ¥445 million used in the first six months of the previous fiscal year). Primary use of cash was expenditures of ¥434 million for the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities was ¥534 million (versus net cash of ¥257 million provided in the first six months of the previous fiscal year). Primary contributing factors included a decrease of ¥300 million in short-term borrowings and ¥170 million in repayment of long-term borrowings.

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

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

(Note) The earnings forecast has been formulated based on certain assumptions the Company deemed reasonable at the time of its release, and actual results may substantially differ from the forecast due to various factors.