

Note: The accompanying consolidated financial statements were not audited since they have been prepared only for reference purposes only. All statements are based on “Kessan Tanshin” report prepared in accordance with the provisions set forth in the accounting regulations and principals generally accepted in Japan.

Summary of Consolidated Financial Results for the Second Quarter ended June 30, 2020 [Based on Japanese GAAP]

August 7, 2020

Listed company name: MUGEN ESTATE Co., Ltd Listed Stock Exchange: Tokyo Stock Exchange
Securities code: 3299 URL <https://www.mugen-estate.co.jp/en/>
Representative: Shinichi Fujita, President
Contact: Akira Okubo, Director, General Manager of Administrative Division ir@mugen-estate.co.jp
Scheduled date of quarterly securities report filing: August 7, 2020 Scheduled date of dividend payment: -
Supplementary material for financial results: Yes
Quarterly financial results briefing: No

(fractions of one million yen are rounded off)

1. Consolidated financial results for the second quarter ended June 30, 2020 (January 1 to June 30, 2020)

(1) Consolidated financial results (cumulative) (Percentages represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2Q ended June 30, 2020	14,262	(24.1)	812	(50.8)	458	(65.3)	333	(63.2)
2Q ended June 30, 2019	18,797	(23.7)	1,651	(35.0)	1,321	(39.4)	906	(35.7)

(Note) Comprehensive income: 2Q ended June 30, 2020 333 million yen (-63.2%)
2Q ended June 30, 2019 906 million yen (-35.7%)

	Net Income per share	Diluted net income per share
	Yen	Yen
2Q ended June 30, 2020	13.92	13.85
2Q ended June 30, 2019	37.23	37.09

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	70,306	22,340	31.7
As of December 31, 2019	68,512	22,840	33.2

(Reference) Shareholders' equity: As of June 30, 2020 22,253 million yen
As of December 31, 2019 22,718 million yen

2. Dividends

	Annual dividends per share				
	End of 1 st Quarter	End of 2 nd quarter	End of 3 rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2019	-	0.00	-	30.00	30.00
Year ending December 31, 2020	-	0.00	-	-	-
Year ending December 31, 2020 (forecast)	-	-	-	-	-

(Note) Revision of the latest dividend forecast: Yes

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2020 (January 1 to December 31, 2020)

(Percentages represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2020(Full year)	-	-	-	-	-	-	-	-	-

(Note) Revision of the latest consolidated financial results forecast: Yes

The business environment now is significantly different from the assumption on which the consolidated earnings forecast of FY2020 announced on February 14, 2020 is based, due to the COVID-19 coronavirus infection. In addition, we decided that we are not reasonably able to calculate full-year earnings forecast. Consequently, we have decided to withdraw the full-year earnings forecast and not to issue the forecast. It will be immediately disclosed when a reasonable estimate becomes possible.

Please refer to “Notice of Revisions to Earnings Forecast and Dividend Forecast” published on August 7, 2020, for details.

*** Notes**

(1) Changes in significant subsidiaries during the period: None

(2) Application of any accounting procedures specific to preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

- | | |
|---|--------|
| (i) Changes in accounting policies due to revisions to accounting standards and other regulations | : None |
| (ii) Changes in accounting policies other than (i) | : None |
| (iii) Changes in accounting estimates | : None |
| (iv) Restatement of prior period financial statements after error corrections | : None |

(4) Number of shares issued (common stock)

- | | |
|--|-------------------|
| (i) Number of shares outstanding at end of the period (including treasury stock) | |
| As of June 30, 2020 | 24,361,000 shares |
| As of December 31, 2019 | 24,361,000 shares |
| (ii) Number of treasury stock held at end of the period | |
| As of June 30, 2020 | 382,259 shares |
| As of December 31, 2019 | 281,559 shares |
| (iii) Average number of shares outstanding during the period (cumulative) | |
| As of June 30, 2020 | 23,986,948 shares |
| As of June 30, 2019 | 24,360,941 shares |

*The current quarterly financial results are not subject to the quarterly review procedures.

*** Explanation of the proper use of financial forecasts and other important notes**

1. The statements about the future included in this report, including financial projections, are based on information currently available to the Company and certain assumptions that are considered reasonable, which do not guarantee the achievement of such projected results. Actual results may vary considerably from these projections due to a range of factors. See “(3) Information on future forecasts including consolidated financial forecasts under “1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2020” on page 2 of the Accompanying Materials for the assumptions of the financial forecasts and points to note in the use of financial forecasts.
2. Every year, we hold a financial results briefing for institutional investors and analysts. However, we have decided to cancel it, considering the health and safety of all participants and related parties in light of the spread of the COVID-19 coronavirus infection. The earnings outline of the second quarter of FY2020 will be posted on the Company’s website (video distribution). In addition, the supplementary material for financial results of the quarter under review were disclosed on TDnet and the Company’s website today.

1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2020

(1) Analysis of Operating Results

During the first six months of the consolidated fiscal year under review (January 1, 2020 through June 30, 2020), in the real estate industry where the MUGEN ESTATE Group operates, the nationwide average price of housing land per square meter (as of January 1, 2020) announced on July 1, 2020 by the National Tax Administration Agency increased by 1.6%. In the Tokyo metropolitan area, a surge in land prices was seen due to an increase in the number of foreigners visiting or working in Japan and the prolonged low interest rate. However, it is expected that the real estate market will remain uncertain chiefly due to the spread of the COVID-19 coronavirus infection and the very harsh situation will continue going forward.

In the real estate trading market, after the declaration of a state of emergency on April 7, 2020, actual sales of the Company substantially fell year on year reflecting that a site visit, trading negotiations, and decision-making were disrupted due to voluntary restraint on sales activities and movement restrictions, and that a wait-and-see stance was reinforced because of the uncertain outlook for the market. After the lifting of the state of emergency on May 25, although the activity of some investors seemed to return, the trading market may continue to fluctuate sharply mainly reflecting business conditions and the financial position of tenant firms, changes in demand for real estate associated with the new lifestyle, and changes in the fundraising environment.

In this business environment where uncertainty is increasing, the Group implemented diverse measures to prevent the spread of the COVID-19 coronavirus infection including telework and staggered work hours, prioritizing the safety of customers and employees as mentioned in “Notice of the Group’s Measures and Impacts Associated with the Prevention of the Spread of the COVID-19 Coronavirus Infection” dated April 10, 2020. Consequently, it was difficult to implement normal sales activities. Despite that, we focused on sales activities mainly in the real estate trading business, the Company’s core business.

In the real estate trading business, there were some delays in sales activities due to a supply shortage of some reform materials. However, it recovered from April, and we continued to focus on sales of condominiums and office buildings. With regard to purchases, we made a selective purchase, considering the inventory balance of real estate properties for sale.

As a result, consolidated net sales decreased 24.1% year on year, to 14,262 million yen, consolidated operating income fell 50.8% year on year, to 812 million yen, consolidated ordinary income declined 65.3% year on year, to 458 million yen, and consolidated profit attributable to owners of parent fell 63.2% year on year, to 333 million yen.

The following is an overview of the results by segment.

[Real Estate Trading Business]

In the Real Estate Trading Business, the number of units sold in investment-type properties came to 68 (down 20 units year on year) and the average unit selling price was 150 million yen (down 6.7% year on year), registering net sales of 10,245 million yen (down 27.9% year on year). Furthermore, the number of units sold in residential-type properties came to 68 (down 17 units year on year) and the average unit selling price was 35 million yen (up 5.3% year on year), registering net sales of 2,407 million yen (down 15.8% year on year).

As a result, net sales for the segment decreased 25.7% year on year, to 12,717 million yen, and the segment profit (operating income for the segment) fell 38.6% year on year, to 1,006 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing came to 1,504 million yen (down 8.4% year on year). As a result, net sales for the segment decreased 7.6% year on year, to 1,544 million yen, and segment profit (operating income for the segment) fell 10.3% year on year, to 558 million yen.

Note: The “investment-type properties” are classified as real estate generating rental income, including rental condominiums, and office blocks, which are used by buyers for the purpose of investment. The “residential-type properties” are classified as real estate used by buyers as their housing units, most of which are owned condominiums.

(2) Analysis of Financial Position

[Status of assets, liabilities and net assets]

The financial position at the end of the second quarter of the consolidated fiscal year under review included assets of 70,306 million yen (up 2.6% from the end of the previous fiscal year), liabilities of 47,966 million yen (up 5.0% from the end of the previous fiscal year), and net assets of 22,340 million yen (down 2.2% from the end of the previous fiscal year).

Principal factors contributing to the increase in assets included increase of 3,066 million yen in real estate properties for sale.

The increase in liabilities was attributable primarily to increase of 800 million yen in short-term loans payable and 1,837 million yen in long-term loans payable (including the current portion of long-term loans payable).

The decrease in net assets resulted in large part from a rise of 333 million yen in retained earnings due to the recording of profit attributable to owners of parent, and a decrease of 722 million yen in retained earnings attributable to dividends paid.

[Status of cash flows]

Cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review (“cash”) decreased 1,642 million yen from the end of the previous consolidated fiscal year, to 10,626 million yen. The cash flow positions and contributing factors during the first six months under review are as follows:

(Cash flows from operating activities)

Net cash used for operating activities during the first six months of the consolidated fiscal year under review totaled 2,217 million yen (net cash provided in operating activities during the first six months of the previous fiscal year was 3,132 million yen). This was primarily attributable to increase of 2,515 million yen in inventories and the recording of 486 million yen as profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities during the first six months of the consolidated fiscal year under review was 1,392 million

yen (net cash used during the first six months of the previous fiscal year was 132 million yen). This was caused primarily by proceeds from the withdrawal of time deposits of 814 million yen, offset by payments into time deposits of 928 million yen and purchase of property, plant and equipment of 1,069 million yen.

(Cash flows from financing activities)

Net cash provided for financing activities during the first six months under review amounted to 1,967 million yen (net cash of 2,576 million yen was used during the first six months of the previous fiscal year). This was mainly due to the result of proceeds from long-term loans payable amounting to 10,097 million yen and increased of short-term loans payable amounting to 800 million yen, offset by the repayment of long-term loans payable was 8,259 million yen.

(3) Information on future forecasts including consolidated financial forecasts

As mentioned in “Notice of Revisions to Earnings and Dividend Forecast” published today, with regard to the full-year consolidated earnings forecast of FY2020, because it is difficult to calculate a reasonable earnings forecast due to the impact of the spread of the COVID-19 coronavirus infection at the present time, we decided to withdraw the earnings forecast announced on February 14, 2020 and not to issue the forecast.

We will continuously strive to collect and analyze information going forward. When the full-year earnings forecast of FY2020 can be reasonably calculated, it will be immediately disclosed.

In addition, because we decided not to issue the full-year consolidated earnings forecast of FY2020 as mentioned above, we will also not issue a dividend forecast. It will be promptly announced as soon as it becomes possible to make a reasonable calculation of the earnings forecast.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	FY2019 (As of December 31, 2019)	FY2020 2Q (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	13,708	12,180
Accounts receivable - trade	23	22
Real estate for sale	49,887	52,953
Real estate for sale in process	147	94
Other	611	479
Allowance for doubtful accounts	(10)	(7)
Total current assets	64,367	65,723
Non-current assets		
Property, plant and equipment		
Buildings	1,592	1,858
Accumulated depreciation	(394)	(364)
Buildings, net	1,197	1,493
Land	1,790	1,712
Other	180	187
Accumulated depreciation	(100)	(101)
Other, net	80	86
Total property, plant and equipment	3,068	3,292
Intangible assets	83	83
Investments and other assets		
Deferred tax assets	777	793
Other	167	366
Total investments and other assets	944	1,159
Total non-current assets	4,096	4,535
Deferred assets	48	47
Total assets	68,512	70,306

(Million yen)

	FY2019 (As of December 31, 2019)	FY2020 2Q (As of June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	467	373
Short-term loans payable	2,236	3,037
Current portion of bonds	1,154	1,172
Current portion of long-term loans payable	6,950	7,918
Income taxes payable	414	197
Provision for bonuses	34	6
Construction warranty reserve	41	37
Other	887	730
Total current liabilities	12,185	13,474
Non-current liabilities		
Bonds payable	3,225	3,345
Long-term loans payable	29,393	30,263
Net defined benefit liability	89	94
Other	777	788
Total non-current liabilities	33,486	34,491
Total liabilities	45,671	47,966
Net assets		
Shareholders' equity		
Capital stock	2,552	2,552
Capital surplus	2,475	2,475
Retained earnings	17,914	17,525
Treasury shares	(223)	(300)
Total shareholders' equity	22,718	22,253
Subscription rights to shares	122	86
Total net assets	22,840	22,340
Total liabilities and net assets	68,512	70,306

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

[Quarterly Consolidated Statements of Income]

(For six months from January 1 to June 30, 2020)

	(Million yen)	
	FY2019 2Q (From January 1 to June 30, 2019)	FY2020 2Q (From January 1 to June 30, 2020)
Net sales	18,797	14,262
Cost of sales	15,584	11,754
Gross profit	3,212	2,507
Selling, general and administrative expenses	1,560	1,695
Operating income	1,651	812
Non-operating income		
Interest and dividend income	1	1
Commission fee	9	9
Penalty income	4	8
Refund of real estate acquisition tax	1	2
Other	9	7
Total non-operating income	26	29
Non-operating expenses		
Interest expenses	314	339
Commission fee	27	26
Other	14	17
Total non-operating expenses	356	383
Ordinary profit	1,321	458
Extraordinary income		
Gain on sales of non-current assets	—	0
Gain on reversal of share acquisition rights	5	38
Total extraordinary income	5	38
Extraordinary losses		
Loss on sales of non-current assets	—	0
Loss on retirement of non-current assets	—	9
Total extraordinary losses	—	9
Profit before income taxes	1,326	486
Income taxes - current	399	169
Income taxes - deferred	20	(16)
Total income taxes	419	153
Profit	906	333
Profit attributable to owners of parent	906	333

[Quarterly Consolidated Statements of Comprehensive Income]

(For six months from January 1 to June 30, 2020)

(Million yen)

	FY2019 2Q (From January 1 to June 30, 2019)	FY2020 2Q (From January 1 to June 30, 2020)
Income before minority interests	906	333
Comprehensive income	906	333
(Breakdown)		
Comprehensive income attributable to owners of parent	906	333

(3) Quarterly Consolidated Cash Flow

(Million yen)

	FY2019 2Q (From January 1 to June 30, 2019)	FY2020 2Q (From January 1 to June 30, 2020)
Cash flows from operating activities		
Profit before income taxes	1,326	486
Depreciation	504	449
Increase (decrease) in allowance for doubtful accounts	4	0
Increase (decrease) in provision for bonuses	(32)	(27)
Increase (decrease) in construction warranty reserve	(8)	(4)
Increase (decrease) in net defined benefit liability	(3)	5
Interest and dividend income	(1)	(1)
Interest expenses	314	339
Share-based remuneration expenses	5	3
Refund of real estate acquisition tax	1	2
Amortization of bond issuance cost	8	10
Loss (gain) on sales of non-current assets	—	0
Gain on reversal of share acquisition rights	(5)	(38)
Loss on retirement of non-current assets	—	9
Decrease (increase) in trade receivables	(13)	(0)
Decrease (increase) in inventories	1,928	(2,515)
Increase (decrease) in trade payables	(57)	(93)
Increase (decrease) in accrued consumption taxes	156	(296)
Decrease (increase) in consumption taxes refund receivable	627	(53)
Increase (decrease) in lease and guarantee deposits received	1	4
Decrease (increase) in other current assets	(17)	185
Increase (decrease) in other current liabilities	(6)	27
Other, net	14	5
Subtotal	4,747	(1,501)
Interest and dividends received	1	1
Interest paid	(321)	(341)
Income taxes paid	(1,295)	(376)
Net cash provided by (used in) operating activities	3,132	(2,217)
Cash flows from investing activities		
Payments into time deposits	(978)	(928)
Proceeds from withdrawal of time deposits	900	814
Purchase of property, plant and equipment	(41)	(1,069)
Proceeds from sales of property, plant and equipment	—	1
Purchase of intangible assets	(5)	(5)
Payments of leasehold and guarantee deposits	—	(199)
Proceeds from refund of leasehold and guarantee deposits	—	6
Payments for investments in capital	(7)	(11)
Net cash provided by (used in) investing activities	(132)	(1,392)

(Million yen)

	FY2019 2Q (From January 1 to June 30, 2019)	FY2020 2Q (From January 1 to June 30, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,264)	800
Proceeds from long-term loans payable	8,969	10,097
Repayments of long-term loans payable	(9,828)	(8,259)
Proceeds from issuance of bonds	636	540
Redemption of bonds	(357)	(412)
Repayments of lease obligations	(1)	(0)
Purchase of treasury shares	—	(76)
Dividends paid	(730)	(722)
Net cash provided by (used in) financing activities	(2,576)	1,967
Net increase (decrease) in cash and cash equivalents	424	(1,642)
Cash and cash equivalents at beginning of period	9,151	12,268
Cash and cash equivalents at end of period	9,576	10,626

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Additional information)

(Accounting estimate in relation to impact of the spread of the COVID-19 coronavirus infection)

The spread of the COVID-19 coronavirus infection significantly affects social and economic activities, and it is impacting the Group's business activities. After the lifting of the state of emergency, we assumed that real estate investors' demand, which had been stagnant, would recover and the Company's sales activities would also bounce back gradually from the third quarter and onward. Based on this assumption, we have been making accounting estimates such as a valuation of real estate properties for sale and recoverability of deferred tax assets.

Because the impact of the spread of the COVID-19 coronavirus infection on the real estate trading market is highly uncertain, if the above situation changes, it could affect the Group's financial position and operating results.

(Segment Information)

For six months ended June 30, 2019 (From January 1 to June 30, 2019)

Information relating to the amount of net sales, and income or loss by reportable segment

(Million yen)

	Reportable Segments			Adjustment (Note 1)	Total (Note 2)
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	17,125	1,672	18,797	-	18,797
Inter-segment sales or transfer	38	-	38	(38)	-
Total	17,163	1,672	18,835	(38)	18,797
Segment profit	1,640	622	2,263	(611)	1,651

(Note) 1. The segment profit adjustment of (611) million yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.

2. Segment profit has been adjusted to operating income stated in quarterly consolidated statements of income.

For six months ended June 30, 2020 (From January 1 to June 30, 2020)

Information relating to the amount of net sales, and income or loss by reportable segment

(Million yen)

	Reportable Segments			Adjustment (Note 1)	Total (Note 2)
	Real Estate Trading Business	Real Estate Leasing and Other Business	Sub-total		
Net sales					
Net sales to external customers	12,717	1,544	14,262	-	14,262
Inter-segment sales or transfer	1	11	13	(13)	-
Total	12,719	1,556	14,276	(13)	14,262
Segment profit	1,006	558	1,565	(752)	812

(Note) 1. The segment profit adjustment of (752) million yen consists of primarily company-wide expenses that are not allocated to the selling, general and administrative expenses of each reported segment.

2. Segment profit has been adjusted to operating income stated in quarterly consolidated statements of income.