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Consolidated Financial Results for the First Three Months of the Fiscal Year Ending December 31, 2022 (Japanese GAAP)

May 12, 2022

Company name: DRAFT Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 5070
 URL: <https://draft.co.jp/en/>
 Representative: Taiju Yamashita, Representative Director
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 Scheduled date to file quarterly securities report: May 12, 2022
 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, 2022 (January 1, 2022 to March 31, 2022)

(1) Consolidated operating results

(Percentage figures indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2022	971	(38.0)	(167)	—	(171)	—	(129)	—
March 31, 2021	1,566	—	176	—	176	—	115	—

(Note) Comprehensive income: Three months ended March 31, 2022: -¥129 million (—%)
 Three months ended March 31, 2021: ¥117 million (—%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2022	(12.86)	—
March 31, 2021	12.53	12.48

(Notes) 1. The Company changed its fiscal year-end from March 31 to December 31, beginning in the fiscal year ended December 31, 2020. As the first three months of the previous fiscal year (January 1 to March 31, 2021) and the first three months of the fiscal year ended December 31, 2020 (April 1 to June 30, 2020) represent different periods, figures for year-on-year changes are not provided herein.

2. While dilutive shares existed, diluted earnings per share for the three months ended March 31, 2022 is not provided as the Company recorded a loss per share during the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2022	4,360	2,831	64.8
December 31, 2021	5,840	3,009	51.4

(Reference) Shareholders' equity: As of March 31, 2022: ¥2,823 million
 As of December 31, 2021: ¥3,003 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, 2021	—	0.00	—	5.00	5.00
Fiscal year ending December 31, 2022	—				
Fiscal year ending December 31, 2022 (forecast)		0.00	—	5.00	5.00

(Note) Changes in dividend forecast subsequent to most recent announcement: No

3. Consolidated financial results forecast for the fiscal year ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(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	4,500	26.7	275	(40.0)	270	(41.3)	170	(39.9)	16.94
Full year	10,000	24.5	960	0.5	950	0.3	600	4.4	59.78

(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, 2022 (changes in specified subsidiaries accompanying changes in scope of consolidation): No

Newly added: One subsidiary (Company name) D-RAWRITE d.o.o. Beograd

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, 2022: 10,038,800 shares

December 31, 2021: 10,036,800 shares

2) Number of treasury stock at the end of the period

March 31, 2022: — shares

December 31, 2021: — shares

3) Average number of shares outstanding for the period

Three months ended March 31, 2022: 10,038,133 shares

Three months ended March 31, 2021: 9,251,000 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. In regard to the fact that no changes have been made to the Company's consolidated financial results forecast for the first half and the full year of the fiscal year ending December 31, 2022, and 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 three months of the fiscal year ending December 31, 2022, difficulties persisted in the Japanese economy with the future outlook remaining unclear, as daily activities continued to be restricted due to the resurgence of COVID-19. The spread of COVID-19 brought about new lifestyles in society. Lifestyle changes serve as a tailwind for the DRAFT Group ("the Group"), which has been designing innovative spaces that have never existed before, since establishment. Even so, the continuation of the pandemic for over two years has had a considerable impact on our business activities and financial results. For this reason, in the medium-term business plan released in October 2021, we unveiled an initiative to classify our projects into the three categories of "regular projects ^{Note 1}," "proposal projects ^{Note 2}," and "leading projects ^{Note 3}," positioning regular projects as the building blocks of our earnings base and proposal and leading projects as our means to create new business formats and design values.

Under these circumstances, net sales in the three months ended March 31, 2022 stood at ¥971,124 thousand (-62.0% versus the same period of the previous year). Since the amount of client inquiries during the period under review remained firm, we believe lower net sales were chiefly attributable to the uneven distribution of projects within a given year. Before the pandemic, annual performance followed a consistent pattern from quarter to quarter, with significant growth seen primarily in March and September. We believe this was due to the societal cycle in Japan where the fiscal calendar begins in April. In particular, for offices, there was a marked tendency for an increase in space design projects that had deadlines in March, just before the start of the new fiscal year, and in September, which is the end of the first six months. However, the quarterly trend has been disrupted since April 2020 when infections began spreading in earnest, making year-round management of sales even more necessary.

The Group's forecast for net sales is based on three indicators: the project stock at the beginning of the fiscal year (prospective order backlog), average weekly inquiries during the term, and acquisition rate (of the total value of all inquiries, the percentage of projects that actually lead to orders). Of these indicators, "average weekly inquiries during the term" is most affected by economic trends. Since the January–March average of this indicator surpassed the Group's forecast, we have not changed our consolidated earnings forecast for the first half and the full year of the fiscal year ending December 31, 2022, as indicated in "(3) Explanation of consolidated financial results forecast and other forward-looking information."

At the operating level, we recorded a loss of ¥167,123 thousand (profit down by ¥343,131 thousand from the same period of the previous year). While net sales shift by a wide margin each quarter, SG&A expenses do not vary significantly from period to period. As such, the operating loss resulted from the low level of net sales during the period under review. Similarly, we posted an ordinary loss of ¥171,932 thousand (profit down by ¥348,131 thousand) and loss attributable to owners of parent of ¥129,067 thousand (profit down by ¥244,959 thousand). All profit lines significantly fell short of year-ago results. During the same period of the previous year, the Japanese government's declaration of a state of emergency severely restricted corporate activities, thereby reducing travel and transportation expenses, advertising expenses, and other SG&A expenses. As a result, earnings in the three months ended March 31, 2021 finished higher than planned, which we believe was one of the reasons behind the large difference compared with the period under review.

* 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

(Assets)

Total assets as of March 31, 2022 were down ¥1,479,819 thousand from December 31, 2021 to ¥4,360,587 thousand. This change was primarily due to decreases of ¥1,251,373 thousand in accounts receivable and ¥665,973 thousand in ordinary deposits, partially offset by an increase of ¥290,076 thousand in prepaid expenses.

(Liabilities)

Liabilities as of March 31, 2022 were down ¥1,302,144 thousand from December 31, 2021 to ¥1,528,689 thousand. This change was chiefly due to decreases of ¥931,051 thousand in accounts payable, ¥336,554 thousand in income taxes payable, and ¥108,247 thousand in consumption taxes payable.

(Net assets)

Net assets as of March 31, 2022 were down ¥177,675 thousand from December 31, 2021 to ¥2,831,898 thousand. This change was primarily due to the recording of ¥129,067 thousand in loss attributable to owners of parent and dividend payment of ¥50,184 thousand.

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

As mentioned in "(1) Explanation of business results," the Group's forecast for net sales is based on three indicators: the project stock at the beginning of the fiscal year (prospective order backlog), average weekly inquiries during the

term, and acquisition rate (of the total value of all inquiries, the percentage of projects that actually lead to orders). Of these indicators, “average weekly inquiries during the term” (January-March average) trended above plan and the project stock (projects scheduled to record sales by December) as of the end of the period under review remained robust. For these reasons, we have not changed our consolidated earnings forecast for the first half and the full year of the fiscal year ending December 31, 2022 from those figures shown in the “Consolidated Financial Results for the Fiscal Year Ended December 31, 2021” announced on February 14, 2022.