

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 Third Quarter ended September 30, 2022 [Based on Japanese GAAP]

November 14, 2022

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, Managing Executive Officer, ir@mugen-estate.co.jp
 Executive General Manager of Administrative Division
 Scheduled date of quarterly securities report filing: November 14, 2022 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 third quarter ended September 30, 2022 (January 1 to September 30, 2022)

(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	%
3Q ended September 30, 2022	21,709	(18.2)	1,978	6.7	1,491	3.4	1,017	(5.0)
3Q ended September 30, 2021	26,541	21.4	1,853	30.6	1,442	58.6	1,071	—

(Note) Comprehensive income: 3Q ended September 30, 2022 1,017 million yen (-5.0%)
 3Q ended September 30, 2021 1,071 million yen (—%)

	Net Income per share	Diluted net income per share
	Yen	Yen
3Q ended September 30, 2022	43.27	43.01
3Q ended September 30, 2021	44.68	44.44

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	75,950	24,057	31.6
As of December 31, 2021	62,778	23,546	37.4

(Reference) Shareholders' equity: As of September 30, 2022 23,964 million yen
 As of December 31, 2021 23,453 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, 2021	—	0.00	—	15.00	15.00
Year ending December 31, 2022	—	0.00	—	—	—
Year ending December 31, 2022 (forecast)	—	—	—	17.00	17.00

(Note) Revision of the latest dividend forecast: No

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2022

(January 1, 2022 to December 31, 2022)

(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
FY2022 (Full year)	38,847	14.4	2,624	12.1	2,066	16.7	1,314	3.0	56.33

(Note) Revision of the latest consolidated financial results forecast: No

* 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 | : Yes |
| (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 September 30, 2022 | 24,361,000 shares |
| As of December 31, 2021 | 24,361,000 shares |
| (ii) Number of treasury stock held at end of the period | |
| As of September 30, 2022 | 897,325 shares |
| As of December 31, 2021 | 585,709 shares |
| (iii) Average number of shares outstanding during the period (cumulative) | |
| As of September 30, 2022 | 23,523,573 shares |
| As of September 30, 2021 | 23,978,691 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 Third Quarter Ended September 30, 2022“ 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. Access to presentation materials for financial results
The presentation material for financial results is disclosed through together with these financial statements. This information also is posted on the Company's website on the same day.

1. Qualitative Information on Operating Results for the Third Quarter Ended September 30, 2022

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter under review and makes a comparative analysis with the first quarter of the previous fiscal year and the previous fiscal year, using figures after retroactively applying the Accounting Standard, etc.

(1) Analysis of Operating Results

During the first nine months of the fiscal year under review (January 1, 2022 to September 30, 2022), demand remained firm and trading prices continued to climb in the real estate industry where the MUGEN ESTATE Group operates, although rising raw material prices and supply constraints were observed due to the COVID-19 pandemic and the prolonged conflict in Ukraine, among other factors. In addition, with a record-low yen ongoing, Japanese real estate is considered more and more affordable. Looking ahead, this and the recovery of inbound tourism are expected to increase the influx of money.

In terms of the 2022 standard land prices (as of July 1) compiled by the Ministry of Land, Infrastructure, Transport and Tourism, the average prices of land for all purposes increased nationwide for the first time in three years while those for residential areas rose for the first time in 31 years. Looking at the Tokyo metropolitan area, standard land prices for Tokyo's residential areas rose 1.5%, registering a price increase for the tenth straight year, while those for residential areas in Kanagawa, Chiba and Saitama turned upward for the first time in three years.

According to the Real Estate Information Network for East Japan (East Japan REINS), the number of contracts concluded for used condominium units in the Tokyo metropolitan area fell 5.9% year on year in September 2022. As in August, the figure was lower than in the same period of the previous fiscal year. Meanwhile, the average unit price per square meter of contracted condominium units recorded a double-digit increase, rising 11.2% year on year. This was the 29th consecutive month of increase since May 2020. The contract price, which also registered a double-digit 11.0% increase, has been rising on a year-on-year basis for 28 straight months since June 2020. The number of inventory properties recorded a double-digit year-on-year increase of 13.0%, surpassing the year-ago level for the eighth consecutive month.

In this business environment, the MUGEN ESTATE Group focused on expanding residential-type properties operations in the Real Estate Trading Business, a core business, to meet rising demand for used condominium units and detached houses in the Tokyo metropolitan area.

Sales of residential-type properties were strong because sales activities, such as the successful development of customers in individual areas by sales offices established in the previous year, began to bear fruit. Sales increased year on year in terms of the number of properties and monetary amounts, aided by the further enhancement of sales activities that started in the third quarter under review, as well as the easing of the tight supply-demand situation of housing and facility equipment. Acquisitions also increased significantly year on year both in terms of the number of properties and monetary amounts.

Regarding investment-type properties, the MUGEN ESTATE Group has been selling properties after raising their value-added by increasing their occupancy rates and implementing the Value-up initiative. Through these efforts, it has been working to improve inventory turnover. Sales in the first nine months under review were lower than the year-ago level in terms of both the number of properties and monetary amounts because the Group focused on profitability. On the other hand, as in residential-type properties, acquisitions increased year on year both in terms of the number of properties and monetary amounts as a result of thorough assessments of the profitability and building value of properties, as well as the proactive acquisitions of properties for which strong demand is anticipated.

In the Real Estate Development Business, progress is slow because the Group conducts sales activities while simultaneously assessing profitability. Even so, with the completion of the SIDEPLACE series, new properties equipped with environmentally friendly items, in Kinshicho, Ojima, Asakusa and Kanda-bakurocho, the Group is strengthening the promotion of leasing and sales thereof to contribute to financial results for the current fiscal year.

In the Real Estate Specified Joint Business, sales of the Setagaya Project started this past April. The phase 1 offering has been completed. The phase 2 offering has also been completed although it did not contribute to the financial result for the third quarter under review. The Group is in the process of acquisitions for the next project while also making preparations for the phase 3 offering.

As a result, in the first nine months under review, consolidated net sales decreased 18.2% year on year, to 21,709 million yen. Consolidated operating income and ordinary income rose 6.7% and 3.4% year on year, to 1,978 million yen and 1,491 million yen, respectively. Consolidated profit attributable to owners of parent fell 5.0% year on year, to 1,017 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 56 (down 50 units year on year) and the average unit selling price was 217 million yen (up 23.4% year on year), registering net sales of 12,191 million yen (down 34.8% year on year). Furthermore, the number of units sold in residential-type properties came to 195 (up 57 units year on year) and the average unit selling price was 39 million yen (down 6.4% year on year), registering net sales of 7,618 million yen (up 32.3% year on year).

As a result, net sales for the segment decreased 19.7% year on year, to 20,052 million yen, and the segment profit (operating income for the segment) grew 14.4% year on year, to 2,751 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing came to 1,544 million yen (up 2.6% year on year). As a result, net sales for the segment increased 4.8% year on year, to 1,657 million yen, and segment profit (operating income for the segment) grew 5.8% year on year, to 584 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) Qualitative information on financial position

The financial position of the MUGEN ESTATE Group at the end of the third quarter of the consolidated fiscal year under review included assets of 75,950 million yen (up 21.0% from the end of the previous fiscal year), liabilities of 51,893 million yen (up 32.2% from the end of the previous fiscal year), and net assets of 24,057 million yen (up 2.2% from the end of the previous fiscal year).

The increase in assets resulted mainly from a 14,276 million yen increase in real estate for sale.

The increase in liabilities was attributable to rises of 1,823 million yen in the current portion of long-term borrowings, 5,192 million yen in long-term borrowings, 2,325 million yen in the current portion of bonds payable, 1,417 million yen in bonds payable and 1,265 million yen in short-term borrowings.

The increase in net assets resulted in large part from a rise of 1,017 million yen in retained earnings due to the recording of profit attributable to owners of parent, and a decrease of 356 million yen in retained earnings attributable to dividends paid.

(3) Information on future forecasts including consolidated financial forecasts

Forecasts for consolidated financial results and dividends for the fiscal year ending December 31, 2022 remain unchanged from the Summary of Consolidated Financial Results for the Fiscal Year ended December 31, 2021 on February 14, 2022.

The descriptions of business forecasts presented in this document are based on the future assumptions, outlook, and plans as of the date of the publication of this document, which include risks and uncertain factors. Actual results may vary significantly from the forecasts presented in this document due to the economic environment, market trends, and other factors that affect the business of the Group.

2. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	FY2021 (As of December 31, 2021)	FY2022 3Q (As of September 30, 2022)
Assets		
Current assets		
Cash and deposits	17,565	16,651
Accounts receivable – trade	19	32
Real estate for sale	35,463	49,739
Real estate for sale in process	630	498
Other	728	630
Allowance for doubtful accounts	(3)	(3)
Total current assets	54,404	67,549
Non-current assets		
Property, plant and equipment		
Buildings	3,949	4,034
Accumulated depreciation	(522)	(649)
Buildings, net	3,426	3,384
Land	4,157	4,157
Other	111	116
Accumulated depreciation	(81)	(89)
Other, net	30	27
Total property, plant and equipment	7,614	7,569
Intangible assets	85	89
Investments and other assets		
Investment securities	21	21
Deferred tax assets	252	301
Other	357	356
Total investments and other assets	631	679
Total non-current assets	8,331	8,338
Deferred assets	41	62
Total assets	62,778	75,950

(Million yen)

	FY2021 (As of December 31, 2021)	FY2022 3Q (As of September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	361	583
Short-term borrowings	4,739	6,005
Current portion of bonds payable	727	3,052
Current portion of long-term borrowings	4,982	6,806
Income taxes payable	287	355
Provision for bonuses	20	121
Construction warranty reserve	48	43
Other	1,002	1,271
Total current liabilities	12,168	18,238
Non-current liabilities		
Bonds payable	3,219	4,637
Long-term borrowings	23,192	28,384
Retirement benefit liability	109	112
Other	542	520
Total non-current liabilities	27,063	33,654
Total liabilities	39,232	51,893
Net assets		
Shareholders' equity		
Share capital	2,552	2,552
Capital surplus	2,475	2,475
Retained earnings	18,827	19,480
Treasury shares	(401)	(543)
Total shareholders' equity	23,453	23,964
Subscription rights to shares	92	92
Total net assets	23,546	24,057
Total liabilities and net assets	62,778	75,950

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

[Quarterly Consolidated Statements of Income]

(For nine months from January 1 to September 30, 2022)

(Million yen)

	FY2021 3Q (From January 1 to September 30, 2021)	FY2022 3Q (From January 1 to September 30, 2022)
Net sales	26,541	21,709
Cost of sales	22,221	16,723
Gross profit	4,320	4,986
Selling, general and administrative expenses	2,466	3,008
Operating income	1,853	1,978
Non-operating income		
Interest and dividend income	1	1
Commission income	11	10
Penalty income	6	18
Refund of real estate acquisition tax	2	1
Other	7	7
Total non-operating income	29	40
Non-operating expenses		
Interest expenses	381	467
Commission expenses	35	34
Other	23	24
Total non-operating expenses	440	527
Ordinary profit	1,442	1,491
Extraordinary income		
Gain on sales of non-current assets	6	—
Total extraordinary income	6	—
Extraordinary losses		
Loss on retirement of non-current assets	—	0
Total extraordinary losses	—	0
Profit before income taxes	1,448	1,491
Income taxes - current	364	522
Income taxes - deferred	12	(48)
Total income taxes	377	473
Profit	1,071	1,017
Profit attributable to owners of parent	1,071	1,017

[Quarterly Consolidated Statements of Comprehensive Income]

(For nine months from January 1 to September 30, 2022)

(Million yen)

	FY2021 3Q (From January 1 to September 30, 2021)	FY2022 3Q (From January 1 to September 30, 2022)
Income before minority interests	1,071	1,017
Comprehensive income	1,071	1,017
(Breakdown)		
Comprehensive income attributable to owners of parent	1,071	1,017

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. began to be applied from the beginning of the first quarter under review. Under this standard, the Company recognizes the amount of revenue as that which it expects to be entitled to in exchange for promised goods or services to the customer, and the recognition is made at the time of the transfer of the control of the said goods or services to the customer.

The Company applies the Accounting Standard for Revenue Recognition, etc. pursuant to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. This has no impact on the beginning balance of retained earnings. In addition, there is no impact on profit and loss in the first nine months of the fiscal year under review. In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue from contracts with customers for the nine months of the previous fiscal year is not stated.

(Additional information)

(Application of accounting standard for fair value measurement, etc.)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. and the implementation guidance on the Accounting Standard for Fair Value Measurement from the first quarter under review. Accordingly, the Company will apply the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, etc. in the future in accordance with transitional measures stipulated in Paragraph 19 of the standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). These changes had no impact on Quarterly Consolidated Financial Statements for the first nine months of the fiscal year under review because the Company has no financial instrument whose market price is adopted as the price stated in Quarterly Consolidated Balance Sheets.

(Accounting estimates concerning the influence of the COVID-19 pandemic)

In the first nine months under review, no significant change resulted in assumptions concerning the impact of COVID-19 stated in significant accounting estimates in the annual securities report for the previous fiscal year.

(Segment Information)

For nine months ended September 30, 2021 (From January 1 to September 30, 2021)

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	24,960	1,581	26,541	—	26,541
Inter-segment sales or transfer	37	26	63	(63)	—
Total	24,997	1,607	26,605	(63)	26,541
Segment profit	2,404	552	2,956	(1,102)	1,853

(Note) 1. The segment profit adjustment of (1,102) 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 nine months ended September 30, 2022 (From January 1 to September 30, 2022)
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	20,052	1,657	21,709	—	21,709
Inter-segment sales or transfer	53	15	68	(68)	—
Total	20,106	1,672	21,778	(68)	21,709
Segment profit	2,751	584	3,335	(1,357)	1,978

(Note) 1. The segment profit adjustment of (1,357) 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.