

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

November 11, 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
 Contact: Hisataka Kumagawa, Senior Corporate Officer
 Telephone: +81-3-5412-1001
 Scheduled date to file quarterly securities report: November 11, 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 nine months ended September 30, 2022 (January 1, 2022 to September 30, 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	%
Nine months ended September 30, 2022	4,169	(17.8)	(377)	—	(394)	—	(310)	—
September 30, 2021	5,075	—	523	—	522	—	316	—

(Note) Comprehensive income: Nine months ended September 30, 2022: -¥303 million (—%)
 Nine months ended September 30, 2021: ¥317 million (—%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2022	(30.95)	—
September 30, 2021	34.18	34.02

- (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 nine months of the previous fiscal year (January 1 to September 30, 2021) and the first nine months of the fiscal year ended December 31, 2020 (April 1 to December 31, 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 nine months ended September 30, 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 September 30, 2022	4,518	2,662	58.7
December 31, 2021	5,840	3,009	51.4

(Reference) Shareholders' equity: As of September 30, 2022: ¥2,650 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	—	0.00	—		
Fiscal year ending December 31, 2022 (forecast)				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
Full year	8,340	(16.6)	123	(87.1)	113	(88.1)	26	(95.6)	2.58

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

Notes

(1) Changes in major subsidiaries during the nine months ended September 30, 2022 (changes in specified subsidiaries accompanying changes in scope of consolidation): No

Newly added: — subsidiaries (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)

September 30, 2022: 10,038,800 shares

December 31, 2021: 10,036,800 shares

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

September 30, 2022: — shares

December 31, 2021: — shares

3) Average number of shares outstanding for the period

Nine months ended September 30, 2022: 10,038,580 shares

Nine months ended September 30, 2021: 9,251,748 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. 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 nine months of the fiscal year ending December 31, 2022, the Japanese economy saw a gradual change in consumer behavior prompted by the transition to a post-COVID era, and revitalization of corporate activities in light of this emerging trend. However, there still remains many hurdles to economic stability, due, for instance, to sharp fluctuations in foreign exchange rates.

Lifestyle changes brought about by the pandemic, especially changes in the general perception of living and workspaces as well as the transformation of society, albeit gradual, toward the lifting of the pandemic-related activity restrictions, provide a tailwind for the Draft Group (hereafter “the Group”), which has provided innovative, unprecedented space designs since founding. That said, the uncertainties caused by the pandemic and fluctuations in foreign exchange rates are having a considerable impact on our business activities and financial results.

Under these circumstances, net sales in the nine months ended September 30, 2022 came to ¥4,169,297 thousand, down 17.9% year-on-year, and gross profit amounted to ¥1,218,439 thousand (-23.0% year-on-year).

Regarding the decline in net sales, as was the case in the six-month period ended June 30, 2022, inquiries were robust, exceeding initial expectations, but orders for projects whose scheduled completion dates fell in the nine months under review were slow to grow, partly because deadlines for the project stock as of June 30, 2022 were concentrated in the fourth quarter.

At the operating profit level, we recorded a loss of ¥377,150 thousand (down by ¥900,366 thousand from the same period of the previous year). As seen in the first six months ended June 30, 2022, the Group's SG&A expenses do not vary significantly from quarter to quarter, and for this reason, we may post an operating loss when quarterly net sales are low. In the nine months ended September 30, 2022, in addition to lagging net sales, SG&A expenses rose 50.7% year-on-year due to increased spending aimed at growth, including for the hiring of additional personnel and the opening of a flagship store for new lifestyle brand DAFT about DRAFT, resulting in an operating loss for the period. In the previous fiscal year, SG&A expenses fell substantially below the budget due to continued restrictions on business activities caused by the pandemic. For this reason, operating profit in each quarter of the previous fiscal year exceeded projections, and operating profit in the first nine months of the previous fiscal year was substantially greater than that in the current fiscal year. The Group reported a recurring loss of ¥394,097 thousand (profit down ¥916,174 thousand year-on-year) and a loss attributable to owners of parent of ¥310,739 thousand (profit down ¥626,977 thousand year-on-year).

(2) Explanation of financial position

1. Assets, liabilities, and net assets

(Assets)

Total assets as of September 30, 2022 were down ¥1,322,156 thousand from December 31, 2021 to ¥4,518,250 thousand. This change was primarily due to decreases of ¥1,223,737 thousand in cash and deposits and ¥1,119,091 thousand in accounts receivable—trade, partially offset by an increase of ¥192,961 thousand in income taxes receivable.

(Liabilities)

Liabilities as of September 30, 2022 were down ¥975,428 thousand from December 31, 2021 to ¥1,855,405 thousand. This change was primarily due to decreases of ¥791,614 thousand in accounts payable—trade and ¥338,906 thousand in income taxes payable.

(Net assets)

Net assets as of September 30, 2022 were down ¥346,728 thousand from December 31, 2021 to ¥2,662,845 thousand. This change was primarily due to the recording of ¥310,739 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

The Group calculates a forecast for net sales based on the buildup of project stock, the average weekly value of inquiries, and the acquisition rate (the share of projects [in value terms] that actually lead to orders versus the total value of inquiries).

Demand for interior design and architectural design, primarily for offices, remains firm, and the average weekly value of inquiries the Group receives is largely trending in line with plan. However, the acquisition rate is expected to be in the 60%–69% range, falling slightly below the initial projection of 70%. Further, deadlines for most projects acquired in the third quarter or later of the fiscal year under review are in the next fiscal year or later, and the timing of sales booking for some projects has been pushed out to the next fiscal year. As a result, as disclosed on October 27, 2022, the Group lowered its initial projections for net sales and now forecasts ¥8,340 million.

As of October 25, 2022, the project stock for which sales are expected to be booked in the next fiscal year ending December 31, 2023, including newly acquired projects and those whose timing of sales booking has been postponed, amounted to approximately ¥4.2 billion, up 8% year-on-year. The Group thoroughly assesses each expected order before including it in the project stock in light of the slump in the acquisition rate, to further enhance the accuracy of its estimates.

As previously mentioned, the Group is seeing a steady stream of inquiries, and believes there is no issue in securing a sufficient project stock for the beginning of the next fiscal year (projects whose sales are scheduled to be booked in the next fiscal year / projects whose sales are scheduled to be booked in the next fiscal year or later).

In terms of gross profit, the gross profit margin is expected to finish the year slightly below the initial target. The consolidation and relocation of offices in Tokyo, a plan for which was disclosed in the financial report for the first six months of the fiscal year under review and other documents, is highly likely to be completed within the current fiscal year. The Group's offices are not merely a space for performing business tasks, but also serve as a space where clients can experience firsthand new designs. For this reason, the Group plans to invest a certain amount of funds into building its offices, and expects SG&A expenses—excluding double rent, shipping and transportation costs, and disposal fees—of approximately ¥130 million and extraordinary loss of ¥70 million. As a result, the Group forecasts operating profit of ¥123 million, ordinary profit of ¥113 million, and profit attributable to owners of parent of ¥26 million for the fiscal year ending December 31, 2022.