

November 1, 2019

Summary of Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2020 [Japanese Standards] (Consolidated)

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 The supplementary explanation document for the second-quarter of accounts is created. Yes
 The briefing for the second-quarter of accounts is held. (for institutional investors and analysts) Yes

(Millions of yen rounded down)

1. Consolidated Operating Results for the Second Quarter of Fiscal Year Ending March 31, 2020 (From April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (Cumulative)

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Shareholders of Parental Company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2Q/ FY ending March 31, 2020	42,868	16.1	4,807	12.0	4,790	11.7	3,078	13.2
2Q/ FY ended March 31, 2019	36,915	27.8	4,294	53.5	4,289	53.5	2,719	57.6

(Note)

Comprehensive income:

2Q/ FY ending March 31, 2020: ¥3,091 million (13.6%)

2Q/ FY ended March 31, 2019: ¥2,721 million (57.0%)

	Net Income Per Share	Net Income Per Share After Dilution
	Yen	Yen
2Q/ FY ending March 31, 2020	94.19	—
2Q/ FY ended March 31, 2019	83.22	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2019	75,311	47,380	62.9	1,449.59
As of March 31, 2019	72,686	44,942	61.8	1,375.02

(Reference)

Shareholders' equity:

As of September 30, 2019: ¥47,380 million

As of March 31, 2019: ¥44,942 million

2. Dividends

	Dividends Per Share				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2019	—	16.00	—	20.00	36.00
FY ending March 31, 2020	—	22.00			
FY ending March 31, 2020 (Forecast)			—	22.00	44.00

(Note) Revision to the latest forecast of dividends: No

The year-end dividend for the year ended March 31, 2019, is made up of a 16-yen ordinary dividend, and a 4-yen special dividend.

3. Forecasts of Consolidated Operating Results for the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(% figures represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Shareholders of Parental Company		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	90,000	10.4	11,000	9.0	11,000	9.0	7,000	7.1	214.16

(Note) Revision of forecasts on the consolidated operating results: No

*Notes

(1) Changes in major subsidiaries during this six-month period ended September 30, 2019 (changes in specific subsidiaries affecting the scope of consolidation): No

New: — (Company name: —), Excluded: — (Company name: —)

(2) Application of accounting methods specific to the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting principles, changes in accounting estimates and restatements

1) Changes due to revisions to accounting standards, etc.: No

2) Changes other than 1): No

3) Changes in accounting estimates: No

4) Restatements: No

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at term-end (including treasury stock)

2) Amount of treasury stock at term-end

3) Amount of average stock during term (Quarter accumulation)

Six months ended September 30, 2019	34,646,500 shares	FY ended March 31, 2019	34,646,500 shares
Six months ended September 30, 2019	1,961,157 shares	FY ended March 31, 2019	1,961,157 shares
Six months ended September 30, 2019	32,685,343 shares	Six months ended September 30, 2018	32,685,343 shares

* This quarterly summary of consolidated financial results is excluded from the quarterly review by a certified public accountant or audit corporations.

* Explanation and other special notes regarding the appropriate use of the earnings forecast

(Notes on forward-looking statements)

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors.

(How to obtain quarterly results supplementary explanation document and quarterly results briefing content)

The Company is planning to hold a briefing for institutional investors and analysts on Friday, November 8, 2019. The explanation document for the quarterly results used on this day will be posted to our website promptly after this event is held.

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1. Qualitative Information Regarding the Consolidated Financial Results in the Second Quarter

(1) Explanation of Operating Results

During the first half of the fiscal year ending March 31, 2020, the economy in Japan continued on a gradual recovery trend, and while there were certain signs of weakness centering on exports, there were a number of positive tendencies as well, including continuing improvements in wages and employment conditions primarily as a result of the effects of various political policies implemented by the current administration. On the other hand, due to the effects of factors such as the influence on the world economy of the increasing tension regarding commerce problems, an uncertainty about overseas economies, a hike in the price of crude oil, and fluctuations in the financial capital marketplace, the future is unclear.

Regarding the condominium marketplace in the Tokyo metropolitan area, due to the effects of continually high construction costs and an increase in the land acquisition costs, the number of new condominiums offered in the Tokyo metropolitan area during the first half of 2019 (April to September) decreased by 21.7% from the same period last year to 11,996 units. Also, the average ratio of the first month contracts consummated during the same period was 64.6%, that is, below 70%, which is said to be a rough indication of good sales performance. Although there is a high demand for properties which are highly convenient due to a location downtown or near a railway station mainly among double-income households that tend to value the proximity of residence and office, showing a cautious stance of the consumers triggered by condominium prices that continue to rise. (according to a survey by Real Estate Economic Institute Co., LTD.).

The market for investment-type condominiums which compose our corporate group's main business area is showing comparatively steady trends. Lease demand remained strong in the Tokyo metropolitan area centering on singles. In terms of purchase demand, low interest rates also support increased recognition for investment-type condominiums as operation commodities, which can be expected to provide steady earnings.

Under this business environment, our corporate group has been striving to enhance the customer support system, strengthen our brand name and expand the development and sales of the "Gala Condominium series" which provide various advantages for asset management mainly in the Tokyo metropolitan area, and "Gala Residence series" which are condominiums designed for families under our own brand. We have also been striving to expand the sales of pre-owned condominiums. Furthermore, we are fully committed to improving the value of the corporate group.

As a result, during the consolidated cumulative second quarter under review, net sales were ¥42,868 million (an increase of 16.1% compared with the same period last year), operating income amounted ¥4,807 million (an increase of 12.0% compared with the same period last year), and ordinary income was ¥4,790 million (an increase of 11.7% compared with the same period last year). Furthermore, net income attributable to shareholders of parental company totaled ¥3,078 million (an increase of 13.2% compared with the same period last year).

The operating results for each business segment are as follows:

(Real estate development segment)

During the first half of the fiscal year ending March 31, 2020, our corporate group concentrated on sales of newly built properties such as Gala Hills Musashi-Koyama, Gala Precious Nerima and Gala Hills Shinagawa Shimo-Shimmei. We also actively conducted sales of pre-owned condominiums (834 units).

As a result, the segment posted net sales of ¥28,860 million for the studio-type condominiums (1,170 units), ¥6,468 million for the family-type condominiums (146 units), and ¥3,339 million from other income sources. Therefore, the total net sales of the segment reached ¥38,667 million (an increase of 18.7% compared with the same period last year) and the segment profit was ¥4,194 million (an increase of 16.9% compared with the same period last year).

(Real estate management segment)

During the first half of the fiscal year ending March 31, 2020, in addition to the new managed properties that were developed by the corporate group, we have also actively strove to acquire outside orders for property management; as a result, the number of managed properties increased with the number of managed units for leasing reaching 15,203 and the number of buildings managed reaching 284.

As a result, net sales in the real estate management segment were ¥1,399 million (an increase of 9.3% compared with the same period last year), while segment profit was ¥396 million (a decrease of 5.3% compared with the same period last year) due to an increase in the personnel expenses and other costs.

(Construction segment)

During the first half of the fiscal year ending March 31, 2020, orders centered on condominium construction and large-scale repairs were steady. Construction work progressed as planned.

As a result, construction segment posted net sales of ¥2,330 million (a decrease of 12.1% compared with the same period last year), and segment profit was ¥206 million (a decrease of 20.9% compared with the same period last year).

(Japanese inn segment)

Although Seiryuso, a newly acquired property, made a contribution to the net sales in the first half of the fiscal year ending March 31, 2020, the number of customers in existing inns was lower than the forecast due to the recent typhoon and other reasons.

As a result, in the Japanese inn segment, net sales increased to ¥470 million (an increase of 18.4% compared with the same period last year), and the segment posted a loss of ¥19 million (as against a profit of ¥0 million (less than ¥1 million) posted in the same period last year).

Note that among the real estate development business, which is the main line of business of our corporate group, for sales of condominiums only the proceeds from condominiums that have been actually handed over to the customer are posted. Therefore, there might be unbalances in quarterly business results depending on the dates of completion of the housing or dates of delivery.

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

(Assets)

At the end of the consolidated second quarter under review, current assets were ¥71,907 million, an increase of ¥2,475 million as compared with the end of the previous consolidated fiscal year. This is mainly because cash and deposits decreased by ¥2,167 million and notes and operating accounts receivable-trade by ¥719 million, while real estate for sale increased by ¥2,786 million and real estate for sale in process by ¥2,507 million. Non-current assets recorded ¥3,404 million, an increase of ¥149 million as compared with the end of the previous consolidated fiscal year. This is mainly caused by an increase of ¥269 million in property, plant, and equipment due to the acquisition of the hot-spring inn Seiryuso, while there was a decrease of ¥118 million in investments and other assets.

As a result, total assets were ¥75,311 million, an increase of ¥2,625 million as compared with the end of the previous consolidated fiscal year.

(Liabilities)

At the end of the consolidated second quarter under review, current liabilities were ¥14,534 million, a decrease of ¥852 million as compared with the end of the previous consolidated fiscal year. This is mainly because income taxes payable decreased by ¥665 million and accounts payable-other by ¥166 million, while provision for bonuses increased by ¥233 million, current portion of long-term loans payable by ¥170 million, and short-term loans payable by ¥118 million. Non-current liabilities recorded ¥13,396 million, an increase of ¥1,040 million as compared with the end of the previous consolidated fiscal year. This is mainly because long-term loans payable increased by ¥965 million.

As a result, total liabilities were ¥27,931 million, an increase of ¥187 million as compared with the end of the previous consolidated fiscal year.

(Net assets)

At the end of the consolidated second quarter under review, total net assets were ¥47,380 million, an increase of ¥2,437 million as compared with the end of the previous consolidated fiscal year. A major increase was ¥3,078 million in net income attributable to shareholders of parental company, while a ¥653 million decrease was recorded in dividends of surplus.

As a result, the equity ratio was 62.9% (it was 61.8% at the end of the previous consolidated fiscal year).

2) Situation of Cash Flows

During the consolidated six-month period ended September 30, 2019, cash and cash equivalents (hereinafter "funds") were ¥10,451 million, a decrease of ¥2,302 million as compared with the end of the previous consolidated fiscal year.

The situation and variable factors of each cash flow were as follows:

(Cash flows from operating activities)

Funds used in operating activities totaled ¥2,532 million (same period last year recorded an income of ¥3,117 million). Major income consisted of ¥4,790 million in income before income taxes, a decrease of ¥719 million in notes and accounts receivable-trade, an increase of ¥233 million in provision for bonuses, and ¥120 million in depreciation, while major expenditures resulted from an increase of ¥5,413 million in inventories, ¥2,394 million in income taxes paid, and a decrease of ¥599 million in advances received.

(Cash flows from investing activities)

Funds used in investing activities totaled ¥369 million (same period last year recorded an expenditure of ¥92 million). Major expenditures were ¥319 million in purchase of property, plant and equipment.

(Cash flows from financing activities)

Funds acquired from financing activities totaled ¥599 million (same period last year recorded an expenditure of ¥495 million). Major income consisted of ¥6,465 million in proceeds from long-term loans payable to be used as funds for the purchase of business land and a net increase of ¥118 million in short-term loans payable. As for major expenditures, there were ¥5,350 million in repayments of long-term loans payable and ¥653 million in cash dividends paid.

(3) Explanation of Future Forecasts Such as the Forecast of Consolidated Operating Results

Regarding the forecast for the fiscal year ending March 31, 2020, there has been no change to the forecasted numbers listed in the Summary of Financial Results for the Fiscal Year Ended March 31, 2019” that was released on May 9, 2019.

2. Consolidated Financial Statements and Important Notes

(1) Consolidated Balance Sheets in the Second Quarter

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
ASSETS		
Current assets		
Cash and deposits	12,895	10,727
Notes and operating accounts receivable-trade	3,543	2,823
Real estate for sale	25,450	28,237
Real estate for sale in process	26,678	29,185
Costs on uncompleted construction contracts	22	68
Raw materials and supplies	20	28
Advance payments-trade	208	205
Other	614	630
Allowance for doubtful accounts	(1)	(1)
Total current assets	69,431	71,907
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,429	1,588
Accumulated depreciation	(890)	(932)
Buildings and structures, net	538	656
Land	594	744
Other	330	306
Accumulated depreciation	(258)	(232)
Other, net	72	73
Total property, plant and equipment	1,204	1,474
Intangible assets	43	42
Investments and other assets		
Investment securities	236	255
Deferred tax assets	721	757
Other	1,058	884
Allowance for doubtful accounts	(10)	(10)
Total investments and other assets	2,006	1,887
Total non-current assets	3,254	3,404
Total assets	72,686	75,311

	As of March 31, 2019	As of September 30, 2019
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	1,875	1,950
Short-term loans payable	332	450
Current portion of long-term loans payable	6,660	6,830
Accounts payable-other	518	352
Income taxes payable	2,425	1,759
Accrued consumption taxes	79	85
Deposits received	1,799	1,762
Provision for bonuses	266	500
Other	1,428	842
Total current liabilities	15,387	14,534
Non-current liabilities		
Long-term loans payable	9,230	10,195
Provision for directors' retirement benefits	832	860
Net defined benefit liabilities	621	636
Long-term lease and guarantee deposited	1,603	1,632
Long-term deposits received	68	72
Total non-current liabilities	12,356	13,396
Total liabilities	27,743	27,931
NET ASSETS		
Shareholders' equity		
Capital stock	2,774	2,774
Capital surplus	3,054	3,054
Retained earnings	40,336	42,761
Treasury stock	(1,211)	(1,211)
Total shareholders' equity	44,953	47,378
Accumulated other comprehensive income		
Valuation difference on marketable securities	1	12
Remeasurements of defined benefit plans	(12)	(11)
Total accumulated other comprehensive income	(11)	1
Total net assets	44,942	47,380
Total liabilities and net assets	72,686	75,311

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Six-Month Consolidation Period)

(Millions of yen)

	1Q-2Q/ FY ended March 31, 2019 (Apr. 1, 2018 - Sept. 30, 2018)	1Q-2Q/ FY ending March 31, 2020 (Apr. 1, 2019 - Sept. 30, 2019)
Net sales	36,915	42,868
Cost of sales	28,099	33,069
Gross profit	8,816	9,799
Selling, general and administrative expenses		
Advertising expenses	645	753
Salaries, allowances and bonuses	1,216	1,356
Provision for bonuses	368	481
Retirement benefit expenses	42	45
Provision for directors' retirement benefits	25	27
Other	2,223	2,328
Total selling, general and administrative expenses	4,522	4,991
Operating income	4,294	4,807
Non-operating income		
Interest income	0	0
Penalty income	9	24
Subsidy income	5	1
Other	6	6
Total non-operating income	20	33
Non-operating expenses		
Interest expenses	24	21
Commission fee	—	22
Other	1	6
Total non-operating expenses	25	50
Ordinary income	4,289	4,790
Income before income taxes	4,289	4,790
Income taxes-current	1,630	1,754
Income taxes-deferred	(60)	(42)
Total income taxes	1,569	1,712
Net income	2,719	3,078
Net income attributable to shareholders of parental company	2,719	3,078

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-Month Consolidation Period)

(Millions of yen)

	1Q-2Q/ FY ended March 31, 2019 (Apr. 1, 2018 - Sept. 30, 2018)	1Q-2Q/ FY ending March 31, 2020 (Apr. 1, 2019 - Sept. 30, 2019)
Net income	2,719	3,078
Other comprehensive income		
Valuation difference on marketable securities	1	11
Remeasurements of defined benefit plans, net of tax	—	1
Total of other comprehensive income	1	12
Comprehensive income	2,721	3,091
(Breakdown)		
Comprehensive income attributable to shareholders of parental company	2,721	3,091
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	1Q-2Q/ FY ended March 31, 2019 (Apr. 1, 2018 - Sept. 30, 2018)	1Q-2Q/ FY ending March 31, 2020 (Apr. 1, 2019 - Sept. 30, 2019)
Cash flows from operating activities		
Income before income taxes	4,289	4,790
Depreciation	106	120
Increase (decrease) in allowance for doubtful accounts	0	(0)
Increase (decrease) in provision for bonuses	133	233
Increase (decrease) in provision for directors' retirement benefits	16	27
Increase (decrease) in net defined benefit liabilities	6	16
Interest and dividend income	(1)	(2)
Interest expenses	24	21
Decrease (increase) in notes and accounts receivable-trade	(1,217)	719
Decrease (increase) in inventories	510	(5,413)
Increase (decrease) in notes and accounts payable-trade	104	74
Decrease (increase) in advance payments	(53)	3
Increase (decrease) in advances received	116	(599)
Increase (decrease) in lease and guarantee deposits received	(16)	29
Increase (decrease) in accrued consumption taxes	471	20
Other, net	(109)	(160)
Subtotal	4,380	(116)
Interest and dividend income received	1	2
Interest expenses paid	(24)	(23)
Income taxes paid	(1,240)	(2,394)
Net cash provided by (used in) operating activities	3,117	(2,532)
Cash flows from investing activities		
Purchase of property, plant and equipment	(59)	(319)
Purchase of investment securities	(2)	(2)
Decrease (increase) in time deposits	(39)	(38)
Other, net	7	(8)
Net cash used in investing activities	(92)	(369)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	500	118
Proceeds from long-term loans payable	2,900	6,465
Repayments of long-term loans payable	(3,500)	(5,330)
Repayments of lease obligations	(3)	—
Cash dividends paid	(391)	(653)
Net cash provided by (used in) financing activities	(495)	599
Net increase (decrease) in cash and cash equivalents	2,529	(2,302)
Cash and cash equivalents at the beginning of period	13,680	12,754
Cash and cash equivalents at the end of period	16,210	10,451

(4) Notes Regarding Quarterly Consolidated Financial Statements

(Notes Regarding Going Concern)

None.

(Notes in Event of Significant Changes in Shareholders' Equity)

None.

(Application of Accounting Methods Specific to the Preparation of Quarterly Consolidated Financial Statements)

None.

(Segment Information)

I. For the Six Months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

1. Information on the amount of sales and profit for reported segments

(Millions of yen)

	Reported segment					Adjustment (Note) 1	Amounts shown on Quarterly Consolidated Statement of Income (Note) 2
	Real estate development segment	Real estate management segment	Construction segment	Japanese inn segment	Total		
Net sales							
External customers	32,586	1,280	2,651	397	36,915	—	36,915
Inter-segment sales or exchange	5	195	47	8	256	(256)	—
Total	32,591	1,476	2,698	405	37,172	(256)	36,915
Segment profit	3,589	418	261	0	4,269	24	4,294

(Notes) 1. The adjustment amount of segment profit of ¥24 million includes ¥26 million in elimination of inter-segment transactions and negative ¥1 million in adjustments of inventories and non-current assets.

2. Segment profit is adjusted with operating income in the quarterly consolidated statement of income.

II. For the Six Months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

1. Information on the amount of sales and profit for reported segments

(Millions of yen)

	Reported segment					Adjustment (Note) 1	Amounts shown on Quarterly Consolidated Statement of Income (Note) 2
	Real estate development segment	Real estate management segment	Construction segment	Japanese inn segment	Total		
Net sales							
External customers	38,667	1,399	2,330	470	42,868	—	42,868
Inter-segment sales or exchange	7	203	21	7	240	(240)	—
Total	38,675	1,602	2,352	477	43,108	(240)	42,868
Segment profit (loss)	4,194	396	206	(19)	4,779	28	4,807

(Notes) 1. The adjustment amount of segment profit of ¥28 million includes ¥26 million in elimination of inter-segment transactions and ¥1 million in adjustments of inventories and non-current assets.

2. Segment profit is adjusted with operating income in the quarterly consolidated statement of income.