Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2022 (Six Months Ended December 31, 2021)

[Japanese GAAP]

February 3, 2022

Company name:	URBANET CORPORATION Co., Ltd.	Listing:	Tokyo Stock Exchange (JASDAQ)
Stock code:	3242	URL:	https://www.urbanet.jp/
Representative:	Shinji Hattori, President and Representative Director		
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Scheduled date of filing of Quarterly Report: February 3, 2022
Scheduled date of payment of dividend: March 28, 2022
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2022 (July 1, 2021 to December 31, 2021)

(1) Consolidated results of operations (Percentages represent 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	%
Six months ended Dec. 31, 2021	6,236	(23.5)	400	(64.1)	309	(68.9)	184	(72.5)
Six months ended Dec. 31, 2020	8,150	(1.3)	1,114	49.1	997	68.8	673	65.6

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2021: 206 (down 70.2%)
Six months ended Dec. 31, 2020: 695 (up 71.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2021	5.90	-
Six months ended Dec. 31, 2020	21.46	-

(2) Consolidated financial condition

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2021	34,801	13,493	34.2
As of Jun. 30, 2021	35,175	13,591	34.2

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2021: 11,916 As of Jun. 30, 2021: 12,036

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2021	-	7.00	-	10.00	17.00
Fiscal year ending Jun. 30, 2022	-	8.00			
Fiscal year ending Jun. 30, 2022 (forecast)			-	9.00	17.00

Note: Revision to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	23,000	9.8	2,220	(4.4)	1,950	(6.3)	1,300	1.4	41.44

Note: Revisions to the most recently announced earnings forecast: None

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of outstanding shares as of the end of the period (including treasury shares)

As of Dec. 31, 2021:	31,374,100 shares	As of Jun. 30, 2021:	31,374,100 shares

2) Number of treasury shares as of the end of the period

As of Dec. 31, 2021:	62 shares	As of Jun. 30, 2021:	62 shares

3) Average number of outstanding shares during the period

Six months ended Dec. 31, 2021:	31,374,038 shares	Six months ended Dec. 31, 2020:	31,374,038 shares

* The current quarterly consolidated financial results are not subject to the quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forecasts

- Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to the Urbanet Group's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 3 of the attachments for assumptions for forecasts and notes of caution for usage.

How to view supplementary information at the financial results meeting

- Materials to be distributed at the meeting will be disclosed on the Timely Disclosure network (TDnet) and available on the Urbanet website at the same time as this financial summary.
  For safety during the COVID-19 pandemic, Urbanet Corporation plans to post a video of the financial results meeting for institutional investors and analysts on Friday, February 4, 2022 instead of holding a financial results meeting.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance

The Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and other standards are applied from the first quarter of the fiscal year ending June 30, 2022. As a result, net sales, operating profit, ordinary profit and profit before income taxes for the first half of the current fiscal year (hereinafter "the period under review") each decreased by 12 million yen. In addition, retained earnings at the beginning of the fiscal year increased by 8 million yen.

(1) Explanation of Results of Operations

For the period under review, the Urbanet Group companies (hereinafter "the Urbanet Group" or "the Group") reported net sales of 6,236 million yen (down 23.5% year-on-year), operating profit of 400 million yen (down 64.1% year-on-year), ordinary profit of 309 million yen (down 68.9% year-on-year), and profit attributable to owners of parent of 184 million yen (down 72.5% year-on-year).

The year-on-year significant decrease in net sales and profits are mainly attributable to many high-margin projects delivered in the second quarter of the previous fiscal year. It is also because the revenue recognition for one project scheduled for the period under review has been postponed to the third quarter. Note that in the business of development and sale of one-room apartments buildings for investors, which is the main business of the Group, quarterly sales and profit margins fluctuate significantly from year to year since the timing of the completion-based revenue recognition, as well as the amount and profit margin, is different for each project and each year. Revenue recognition for projects scheduled for the current fiscal year is skewed to the third quarter or later.

The performance by each business segment is explained below.

(Real Estate Business)

Net sales in the Real Estate Business were 6,206 million yen (down 23.8% year-on-year) and segment profit was 901 million yen (down 45.4% year-on-year).

Total amount of sales from the real estate development sales category was 5,860 million yen (down 23.9% year-on-year) with revenues from sale of 199 units in a total of four one-room apartment buildings for investors. Net sales in the real estate purchase and sales category were 62 million yen (down 68.9% year-on-year) with revenues from purchase and resale of one unit of pre-owned condominium and those of one pre-owned house. Net sales in the others real estate business category were 283 million yen (up 17.8% year-on-year) with revenues from real estate brokerage and real estate leasing among others.

(Hotel Business)

Net sales in the Hotel Business were 30 million yen (up 312.3% year-on-year) and segment loss was 31 million yen (compared with a loss of 69 million yen for the same period of the previous fiscal year) mainly with room fee revenues from Hotel Asyl Tokyo Kamata.

(2) Explanation of Financial Condition

1) Analysis of Financial Position

Total assets, total liabilities and net assets on a consolidated basis amounted to 34,801 million yen (a decrease of 374 million yen over the end of the previous fiscal year), 21,307 million yen (a decrease of 276 million yen), and 13,493 million yen (a decrease of 98 million yen), respectively.

The decrease in total assets was mainly due to decreases of 1,271 million yen in cash and deposits and 374 million yen in income taxes receivable, while there were increases of 790 million yen in inventories as a result of active land purchasing efforts in a very competitive land purchase environment and 296 million yen in property, plant and equipment mainly due to the purchase of income properties.

The decrease in total liabilities was mainly due to a decrease of 277 million yen in advances received due to the completion and transfer of properties.

The decrease in net assets was mainly due to a decrease from the payment of year-end dividends and other factors, which outweighed an increase in profit attributable to owners of parent.

2) Analysis of Cash Flows

Cash and cash equivalents (hereinafter “net cash”) at the end of the period under review amounted to 5,921 million yen, a decrease of 1,271 million yen over the end of the previous fiscal year. This was mainly due to negative cash flows from operating, investing and financing activities.

Cash flows from operating activities

Net cash used in operating activities for the period under review totaled 389 million yen (compared with net cash used of 346 million yen in the same period of the previous fiscal year). This was mainly due to an increase in inventories.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled 398 million yen (compared with net cash used of 20 million yen in the same period of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities for the period under review totaled 484 million yen (compared with net cash used of 1,367 million yen in the same period of the previous fiscal year). This was mainly because of the repayments of long-term borrowings resulting from completed construction projects, and the payment of dividends, which was partially offset by proceeds from long-term borrowings for the procurement of land for development on our own in the Real Estate Business.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

The Urbanet Group reported net sales of 6,236 million yen, operating profit of 400 million yen, ordinary profit of 309 million yen and profit attributable to owners of parent of 184 million yen for the period under review. As a result, compared to the consolidated earnings forecast for the current fiscal year (fiscal year ending June 30, 2022) announced on August 5, 2021 in “Consolidated Financial Results for the Fiscal Year Ended June 30, 2021,” the progress rates have remained at a low level: 27.1 % in net sales, 18.0% in operating profit, 15.9% in ordinary profit, and 14.2% in profit attributable to owners of parent. This is because our main business is development and sale (wholesale) of one-room apartments buildings for investors, in which quarterly sales and profit margins significantly fluctuate since the timing, amount, or profit margin of the completion-based revenue recognition are different from project to project and from year to year. The low progress rates for the period under review are also attributable to the postponement of one project scheduled to be delivered in the period under review to the third quarter.

We have decided to maintain the consolidated earnings forecast for the current fiscal year that was announced on August 5, 2021, partly because sales for the current fiscal year are weighted toward the third quarter and beyond.

We will promptly announce any revisions to the consolidated earnings forecast as necessary, paying sufficient attention to the uncertain factors such as the resurgence of COVID-19 and the emergence of new problems including supply chain disruptions that may affect construction periods or sales activities.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY6/21 (As of Jun. 30, 2021)	Second quarter of FY6/22 (As of Dec. 31, 2021)
Assets		
Current assets		
Cash and deposits	7,203,312	5,931,670
Real estate for sale	2,225,450	2,317,287
Real estate for sale in process	18,686,211	19,384,395
Other	640,297	410,908
Total current assets	28,755,271	28,044,261
Non-current assets		
Property, plant and equipment	5,858,073	6,154,391
Intangible assets	4,140	3,640
Investments and other assets	557,772	598,905
Total non-current assets	6,419,986	6,756,937
Total assets	35,175,257	34,801,198
Liabilities		
Current liabilities		
Accounts payable-trade	1,400,124	1,420,455
Short-term borrowings	400,000	186,000
Current portion of long-term borrowings	6,674,560	7,088,568
Lease obligations	15,246	15,336
Income taxes payable	-	167,982
Other	888,488	592,835
Total current liabilities	9,378,419	9,471,177
Non-current liabilities		
Long-term borrowings	12,089,464	11,726,508
Lease obligations	21,231	13,540
Retirement benefit liability	57,038	59,922
Other	37,701	36,678
Total non-current liabilities	12,205,434	11,836,648
Total liabilities	21,583,854	21,307,826
Net assets		
Shareholders’ equity		
Share capital	2,693,701	2,693,701
Capital surplus	2,191,829	2,191,829
Retained earnings	7,151,425	7,031,465
Treasury shares	(17)	(17)
Total shareholders’ equity	12,036,938	11,916,979
Non-controlling interests	1,554,464	1,576,393
Total net assets	13,591,403	13,493,372
Total liabilities and net assets	35,175,257	34,801,198

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Net sales	8,150,183	6,236,665
Cost of sales	6,333,401	5,204,745
Gross profit	1,816,781	1,031,919
Selling, general and administrative expenses	702,227	631,733
Operating profit	1,114,554	400,186
Non-operating income		
Interest income	41	42
Commission income	-	1,818
Other	2,688	3,778
Total non-operating income	2,730	5,638
Non-operating expenses		
Interest expenses	87,677	84,530
Commission expenses	17,197	10,835
Other	14,724	631
Total non-operating expenses	119,599	95,997
Ordinary profit	997,685	309,827
Extraordinary income		
Gain on reversal of share acquisition rights	7,700	-
Gain on sale of golf membership	-	113
Total extraordinary income	7,700	113
Profit before income taxes	1,005,385	309,941
Income taxes-current	305,693	140,040
Income taxes-deferred	4,323	(37,010)
Total income taxes	310,017	103,029
Profit	695,368	206,911
Profit attributable to non-controlling interests	21,928	21,928
Profit attributable to owners of parent	673,439	184,983

Quarterly Consolidated Statement of Comprehensive Income

(For the Six-month Period)

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Profit	695,368	206,911
Other comprehensive income	-	-
Comprehensive income	695,368	206,911
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	673,439	184,983
Comprehensive income attributable to non-controlling interests	21,928	21,928

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)	First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)
Cash flows from operating activities		
Profit before income taxes	1,005,385	309,941
Depreciation	67,521	71,785
Increase (decrease) in retirement benefit liability	5,546	2,884
Interest and dividend income	(41)	(42)
Interest expenses	87,677	84,530
Decrease (increase) in investments in leases	13,382	14,422
Decrease (increase) in inventories	(3,324,912)	(769,128)
Increase (decrease) in trade payables	2,447,456	20,330
Increase (decrease) in advances received	140,601	(277,255)
Increase (decrease) in accrued consumption taxes	(3,168)	5,285
Other, net	(339,990)	(148,392)
Subtotal	99,457	(685,638)
Interest and dividends received	42	43
Interest paid	(87,725)	(84,209)
Income taxes refund (paid)	(358,170)	380,749
Net cash provided by (used in) operating activities	(346,395)	(389,055)
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,982)	(390,132)
Purchase of intangible assets	(472)	(3,102)
Other, net	(400)	(4,886)
Net cash provided by (used in) investing activities	(20,854)	(398,121)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(269,020)	(214,000)
Proceeds from long-term borrowings	3,368,000	2,842,000
Repayments of long-term borrowings	(4,145,207)	(2,790,948)
Repayments of lease obligations	(8,209)	(7,600)
Dividends paid	(312,756)	(313,916)
Net cash provided by (used in) financing activities	(1,367,192)	(484,464)
Net increase (decrease) in cash and cash equivalents	(1,734,443)	(1,271,641)
Cash and cash equivalents at beginning of period	8,898,267	7,193,312
Cash and cash equivalents at end of period	7,163,824	5,921,670

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Application of the Accounting Standard for Revenue Recognition

Urbanet started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the period under review. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional measures in the proviso to Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the period under review, is added to or subtracted from retained earnings at the beginning of the period under review. The new standard is then applied beginning with this amount of retained earnings.

As a result, the application of the new standard resulted in reductions of 12,680 thousand yen in sales, operating profit, ordinary income and profit before income taxes, respectively. There is an increase of 8,797 thousand yen in retained earnings at the beginning of the current fiscal year.

Segment and Other Information

Segment Information

I. First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)

Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment		Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Real Estate	Hotel			
Net sales					
External sales	8,142,757	7,425	8,150,183	-	8,150,183
Inter-segment sales and transfers	-	-	-	-	-
Total	8,142,757	7,425	8,150,183	-	8,150,183
Segment profit (loss)	1,651,644	(69,532)	1,582,112	(467,557)	1,114,554

Notes: 1. The negative 467,557 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit (loss) is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

II. First six months of FY6/22 (Jul. 1, 2021 – Dec. 31, 2021)

Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment		Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Real Estate	Hotel			
Net sales					
External sales	6,206,047	30,617	6,236,665	-	6,236,665
Inter-segment sales and transfers	-	-	-	-	-
Total	6,206,047	30,617	6,236,665	-	6,236,665
Segment profit (loss)	901,480	(31,111)	870,369	(470,182)	400,186

Notes: 1. The negative 470,182 thousand yen adjustment to segment profit (loss) is corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit (loss) is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.