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MEMBERSHIP

February 10, 2023

Consolidated Financial Results for the Six Months Ended December 31, 2022 (Under Japanese GAAP)

Company name: URBANET CORPORATION Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 3242
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 Scheduled date to file quarterly securities report: February 10, 2023
 Scheduled date to commence dividend payments: March 27, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended December 31, 2022 (from July 1, 2022 to December 31, 2022)

(1) Consolidated operating results (cumulative)

(Percentages 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	%
Six months ended								
December 31, 2022	5,826	(6.6)	202	(49.4)	49	(84.0)	32	(82.5)
December 31, 2021	6,236	(23.5)	400	(64.1)	309	(68.9)	184	(72.5)

Note: Comprehensive income For the six months ended December 31, 2022: 54 million yen [(73.8)%]
 For the six months ended December 31, 2021: 206 million yen [(70.2)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2022	1.03	—
December 31, 2021	5.90	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2022	42,864	14,165	29.3
June 30, 2022	38,090	14,393	33.6

Reference: Equity As of December 31, 2022 12,545 million yen
 As of June 30, 2022: 12,795 million yen

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2022	–	8.00	–	9.00	17.00
Fiscal year ending June 30, 2023	–	9.00			
Fiscal year ending June 30, 2023 (Forecast)			–	9.00	18.00

Note: Revisions to the forecast of cash dividends most recently announced: None

The second quarter-end dividend per share for the fiscal year ending June 30, 2023 comprises an ordinary dividend of 8.00 yen and a commemorative dividend of 1.00 yen.

3. Consolidated earnings forecasts for the fiscal year ending June 30, 2023 (from July 1, 2022 to June 30, 2023)

(Percentages 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
Fiscal year ending June 30, 2023	20,000	2.0	2,300	3.5	2,050	3.2	1,350	2.7	43.03

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the 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: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022:	31,374,100 shares
As of June 30, 2022:	31,374,100 shares

- (ii) Number of treasury shares at the end of the period

As of December 31, 2022:	62 shares
As of June 30, 2022:	62 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended December 31, 2022	31,374,038 shares
Six months ended December 31, 2021	31,374,038 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Caution concerning forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in this document are based on information currently available to the Urbanet Group and on certain assumptions deemed to be reasonable. Actual business and other results may differ substantially due to various factors. For the assumptions underlying the earnings forecasts and notes on their use, please refer to “1. Qualitative Information on the Quarterly Financial Results for the Period under Review (3) Explanation Concerning the Forecast of Consolidated Financial Results and Other Forward-looking Information” on page 3 of the Attached Material.

(Means of access to contents of supplementary material on financial results and financial results briefing)

Materials on financial results will be disclosed on the Timely Disclosure network (TDnet) and available on the Group’s website at the same time as this financial summary.

We plan to hold the following financial results briefing for investors.

Videos recorded at this event are to be posted promptly on the Group’s website following the briefing.

Friday, February 10, 2023: Financial results briefing for institutional investors and analysts

Attached Material

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1. Qualitative Information on the Quarterly Financial Results for the Period under Review

(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 5,826 million yen (down 6.6% from the same period of the previous fiscal year), operating profit of 202 million yen (down 49.4% from the same period of the previous fiscal year), ordinary profit of 49 million yen (down 84.0% from the same period of the previous fiscal year), and profit attributable to owners of parent of 32 million yen (down 82.5% from the same period of the previous fiscal year).

The year-on-year decrease in both sales and profits was mainly due to the fact that the recording of sales for projects scheduled for the current fiscal year is weighted toward the third quarter of the current fiscal year and beyond. During the current fiscal year, the Group plans to sell 586 units in a total of 11 buildings and while 149 units in a total of four buildings and one tract of land for sites were sold for the period under review, each project is generally progressing as planned. The group’s core business is the development and sale of one-room condominiums for investment, and the timing, amount, and profit ratio of sales upon completion of construction vary greatly from project to project and from year to year, causing quarterly sales and profits to fluctuate significantly each year. In the current fiscal year, the completion and delivery of projects are concentrated in the third quarter of the fiscal year or later than usual, and most of sales for high-margin projects is recorded in the same quarter and beyond, resulting in large fluctuations year-on-year.

The performance by each business segment is explained below.

(Real Estate Business)

Net sales in the Real Estate Business were 5,765 million yen (down 7.1% from the same period of the previous fiscal year), and segment profit was 693 million yen (down 23.0% from the same period of the previous fiscal year).

Among these, the total amount of sales from the real estate development and sales was 5,502 million yen (down 6.1% from the same period of the previous fiscal year) with revenues from the sale of 149 units in a total of four one-room condominiums for investment and resale of one tract of land for sites, while real estate purchase and sales also saw no purchase or resale of pre-owned condominiums and pre-owned detached houses (compared with 62 million yen in the same period of the previous fiscal year). In the other real estate business, sales were 262 million yen (down 7.4% from the same period of the previous fiscal year) due to real estate brokerage and real estate leasing.

(Hotel business)

In the hotel business, net sales were 60 million yen (up 97.9% from the same period of the previous fiscal year) and segment loss was 17 million yen (compared with a segment loss of 31 million yen in the same period of the previous fiscal year) due to room charges and other factors at Hotel Asyl Tokyo Kamata.

(2) Explanation of Financial Condition

(i) Analysis of Financial Position

As for the financial position at the end of the second quarter of the current fiscal year under review, compared to the end of the previous fiscal year, total assets increased 4,774 million yen to 42,864 million yen, liabilities increased 5,002 million yen to 28,699 million yen, and net assets decreased 228 million yen to 14,165 million yen.

The increase in total assets was mainly due to an increase in real estate for sale in process of 9,438 million yen as a result of proactive efforts to acquire land for sites for conveniently-located properties of central Tokyo despite the severe purchasing environment, while cash and deposits and real estate for sale decreased by 2,911 million yen and 1,672 million yen, respectively.

The increase in liabilities was mainly due to an increase in advances received, etc., as well as an increase in long-term borrowings of 4,969 million yen (including current portion of long-term borrowings) for the acquisition of land for sites.

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

(ii) Analysis of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the second quarter of the current fiscal year under review decreased by 2,911 million yen compared to the end of the previous fiscal year to 5,573 million yen, due to a decrease in funds in operating and investing activities, while funds increased in financing activities.

Cash flows from operating activities

Net cash used in operating activities amounted to 7,025 million yen (compared with net cash used of 389 million yen in the same period of the previous fiscal year). This was mainly due to increases in inventories and income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to 607 million yen (compared with net cash used of 398 million yen in the same period of the previous fiscal year). This was mainly due to purchase of shares of subsidiaries acquired for the purpose of real estate development.

Cash flows from financing activities

Net cash provided by financing activities amounted to 4,722 million yen (compared with net cash used of 484 million yen in the same period of the previous fiscal year). This was mainly due to proceeds from the long-term borrowings for the acquisition of land for its own development in the Real Estate Business, which outweighed the decrease in funds due to the repayment of long-term borrowings in connection with the completion of construction and the payment of dividends.

(3) Explanation Concerning the Forecast of Consolidated Financial Results and Other Forward-looking Information

The Group’s financial results for the second quarter of the current fiscal year were as follows: net sales of 5,826 million yen, operating profit of 202 million yen, ordinary profit of 49 million yen, and profit attributable to owners of parent was 32 million yen. As a result, the progress rate of net sales and each profit item is extremely low compared with the consolidated earnings forecast for the current fiscal year (ending June 30, 2023), which was disclosed in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2022” on August 4, 2022. This is mainly due to the fact that the business model in the group is the development and sale (wholesale) of one-room condominiums for investment, and the timing, amount, and size of land purchase vary from project to project, and therefore the timing, amount, and profit margin associated with completion vary from project to project and from year to year, resulting in large fluctuations in quarterly sales and profit margins. In particular, for the current fiscal year, we are planning to sell 586 units, including one-room condominiums for investment, of which 149 units in a total of four buildings and one tract of land for sites were sold for the period under review, while sales for the remaining units are scheduled to be recorded in the third quarter or later, with a concentration of high-margin projects to be completed and delivered, which is the main factor for the lower rate of progress.

Accordingly, we have decided to leave unchanged the full-year consolidated earnings forecast for the current fiscal year disclosed on August 4, 2022, as progress has been made generally in line with our initial plan.

Although sales contracts have been completed for all the projects scheduled for the current fiscal year, we will pay close attention to uncertainties such as the status of COVID-19 including its variants, the impact of the supply status of construction materials and soaring prices on construction schedules and costs, as well as the impact of the Bank of Japan’s revision of its monetary policy on sales, etc., and will promptly disclose revised consolidated earnings forecasts if necessary.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of June 30, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	8,495,387	5,583,638
Real estate for sale	2,288,944	616,868
Real estate for sale in process	20,424,146	29,862,929
Work in process	–	2,196
Other	264,226	295,295
Total current assets	31,472,704	36,360,927
Non-current assets		
Property, plant and equipment	5,996,440	5,909,964
Intangible assets	3,140	3,340
Investments and other assets	618,349	590,690
Total non-current assets	6,617,930	6,503,995
Total assets	38,090,634	42,864,923
Liabilities		
Current liabilities		
Accounts payable - trade	1,555,260	1,339,080
Short-term borrowings	278,000	468,000
Current portion of long-term borrowings	7,203,408	9,274,408
Lease liabilities	15,076	9,568
Income taxes payable	421,152	44,614
Other	649,167	834,391
Total current liabilities	10,122,064	11,970,063
Non-current liabilities		
Long-term borrowings	13,463,324	16,361,614
Lease liabilities	12,725	9,835
Retirement benefit liability	62,106	51,348
Other	37,134	306,867
Total non-current liabilities	13,575,290	16,729,665
Total liabilities	23,697,354	28,699,728
Net assets		
Shareholders' equity		
Share capital	2,693,701	2,693,701
Capital surplus	2,191,829	2,191,829
Retained earnings	7,909,801	7,659,788
Treasury shares	(17)	(17)
Total shareholders' equity	12,795,315	12,545,301
Non-controlling interests	1,597,964	1,619,893
Total net assets	14,393,279	14,165,194
Total liabilities and net assets	38,090,634	42,864,923

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly Consolidated Statement of Income (For the Six-month Period)**

(Thousands of yen)

	Six months ended December 31, 2021	Six months ended December 31, 2022
Net sales	6,236,665	5,826,264
Cost of sales	5,204,745	4,903,024
Gross profit	1,031,919	923,239
Selling, general and administrative expenses	631,733	720,564
Operating profit	400,186	202,675
Non-operating income		
Interest income	42	42
Commission income	1,818	–
Other	3,778	1,338
Total non-operating income	5,638	1,381
Non-operating expenses		
Interest expenses	84,530	99,251
Commission expenses	10,835	55,203
Other	631	39
Total non-operating expenses	95,997	154,495
Ordinary profit	309,827	49,561
Extraordinary income		
Gain on sale of golf membership	113	–
Surrender value of insurance policies	–	45,754
Total extraordinary income	113	45,754
Extraordinary losses		
Loss on valuation of golf club membership	–	5,270
Total extraordinary losses	–	5,270
Profit before income taxes	309,941	90,045
Income taxes - current	140,040	20,385
Income taxes - deferred	(37,010)	15,378
Total income taxes	103,029	35,763
Profit	206,911	54,281
Profit attributable to non-controlling interests	21,928	21,928
Profit attributable to owners of parent	184,983	32,352

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

(Thousands of yen)

	Six months ended December 31, 2021	Six months ended December 31, 2022
Profit	206,911	54,281
Other comprehensive income	–	–
Comprehensive income	206,911	54,281
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	184,983	32,352
Comprehensive income attributable to non-controlling interests	21,928	21,928

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Six months ended December 31, 2021	Six months ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	309,941	90,045
Depreciation	71,785	70,880
Increase (decrease) in retirement benefit liability	2,884	(10,758)
Interest and dividend income	(42)	(42)
Interest expenses	84,530	99,251
Surrender value of insurance policies	–	(45,754)
Decrease (increase) in investments in leases	14,422	15,534
Decrease (increase) in inventories	(769,128)	(6,671,812)
Increase (decrease) in trade payables	20,330	(216,179)
Increase (decrease) in advances received	(277,255)	300,265
Increase (decrease) in accrued consumption taxes	5,285	(108,547)
Other, net	(148,392)	(65,154)
Subtotal	(685,638)	(6,542,271)
Interest and dividends received	43	43
Interest paid	(84,209)	(100,049)
Income taxes refund (paid)	380,749	(383,610)
Net cash provided by (used in) operating activities	(389,055)	(7,025,887)
Cash flows from investing activities		
Purchase of property, plant and equipment	(390,132)	(27,446)
Purchase of intangible assets	(3,102)	(750)
Proceeds from cancellation of insurance funds	–	81,378
Decrease (increase) in investments and other assets	–	(28,230)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(632,890)
Other, net	(4,886)	–
Net cash provided by (used in) investing activities	(398,121)	(607,937)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(214,000)	42,935
Proceeds from long-term borrowings	2,842,000	7,432,000
Repayments of long-term borrowings	(2,790,948)	(2,462,710)
Repayments of lease liabilities	(7,600)	(8,398)
Dividends paid	(313,916)	(281,750)
Net cash provided by (used in) financing activities	(484,464)	4,722,077
Net increase (decrease) in cash and cash equivalents	(1,271,641)	(2,911,748)
Cash and cash equivalents at beginning of period	7,193,312	8,485,387
Cash and cash equivalents at end of period	5,921,670	5,573,638

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information, Etc.

Segment Information

I Six months ended December 31, 2021 (July 1, 2021-December 31, 2021)

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

(Thousands of yen)

	Reportable segments		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 consistent with operating profit shown on the quarterly consolidated statement of income.

II Six months ended December 31, 2022 (July 1, 2022-December 31, 2022)

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

(Thousands of yen)

	Reportable segments		Total	Adjustment (Note) 1	Amounts shown on quarterly consolidated statement of income (Note) 2
	Real Estate	Hotel			
Net sales					
External sales	5,765,680	60,583	5,826,264	–	5,826,264
Inter-segment sales and transfers	–	–	–	–	–
Total	5,765,680	60,583	5,826,264	–	5,826,264
Segment profit (loss)	693,934	(17,143)	676,790	(474,114)	202,675

Notes: 1. The negative 474,114 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 consistent with operating profit shown on the quarterly consolidated statement of income.