

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.

Consolidated Financial Results for the Second Quarter ended June 30, 2023 [Based on Japanese GAAP]

August 4, 2023

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: August 4, 2023 Scheduled date of dividend payment: —
 Supplementary material for financial results: Yes
 Quarterly financial results briefing: Yes

(fractions of one million yen are rounded off)

1. Consolidated financial results for the second quarter ended June 30, 2023 (January 1 to June 30, 2023)

(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	%
2Q ended June 30, 2023	26,247	87.4	3,303	202.2	2,918	267.8	1,929	228.1
2Q ended June 30, 2022	14,006	(21.3)	1,093	(17.1)	793	(24.5)	588	(20.3)

(Note) Comprehensive income: 2Q ended June 30, 2023 1,929 million yen (228.1%)
 2Q ended June 30, 2022 588 million yen (-20.3%)

	Net Income per share	Diluted net income per share
	Yen	Yen
2Q ended June 30, 2023	82.12	81.63
2Q ended June 30, 2022	24.97	24.82

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2023	79,148	26,120	32.9
As of December 31, 2023	77,448	24,604	31.6

(Reference) Shareholders' equity: As of June 30, 2023 26,027 million yen
 As of December 31, 2022 24,511 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, 2022	—	0.00	—	20.00	20.00
Year ending December 31, 2023	—	0.00	—	—	—
Year ending December 31, 2023 (forecast)	—	—	—	43.00	43.00

(Note) Revision of the latest dividend forecast: None

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2023

(January 1, 2023 to December 31, 2023) (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
FY2023 (Full year)	46,139	47.7	4,632	55.6	3,860	67.2	2,522	61.2	107.22

(Note) Revision of the latest consolidated financial results forecast: None

* 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 June 30, 2023 | 24,361,000 shares |
| As of December 31, 2022 | 24,361,000 shares |
| (ii) Number of treasury stock held at end of the period | |
| As of June 30, 2023 | 798,325 shares |
| As of December 31, 2022 | 897,325 shares |
| (iii) Average number of shares outstanding during the period (cumulative) | |
| As of June 30, 2023 | 23,498,680 shares |
| As of June 30, 2022 | 23,554,019 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) Financial forecasts

The statements about the future included in this report, including financial forecasts, 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. Operating Results and Financial Position“ 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

Presentation materials are disclosed through TDnet and on the Company’s website on the day on which the presentation is made.

1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2023

(1) Analysis of Operating Results

During the first six months of the fiscal year under review (January 1, 2023 through June 30, 2023), in the real estate industry where the MUGEN ESTATE Group operates, the nationwide average price of roadside land per square meter (as of January 1, 2023) announced by the National Tax Agency on July 3, 2023 rose 1.5% year on year. The figure climbed for the second consecutive year. In commercial districts in particular, economic activity became energetic and land prices surged sharply after restrictions during the COVID-19 pandemic were relaxed and demand from inbound tourists rallied.

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 rose 3.6% year on year in June 2023. This figure was higher than in the same period of the previous fiscal year for the first time in three months. The average unit price per square meter of contracted condominium units increased 7.9% year on year. It rose for the 38th consecutive month. The contract price increased 9.0% year on year. It has been rising on a year-on-year basis for 37 straight months. There was a huge 23.4% year-on-year increase in the number of inventory properties, surpassing the previous year for the 17th consecutive month.

In this business environment, the MUGEN ESTATE Group enjoyed the continuation of last year's strong demand in its mainstay Real Estate Trading Business. One reason for the strong demand is the continuously high demand for used residential-type properties such as rental condominiums, and changes in the owners of units, owned condominium units and detached houses in line with the soaring prices of newly constructed properties. Another is that sales to overseas investors returned to the pre-pandemic level after a turnaround in inbound tourist demand.

Purchases and sales of residential type properties both jumped hugely year on year, an effect of the sales offices opened last year or earlier in the Tokyo metropolitan area and the increased personnel. Opened in May, the Osaka Sales Office will handle an increasing number of properties in Osaka and the neighboring prefectures as they work to enable the growth of the business.

As for investment type properties, gross profit margin surpassed the initial plan, and sales and gross profit increased considerably year on year, a result of efforts to increase their occupancy rate, increase the added value of products, and strengthen sales activities with an emphasis on profitability. Purchases were flat from the same period in the preceding fiscal year.

In the Real Estate Development Business, construction progressed on new SIDEPLACE series properties equipped with environmentally friendly features. A steel-framed rental condominium with five floors above ground was completed in Ikebukuro, Toshima-ku, Tokyo in June. To bolster sales, the Group will accelerate leasing and sales activities and increase staff.

In the Real Estate Specified Joint Business, the formation of the partnership for the Setagaya Project was completed at the planned total value. In May, sales for the Nursing Care Edogawa Project began. Characteristically, this health care facility is not susceptible to economic conditions or the real estate market in an environment with the aging of the population, the decline of the birth rate and the shift to nuclear families proceeding at a tremendous pace.

As a result, consolidated net sales increased 87.4% year on year, to 26,247 million yen, consolidated operating income rose 202.2% year on year, to 3,303 million yen, consolidated ordinary income rose 267.8% year on year, to 2,918 million yen, and consolidated profit attributable to owners of parent rose 228.1% year on year, to 1,929 million yen in the first three months under review.

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 63 (up 31 units year on year) and the average unit selling price was 184 million yen (down 28.7% year on year), registering net sales of 11,654 million yen (up 40.4% year on year). Meanwhile, the number of units sold in residential-type properties came to 204 (up 88 units year on year) and the average unit selling price was 63 million yen (up 65.9% year on year), registering net sales of 12,871 million yen (up 191.7% year on year).

As a result, net sales for the segment increased 94.4% year on year, to 25,121 million yen, and the segment profit (operating income for the segment) increased 147.6% year on year, to 4,001 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing came to 1,048 million yen (up 4.1% year on year).

As a result, net sales for the segment increased 4.2% year on year, to 1,126 million yen, and segment profit (operating income for the segment) up 3.2% year on year, to 374 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" includes real estate used by purchasers for residential purposes, mainly condominiums, as well as land and other properties.

(2) Analysis of Financial Position

[Status of assets, liabilities and net assets]

The financial position at the end of the second quarter of the consolidated fiscal year under review included total assets of 79,148 million yen (up 2.2% from the end of the previous fiscal year), liabilities of 53,028 million yen (up 0.3% from the end of the previous fiscal year), and net assets of 26,120 million yen (up 6.2% from the end of the previous fiscal year).

(Assets)

The increase in total assets resulted mainly from a 1,244 million yen increase in real estate for sale (including real estate for sale in process) and a 696 million yen increase in cash and deposits.

(Liabilities)

The major factors for the increase in liabilities were a 3,721 million yen increase in short-term borrowings, a 4,211 million yen decrease in long-term borrowings (including current portion) and a 303 million yen decrease in bonds payable (including current portion).

(Net assets)

The major factors for the increase of net assets were an increase 1,929 million yen in retained earnings due to the posting of a profit attributable to owners of parent and a decline of 469 million yen in retained earnings due to the payment of dividends.

[Status of cash flows]

Cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review (“cash”) increased 611 million yen from the end of the previous consolidated fiscal year, to 16,926 million yen. The cash flow positions and contributing factors during the first six months under review are as follows:

(Cash flows from operating activities)

Net cash provided for operating activities during the first six months of the consolidated fiscal year under review totaled 2,006 million yen (net cash used in operating activities during the first six months of the previous fiscal year was 8,042 million yen). This was primarily attributable to increase of 1,510 million yen in inventories and the recording of 2,917 million yen as profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities during the first six months of the consolidated fiscal year under review was 128 million yen (net cash used during the first six months of the previous fiscal year was 185 million yen). This was caused primarily by proceeds from the withdrawal of time deposits of 868 million yen, offset by payments into time deposits of 953 million yen.

(Cash flows from financing activities)

Net cash used for financing activities during the first six months under review amounted to 1,266 million yen (net cash of 8,399 million yen was provided during the first six months of the previous fiscal year). This primarily reflects repayment of long-term borrowings of 12,600 million yen and redemption of bonds of 553 million yen, while there were proceeds from long-term borrowings of 8,389 million yen and net increase in short-term borrowings of 3,721 million yen.

(3) Information on future forecasts including consolidated financial forecasts

Forecasts for consolidated financial results and dividends for the fiscal year ending December 31, 2023 remain unchanged from the Notice Regarding Revisions to Forecasts for Financial Results and Dividend announced on July 18, 2023.

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)

	FY2022 (As of December 31, 2022)	FY2023 2Q (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	17,754	18,450
Accounts receivable - trade	23	39
Real estate for sale	51,116	52,234
Real estate for sale in process	517	644
Other	767	545
Allowance for doubtful accounts	(5)	(7)
Total current assets	70,174	71,906
Non-current assets		
Property, plant and equipment		
Buildings	3,413	3,430
Accumulated depreciation	(461)	(534)
Buildings, net	2,952	2,895
Land	3,441	3,442
Other	110	114
Accumulated depreciation	(73)	(78)
Other, net	37	35
Total property, plant and equipment	6,430	6,373
Intangible assets	84	80
Investments and other assets		
Investment securities	21	21
Deferred tax assets	306	315
Other	370	401
Total investments and other assets	698	738
Total non-current assets	7,213	7,192
Deferred assets	60	49
Total assets	77,448	79,148

(Million yen)

	FY2022 (As of December 31, 2022)	FY2023 2Q (As of June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	495	625
Short-term borrowings	6,023	9,745
Current portion of bonds payable	3,091	3,095
Current portion of long-term borrowings	6,520	3,589
Income taxes payable	622	1,059
Provision for bonuses	24	11
Provision for bonuses for directors (and other officers)	20	23
provision for Executive Officers bonuses	26	33
Construction warranty reserve	36	51
Other	1,640	2,015
Total current liabilities	18,501	20,251
Non-current liabilities		
Bonds payable	4,623	4,315
Long-term borrowings	29,049	27,769
Retirement benefit liability	115	116
Other	553	575
Total non-current liabilities	34,342	32,777
Total liabilities	52,843	53,028
Net assets		
Shareholders' equity		
Share capital	2,552	2,552
Capital surplus	2,475	2,475
Retained earnings	20,027	21,483
Treasury shares	(543)	(483)
Total shareholders' equity	24,551	26,027
Share acquisition rights	92	92
Total net assets	24,604	26,120
Total liabilities and net assets	77,448	79,148

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 [Quarterly Consolidated Statements of Income]
 (For six months from January 1 to June 30, 2023)

	(Million yen)	
	FY2022 2Q (From January 1 to June 30, 2022)	FY2023 2Q (From January 1 to June 30, 2023)
Net sales	14,006	26,247
Cost of sales	10,963	20,354
Gross profit	3,043	5,893
Selling, general and administrative expenses	1,949	2,589
Operating profit	1,093	3,303
Non-operating income		
Interest and dividend income	1	1
Commission income	6	11
Penalty income	14	11
Refund of real estate acquisition tax	1	4
Other	5	8
Total non-operating income	29	37
Non-operating expenses		
Interest expenses	291	370
Commission expenses	21	24
Other	16	27
Total non-operating expenses	329	423
Ordinary profit	793	2,918
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	793	2,917
Income taxes - current	197	996
Income taxes - deferred	7	(8)
Total income taxes	205	988
Profit	588	1,929
Profit attributable to owners of parent	588	1,929

[Quarterly Consolidated Statements of Comprehensive Income]
(For six months from January 1 to June 30, 2023)

	(Million yen)	
	FY2022 2Q (From January 1 to June 30, 2022)	FY2023 2Q (From January 1 to June 30, 2023)
Income before minority interests	588	1,929
Comprehensive income	588	1,929
(Breakdown)		
Comprehensive income attributable to owners of parent	588	1,929

(3) Quarterly Consolidated Cash Flow

(Million yen)

	FY2022 2Q (From January 1 to June 30, 2022)	FY2023 2Q (From January 1 to June 30, 2023)
Cash flows from operating activities		
Profit before income taxes	793	2,917
Depreciation	325	348
Increase (decrease) in allowance for doubtful accounts	1	3
Increase (decrease) in provision for bonuses	(12)	(12)
Increase (decrease) in provision for bonuses for directors (and other officers)	—	2
Increase (decrease) in provision for executive officer's bonuses	—	7
Increase (decrease) in construction warranty reserve	(4)	15
Increase (decrease) in net defined benefit liability	(4)	1
Interest and dividend income	(1)	(1)
Interest expenses	291	370
Share-based payment expenses	12	25
Refund of real estate acquisition tax	1	4
Amortization of bond issuance costs	10	12
Loss on retirement of non-current assets	0	0
Decrease (increase) in trade receivables	(4)	(16)
Decrease (increase) in inventories	(9,334)	(1,510)
Increase (decrease) in trade payables	111	129
Increase (decrease) in accrued consumption taxes	(14)	114
Decrease (increase) in consumption taxes refund receivable	(74)	245
Increase (decrease) in lease and guarantee deposits received	(16)	22
Decrease (increase) in other current assets	191	15
Increase (decrease) in other current liabilities	226	280
Other, net	0	(10)
Subtotal	(7,500)	2,966
Interest and dividends received	1	1
Interest paid	(287)	(382)
Income taxes refund	0	0
Income taxes paid	(255)	(579)
Net cash provided by (used in) operating activities	(8,042)	2,006
Cash flows from investing activities		
Payments into time deposits	(926)	(953)
Proceeds from withdrawal of time deposits	827	868
Purchase of property, plant and equipment	(76)	(19)
Purchase of intangible assets	(10)	—
Payments of leasehold and guarantee deposits	(0)	(19)
Proceeds from refund of leasehold and guarantee deposits	0	0
Payments for investments in capital	—	(4)
Net cash provided by (used in) investing activities	(185)	(128)

(Million yen)

	FY2022 2Q (From January 1 to June 30, 2022)	FY2023 2Q (From January 1 to June 30, 2023)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,380	3,721
Proceeds from long-term borrowings	10,960	8,389
Repayments of long-term borrowings	(7,271)	(12,600)
Proceeds from issuance of bonds	4,265	247
Redemption of bonds	(378)	(553)
Repayments of lease liabilities	(1)	(2)
Purchase of treasury shares	(198)	—
Dividends paid	(356)	(469)
Net cash provided by (used in) financing activities	8,399	(1,266)
Net increase (decrease) in cash and cash equivalents	171	611
Cash and cash equivalents at beginning of period	16,116	16,315
Cash and cash equivalents at end of period	16,287	16,926

(4) 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 Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company began applying the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Fair Value Measurement Implementation Guidance") from the first quarter under review. Accordingly, the Company will apply the new accounting policies prescribed in the Fair Value Measurement Implementation Guidance in the future in accordance with transitional measures stipulated in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance). This application has no impact on the quarterly consolidated financial statements.

(Segment Information)

For six months ended June 30, 2022 (From January 1 to June 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	12,925	1,080	14,006	—	14,006
Inter-segment sales or transfer	53	9	63	(63)	—
Total	12,979	1,090	14,069	(63)	14,006
Segment profit	1,616	362	1,978	(885)	1,093

(Note) 1. The segment profit adjustment of (885) 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 six months ended June 30, 2023 (From January 1 to June 30, 2023)

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	25,121	1,126	26,247	—	26,247
Inter-segment sales or transfer	0	11	11	(11)	—
Total	25,121	1,137	26,259	(11)	26,247
Segment profit	4,001	374	4,375	(1,071)	3,303

(Note) 1. The segment profit adjustment of (1,071) 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.