

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.

Summary of Consolidated Financial Results for the First Quarter ended March 31, 2020 [Based on Japanese GAAP]

May 14, 2020

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, Director, General Manager of Administrative Division ir@mugen-estate.co.jp
 Scheduled date of quarterly securities report filing: May 14, 2020 Scheduled date of dividend payment: -
 Supplementary material for financial results: Yes
 Quarterly financial results briefing: No

(fractions of one million yen are rounded off)

1. Consolidated financial results for the first quarter ended March 31, 2020 (January 1 to March 31, 2020)

(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	%
1Q ended March 31, 2020	9,298	5.4	553	(23.9)	377	(32.9)	251	(34.8)
1Q ended March 31, 2019	8,826	(30.2)	727	(49.2)	563	(55.6)	385	(53.9)

(Note) Comprehensive income: 1Q ended March 31, 2020 251 million yen (-34.8%)
 1Q ended March 31, 2019 385 million yen (-53.9%)

	Net Income per share	Diluted net income per share
	Yen	Yen
1Q ended March 31, 2020	10.49	10.45
1Q ended March 31, 2019	15.84	15.79

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2020	69,788	22,292	31.8
As of December 31, 2019	68,512	22,840	33.2

(Reference) Shareholders' equity: As of March 31, 2020 22,171 million yen
 As of December 31, 2019 22,718 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, 2019	-	0.00	-	30.00	30.00
Year ending December 31, 2020	-	-	-	-	-
Year ending December 31, 2020 (forecast)	-	0.00	-	25.00	25.00

(Note) Revision of the latest dividend forecast: None

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2020

(January 1, 2020 to December 31, 2020) (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
FY2020 (Full year)	45,157	13.8	3,219	1.9	2,443	(2.0)	1,595	(5.5)	66.53

(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 : None
- (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 March 31, 2020 24,361,000 shares
 - As of December 31, 2019 24,361,000 shares
- (ii) Number of treasury stock held at end of the period
 - As of March 31, 2020 382,259 shares
 - As of December 31, 2019 281,559 shares
- (iii) Average number of shares outstanding during the period (cumulative)
 - As of March 31, 2020 23,995,155 shares
 - As of March 31, 2019 24,360,941 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

The statements about the future included in this report, including financial projections, 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. Qualitative Information on Operating Results for the First Quarter Ended March 31, 2020“ on page 1 of the Accompanying Materials for the assumptions of the financial forecasts and points to note in the use of financial forecasts.

1. Qualitative Information on Operating Results for the First Quarter Ended March 31, 2020

(1) Analysis of Operating Results

During the first quarter of the consolidated fiscal year under review (January 1, 2020 through March 31, 2020), in the real estate industry where the MUGEN ESTATE Group operates, the average price of land for all purposes in Japan as of January 1, 2020 announced by the Ministry of Land, Infrastructure, Transport and Tourism rose 1.4%, recording a rise for the fifth consecutive year. However, the Japanese economy, which had been driven mainly by an increase in the number of people visiting Japan and urban redevelopment projects, began to deteriorate sharply due to the spread of the COVID-19 pandemic. Now, with the outlook remaining uncertain and unpredictable, the situation has become extremely difficult.

In conjunction with domestic real estate transactions, with an extremely difficult situation expected to continue due to the impact of COVID-19, attention should be paid to the prolongation of an economic slump, a decrease in demand for real estate investments and fluctuations in the financial and capital markets.

Under this business environment, the Group has moved into the second year of the medium-term management plan. In its mainstay Real Estate Trading Business, it is taking steps to raise occupancy rates with respect to investment-type properties while also working to improve inventory turnover rate by enhancing the added value of products through value increases.

As a result, consolidated net sales increased 5.4% year on year, to 9,298 million yen, consolidated operating income fell 23.9% year on year, to 553 million yen, consolidated ordinary income declined 32.9% year on year, to 377 million yen, and consolidated profit attributable to owners of parent fell 34.8% year on year, to 251 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 39 (down 2 units year on year) and the average unit selling price was 168 million yen (up 11.1% year on year), registering net sales of 6,578 million yen (up 5.7% year on year). Meanwhile, the number of units sold in residential-type properties came to 49 (down 2 units year on year) and the average unit selling price was 38 million yen (up 13.3% year on year), registering net sales of 1,910 million yen (up 8.9% year on year).

As a result, net sales for the segment increased 6.5% year on year, to 8,525 million yen, and the segment profit (operating income for the segment) decreased 6.4% year on year, to 681 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing came to 751 million yen (down 6.2% year on year).

As a result, net sales for the segment decreased 5.5% year on year, to 773 million yen, and segment profit (operating income for the segment) down 17.3% year on year, to 244 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” are classified as real estate used by buyers as their housing units, most of which are owned condominiums.

(2) Analysis of Financial Position

The financial position at the end of the first quarter of the consolidated fiscal year under review included assets of 69,788 million yen (up 1.9% from the end of the previous fiscal year), liabilities of 47,495 million yen (up 4.0% from the end of the previous fiscal year), and net assets of 22,292 million yen (down 2.4% from the end of the previous fiscal year).

Principal factors contributing to the increase in assets included an increase of 1,256 million yen in real estate properties for sale.

The increase in liabilities was attributable primarily to an increase of 1,016 million yen in Short-term debt.

The decrease in net assets resulted in large part from a rise of 251 million yen in retained earnings due to the recording of profit attributable to owners of parent, and a decrease of 722 million yen in retained earnings attributable to dividends paid.

(3) Information on future forecasts including consolidated financial forecasts

Due to the global spread of the COVID-19 infection, in the real estate industry where the Company operates, it is expected that situation will remain extremely uncertain, as indicated by a number of facts such as the increase in the number of expats starting to return to their home countries, the deterioration of tenants' businesses and the postponement of payments. Nevertheless, during the first quarter of the fiscal year under review, consolidated financial results were basically in line with the initial forecasts because the impact of the coronavirus on earnings forecasts was minor.

Going forward, if the pandemic continues for the long term or the situation in Japan deteriorates, we have to take the effects on businesses and operating results into consideration. As of now, with a range of factors expected to influence operating results, the Company has difficulties in calculating results properly and reasonably. In this situation, with respect to forecasts for consolidated financial results for the fiscal year ending December 31, 2020, the Company has decided to leave the forecasts for consolidated financial results announced on February 14, 2020 unchanged. Hereafter, if the Company is able to make reasonable calculations as a result of any significant change in the situation and considers that disclosure should be made, it will make such disclosure promptly.

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)

	FY2019 (As of December 31, 2019)	FY2020 1Q (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	13,708	13,783
Accounts receivable - trade	23	24
Real estate for sale	49,887	51,143
Real estate for sale in process	147	157
Other	611	505
Allowance for doubtful accounts	(10)	(10)
Total current assets	64,367	65,604
Non-current assets		
Property, plant and equipment		
Buildings	1,592	1,566
Accumulated depreciation	(394)	(347)
Buildings, net	1,197	1,219
Land	1,790	1,575
Other	180	184
Accumulated depreciation	(100)	(103)
Other, net	80	81
Total property, plant and equipment	3,068	2,875
Intangible assets	83	85
Investments and other assets		
Deferred tax assets	777	796
Other	167	373
Total investments and other assets	944	1,170
Total non-current assets	4,096	4,131
Deferred assets	48	52
Total assets	68,512	69,788

(Million yen)

	FY2019 (As of December 31, 2019)	FY2020 1Q (As of March 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	467	443
Short-term loans payable	2,236	3,252
Current portion of bonds	1,154	1,232
Current portion of long-term loans payable	6,950	8,336
Income taxes payable	414	161
Provision for bonuses	34	63
Construction warranty reserve	41	44
Other	887	672
Total current liabilities	12,185	14,207
Non-current liabilities		
Bonds payable	3,225	3,425
Long-term loans payable	29,393	28,989
Net defined benefit liability	89	92
Other	777	781
Total non-current liabilities	33,486	33,288
Total liabilities	45,671	47,495
Net assets		
Shareholders' equity		
Capital stock	2,552	2,552
Capital surplus	2,475	2,475
Retained earnings	17,914	17,443
Treasury shares	(223)	(300)
Total shareholders' equity	22,718	22,171
Subscription rights to shares	122	121
Total net assets	22,840	22,292
Total liabilities and net assets	68,512	69,788

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 [Quarterly Consolidated Statements of Income]
 (For three months from January 1 to March 31, 2020)

(Million yen)

	FY2019 (From January 1 to March 31, 2019)	FY2020 1Q (From January 1 to March 31, 2020)
Net sales	8,826	9,298
Cost of sales	7,334	7,886
Gross profit	1,491	1,412
Selling, general and administrative expenses	764	859
Operating income	727	553
Non-operating income		
Interest and dividend income	0	0
Commission fee	4	5
Penalty income	2	4
Other	7	3
Total non-operating income	15	14
Non-operating expenses		
Interest expenses	157	167
Commission fee	13	14
Other	7	8
Total non-operating expenses	179	190
Ordinary profit	563	377
Extraordinary income		
Gain on reversal of share acquisition rights	3	0
Total extraordinary income	3	0
Extraordinary losses		
Loss on sales of non-current assets	-	0
Total extraordinary losses	-	0
Profit before income taxes	566	377
Income taxes - current	172	145
Income taxes - deferred	8	(19)
Total income taxes	180	126
Profit	385	251
Profit attributable to owners of parent	385	251

[Quarterly Consolidated Statements of Comprehensive Income]
(For three months from January 1 to March 31, 2020)

(Million yen)

	FY2019 1Q (From January 1 to March 31, 2019)	FY2020 1Q (From January 1 to March 31, 2020)
Income before minority interests	385	251
Comprehensive income	385	251
(Breakdown)		
Comprehensive income attributable to owners of parent	385	251

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Segment Information)

For three months ended March 31, 2019 (From January 1 to March 31, 2019)

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	8,007	818	8,826	-	8,826
Inter-segment sales or transfer	-	-	-	-	-
Total	8,007	818	8,826	-	8,826
Segment profit	728	295	1,023	(296)	727

(Note) 1. The segment profit adjustment of (296) 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 three months ended March 31, 2020 (From January 1 to March 31, 2020)

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	8,525	773	9,298	-	9,298
Inter-segment sales or transfer	-	-	-	-	-
Total	8,525	773	9,298	-	9,298
Segment profit	681	244	925	(372)	553

(Note) 1. The segment profit adjustment of (372) 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.