

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 Third Quarter ended September 30, 2018 [Based on Japanese GAAP]

November 6, 2018

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: November 12, 2018 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 third quarter ended September 30, 2018 (January 1 to September 30, 2018)

(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	%
3Q ended September 30, 2018	36,748	(24.9)	3,685	(35.1)	3,128	(39.7)	2,021	(41.1)
3Q ended September 30, 2017	48,914	15.9	5,675	15.0	5,185	16.7	3,432	25.5

(Note) Comprehensive income: 3Q ended September 30, 2018 2,021 million yen (-41.1%)
 3Q ended September 30, 2017 3,432 million yen (25.5%)

	Net Income per share	Diluted net income per share
	Yen	Yen
3Q ended September 30, 2018	82.99	82.73
3Q ended September 30, 2017	140.93	140.60

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	72,251	20,771	28.6
As of December 31, 2017	59,212	19,340	32.5

(Reference) Shareholders' equity: As of September 30, 2018 20,648 million yen
 As of December 31, 2017 19,230 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 ending December 31, 2017	-	0.00	-	25.00	25.00
Year ending December 31, 2018	-	0.00	-	-	-
Year ending December 31, 2018 (forecast)	-	-	-	30.00	30.00

(Note) Revision of the latest dividend forecast: No

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2018

(January 1, 2018 to December 31, 2018)

(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
FY2018 (Full year)	53,284	(16.2)	4,562	(35.9)	3,760	(42.0)	2,381	(44.3)
								97.75

(Note) Revision of the latest consolidated financial results forecast: None: No

* Notes

(1) Changes in significant subsidiaries during the period: None

Note: While not corresponding to a change of specified subsidiaries, Mugen Investment Advisors Co., Ltd. and Mugen Funding Co., Ltd. were added to the scope of consolidation in the third quarter of the fiscal year under review.

(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 September 30, 2018 24,361,000 shares

As of December 31, 2017 24,355,000 shares

(ii) Number of treasury stock held at end of the period

As of September 30, 2018 59 shares

As of December 31, 2017 – shares

(iii) Average number of shares outstanding during the period (cumulative)

As of September 30, 2018 24,358,931 shares

As of September 30, 2017 24,355,000 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 Third Quarter Ended September 30, 2018” on page 2 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 Third Quarter Ended September 30, 2018

(1) Analysis of Operating Results

During the first nine months of the consolidated fiscal year under review (January 1, 2018, through September 30, 2018), in the real estate industry where the MUGEN ESTATE Group operates, the national average (all uses) of benchmark land values (as of July 1, 2018) announced by the Ministry of Land, Infrastructure, Transport, and Tourism moved from a decrease to increase for the first time in 27 years. In the Tokyo metropolitan area, the upward trend of land prices in both housing and commercial areas continued primarily thanks to an increase in foreign visitors to Japan and large redevelopment projects. According to the Real Estate Information Network for East Japan (East Japan REINS), the number of contracts signed for used condominiums in the Tokyo metropolitan area in September 2018 rose year on year, and contracted prices and contracted unit prices per square meter increased year on year, for 69 consecutive months starting January 2013. Meanwhile, in the environment of personal real estate loans, financial institutions began to tighten their loan standards mainly due to the problem of inappropriate loans caused by some financial institutions.

In this market environment, the MUGEN ESTATE Group continued to implement its strategy of becoming the dominant player in the Tokyo metropolitan area in the Real Estate Trading Business, its core segment, and continued to step up its efforts to strengthen the purchase and resale of investment-type properties, which are its growth drivers. The Group has also been building a new revenue base in view of developing multiple sources of income in the medium to long run. It has established two companies, Mugen Investment Advisors Co., Ltd. which would operate an asset management business, and Mugen Funding Co., Ltd., which would operate a cloud funding business, as part of its efforts to expand the Group's business areas.

In the Real Estate Trading Business, the Group has shifted to more careful selection in purchasing properties and established a new department specializing in selling properties for the purpose of improving its activities to strengthen its selling organization. In the Real Estate Leasing and Other Business, revenue from real estate leasing grew year on year thanks to an increase in the stock of investment-type properties in the Real Estate Trading Business.

As a result, consolidated net sales decreased 24.9% year on year, to 36,748 million yen, consolidated operating income declined 35.1% year on year, to 3,685 million yen, consolidated ordinary income fell 39.7% year on year, to 3,128 million yen, and consolidated profit attributable to owners of parent shrunk 41.1% year on year, to 2,021 million yen during the first nine months of the fiscal year under review.

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.

The following is an overview of the results by segment.

[Real Estate Trading Business]

In the Real Estate Trading Business, 230 units of investment-type properties were sold (down 10 units year on year), whose average unit selling price was 121 million yen (down 27.9% year on year), and net sales stood at 27,883 million yen (up 30.9% year on year). A total of 213 units of residential-type properties were sold (down 61 units year on year), whose average unit selling price was 30 million yen (up 23.5% year on year), and net sales were 6,456 million yen (down 4.0% year on year).

As a result, net sales for the segment decreased 27.0% year on year, to 34,390 million yen, and segment profit (operating income for the segment) fell 30.6% year on year, to 4,245 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing expanded 30.8% year on year, to 2,315 million yen.

As a result, net sales for the segment increased 31.0% year on year, to 2,358 million yen, and segment profit (operating income for the segment) rose 25.2% year on year, to 870 million yen.

(2) Qualitative information on financial position

The financial position of the MUGEN ESTATE Group as at the end of the first nine months under review includes assets of 72,251 million yen (up 22.0% from the end of the previous fiscal year), liabilities of 51,479 million yen (up 29.1% from the end of the previous fiscal year), and net assets of 20,771 million yen (up 7.4% from the end of the previous fiscal year).

Principal factors contributing to the increase in assets included a rise of 18,786 million yen in real estate for sale and a fall of 6,141 million yen in cash and deposits.

The decline in liabilities was chiefly attributable to an increase of 11,804 million yen in long-term loans payable (including the current portion of such loans).

The growth of net assets resulted largely from a rise of 2,021 million yen in retained earnings due to the recording of profit attributable to owners of parent and a decrease of 608 million yen attributable to dividends paid from retained earnings.

(3) Information on future forecasts including consolidated financial forecasts

No changes have been made to the full-year forecasts of the consolidated results for the fiscal year ending December 31, 2018, as announced on August 6, 2018.

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. The actual results may vary significantly from the forecasts presented in this document due to the economic environment, market trends, and various other factors that affect the business of the Group.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	FY2017 (As of December 31, 2017)	FY2018 3Q (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	13,268	7,126
Accounts receivable – trade	15	23
Real estate for sale	41,500	60,286
Real estate for sale in process	114	206
Deferred tax assets	394	585
Other	1,057	1,155
Allowance for doubtful accounts	(10)	(14)
Total current assets	56,339	69,369
Non-current assets		
Property, plant and equipment		
Buildings	1,264	1,292
Accumulated depreciation	(278)	(319)
Buildings, net	986	972
Land	1,326	1,343
Other	136	148
Accumulated depreciation	(70)	(82)
Other, net	66	66
Total property, plant and equipment	2,379	2,382
Intangible assets	124	113
Investments and other assets		
Deferred tax assets	177	161
Other	156	188
Total investments and other assets	334	349
Total non-current assets	2,837	2,845
Deferred assets	35	35
Total assets	59,212	72,251

(Million yen)

	FY2017 (As of December 31, 2017)	FY2018 3Q (As of September 30, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	523	677
Short-term loans payable	4,928	5,452
Current portion of bonds	530	714
Current portion of long-term loans payable	4,853	4,270
Income taxes payable	1,379	519
Provision for bonuses	72	126
Construction warranty reserve	58	46
Other	978	598
Total current liabilities	13,325	12,405
Non-current liabilities		
Bonds payable	1,760	1,584
Long-term loans payable	23,969	36,357
Net defined benefit liability	81	86
Other	736	1,046
Total non-current liabilities	26,547	39,074
Total liabilities	39,872	51,479
Net assets		
Shareholders' equity		
Capital stock	2,549	2,552
Capital surplus	2,472	2,475
Retained earnings	14,208	15,620
Treasury shares	—	(0)
Total shareholders' equity	19,230	20,648
Subscription rights to shares	110	123
Total net assets	19,340	20,771
Total liabilities and net assets	59,212	72,251

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

[Quarterly Consolidated Statements of Income]

(For nine months from January 1 to September 30, 2018)

(Million yen)

	FY2017 3Q (From January 1 to September 30, 2017)	FY2018 3Q (From January 1 to September 30, 2018)
Net sales	48,914	36,748
Cost of sales	40,028	29,831
Gross profit	8,886	6,917
Selling, general and administrative expenses	3,211	3,231
Operating income	5,675	3,685
Non-operating income		
Interest and dividend income	1	1
Commission fee	8	11
Penalty income	12	8
Refund of real estate acquisition tax	-	10
Other	7	3
Total non-operating income	30	35
Non-operating expenses		
Interest expenses	477	521
Commission fee	35	55
Other	7	14
Total non-operating expenses	520	592
Ordinary profit	5,185	3,128
Extraordinary income		
Reversal of consumption taxes for prior period	136	-
Gain on sales of non-current assets	29	0
Gain on reversal of subscription rights to shares	-	5
Total extraordinary income	165	5
Extraordinary losses		
Loss on sales of non-current assets	0	—
Loss on retirement of non-current assets	—	0
Total extraordinary losses	0	0
Profit before income taxes	5,350	3,134
Income taxes - current	1,896	1,287
Income taxes - deferred	22	(174)
Total income taxes	1,918	1,113
Profit	3,432	2,021
Profit attributable to owners of parent	3,432	2,021

[Quarterly Consolidated Statements of Comprehensive Income]

(For nine months from January 1 to September 30, 2018)

(Million yen)

	FY2017 3Q (From January 1 to September 30, 2017)	FY2018 3Q (From January 1 to September 30, 2018)
Profit	3,432	2,021
Comprehensive income	3,432	2,021
(Breakdown)		
Comprehensive income attributable to owners of parent	3,432	2,021

(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 nine months ended September 30, 2017 (From January 1 to September 30, 2017)

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	47,115	1,799	48,914	—	48,914
Inter-segment sales or transfer	28	6	35	(35)	—
Total	47,144	1,805	48,950	(35)	48,914
Segment profit	6,117	695	6,813	(1,137)	5,675

(Note) 1. The segment profit adjustment of (1,137) 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 nine months ended September 30, 2018 (From January 1 to September 30, 2018)

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	34,390	2,358	36,748	-	36,748
Inter-segment sales or transfer	1	0	2	(2)	-
Total	34,392	2,358	36,751	(2)	36,748
Segment profit	4,245	870	5,116	(1,430)	3,685

(Note) 1. The segment profit adjustment of (1,430) 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.