

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 Second Quarter ended June 30, 2021 [Based on Japanese GAAP]

August 6, 2021

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: August 6, 2021 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 second quarter ended June 30, 2021 (January 1 to June 30, 2021)

(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, 2021	17,795	24.8	1,318	62.3	1,050	129.2	737	121.0
2Q ended June 30, 2020	14,262	(24.1)	812	(50.8)	458	(65.3)	333	(63.2)

(Note) Comprehensive income: 2Q ended June 30, 2021 737 million yen (121.0%)
 2Q ended June 30, 2020 333 million yen (-63.2%)

	Net Income per share	Diluted net income per share
	Yen	Yen
2Q ended June 30, 2021	30.77	30.60
2Q ended June 30, 2020	13.92	13.85

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2021	58,585	23,109	39.3
As of December 31, 2020	62,487	22,605	36.0

(Reference) Shareholders' equity: As of June 30, 2021 23,016 million yen
 As of December 31, 2020 22,518 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, 2020	-	0.00	-	10.00	10.00
Year ending December 31, 2021	-	0.00	-	-	-
Year ending December 31, 2020 (forecast)	-	-	-	10.00	10.00

(Note) Revision of the latest dividend forecast: No

3. Forecast of consolidated financial results for the fiscal year ending December 31, 2021 (January 1 to December 31, 2021)

(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
FY2021(Full year)	35,412	1.6	1,916	(22.3)	1,315	(26.3)	651	8.8	27.17

(Note) Revision of the latest consolidated financial results forecast: No

* 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 June 30, 2021 | 24,361,000 shares |
| As of December 31, 2020 | 24,361,000 shares |
| (ii) Number of treasury stock held at end of the period | |
| As of June 30, 2021 | 382,309 shares |
| As of December 31, 2020 | 382,309 shares |
| (iii) Average number of shares outstanding during the period (cumulative) | |
| As of June 30, 2021 | 23,978,691 shares |
| As of June 30, 2020 | 23,986,948 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. 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 Second Quarter Ended June 30, 2021“ 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. Every year, we hold a financial results briefing for institutional investors and analysts. However, we have decided to cancel it, considering the health and safety of all participants and related parties in light of the spread of the COVID-19 coronavirus infection. The earnings outline of the second quarter of FY2021 will be posted on the Company’s website (video distribution). In addition, the supplementary material for financial results of the quarter under review were disclosed on TDnet and the Company’s website today.

1. Qualitative Information on Operating Results for the Second Quarter Ended June 30, 2021

(1) Analysis of Operating Results

During the first six months of the consolidated fiscal year under review (January 1, 2021 through June 30, 2021), in the real estate industry, where the MUGEN ESTATE Group operates, the nationwide average price of housing land per square meter (as of January 1, 2021), announced by the National Tax Agency on July 1, 2021, declined 0.5%. The fall in land prices was particularly marked in many areas centered on commercial districts, given the impact of the COVID-19 pandemic.

Meanwhile, the inflow of funds into the real estate market is expected to continue into the future, supported by the effects of policies and improvements in overseas economies, in addition to measures to prevent the spread of COVID-19 including vaccinations. Given these conditions, demand is predicted to remain strong among real estate investors.

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 sharply at a rate of 94.9% year on year in May 2021, sustaining a year-on-year increase for the third consecutive month. The average unit price per square meter of contracted condominium units increased 12.6% year on year in the same month. The average unit price rose year on year for the 13th consecutive month. As these figures suggest, demand for used condominium units remained high. Reflecting strong sales, the number of inventory properties continued to decrease, falling 27.3% year on year in the first half under review.

In this business environment, the MUGEN ESTATE Group has endeavored in its core Real Estate Trading Business to increase the occupancy rates of investment type properties and improve inventory turnover by boosting sales with the measures such as increasing the added value provided by properties. Competition for purchasing residential type properties increased while steady demand was maintained, so we committed ourselves to enhance purchase and sales activities strictly considering profitability.

As a result, consolidated net sales increased 24.8% year on year, to 17,795 million yen, consolidated operating income rose 62.3% year on year, to 1,318 million yen, consolidated ordinary income climbed 129.2% year on year, to 1,050 million yen, and consolidated profit attributable to owners of parent grew 121.0% year on year, to 737 million yen.

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 87 (up 19 units year on year) and the average unit selling price was 148 million yen (down 1.7% year on year), registering net sales of 12,882 million yen (up 25.7% year on year). Furthermore, the number of units sold in residential-type properties came to 85 (up 17 units year on year) and the average unit selling price was 43 million yen (up 21.8% year on year), registering net sales of 3,664 million yen (up 52.2% year on year).

As a result, net sales for the segment increased 31.5% year on year, to 16,721 million yen, and the segment profit (operating income for the segment) grew 57.4% year on year, to 1,584 million yen.

[Real Estate Leasing and Other Business]

In the Real Estate Leasing and Other Business, revenue from real estate leasing came to 1,023 million yen (down 32.0% year on year). As a result, net sales for the segment decreased 30.4% year on year, to 1,074 million yen, and segment profit (operating income for the segment) fell 31.8% year on year, to 380 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

[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 assets of 58,585 million yen (down 6.2% from the end of the previous fiscal year), liabilities of 35,476 million yen (down 11.0% from the end of the previous fiscal year), and net assets of 23,109 million yen (up 2.2% from the end of the previous fiscal year).

Principal factors contributing to the decrease in assets included a decrease of 5,452 million yen in real estate properties for sale.

The decrease in liabilities was attributable primarily to decrease of 2,161 million yen in Current portion of long-term borrowings and 1,744 million yen in long-term loans payable.

The increase in net assets resulted in large part from a rise of 737 million yen in retained earnings due to the recording of profit attributable to owners of parent, and a decrease of 239 million yen in retained earnings attributable to dividends paid.

[Status of cash flows]

Cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review (“cash”) increased 1,135 million yen from the end of the previous consolidated fiscal year, to 15,785 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 5,519 million yen (net cash used in operating activities during the first six months of the previous fiscal year was 2,217 million yen). This was primarily attributable to decrease of 5,093 million yen in inventories and the recording of 1,056 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 168 million yen (net cash used during the first six months of the previous fiscal year was 1,392 million yen). This was caused primarily by proceeds from the withdrawal of time deposits of 828 million yen, offset by payments into time deposits of 975 million yen.

(Cash flows from financing activities)

Net cash used for financing activities during the first six months under review amounted to 4,215 million yen (net cash of 1,967 million yen was provided during the first six months of the previous fiscal year). This was mainly due to the result of proceeds from long-term loans payable amounting to 6,780 million yen, offset by the repayment of long-term loans payable was 10,686 million yen.

(3) Information on future forecasts including consolidated financial forecasts

Operating income, ordinary income and profit attributable to owners of parent are showing strong progress against the consolidated financial forecasts at present. Nevertheless, the Company chose to leave its consolidated financial forecasts for the fiscal year ending December 31, 2021 announced on February 15, 2021 as they are, because a proper and rational estimate of the full-year forecasts is difficult at present given a rise in taxes and dues predicted to result from aggressive purchases planned in the second half and the unclear effects of the resurgence and continued spread of COVID-19 on the real estate market. The Company will promptly disclose revisions should a rational estimate of the full-year financial forecasts become possible and a need for their revision arise in the future.

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)

	FY2020 (As of December 31, 2020)	FY2021 2Q (As of June 30, 2021)
Assets		
Current assets		
Cash and deposits	16,065	17,348
Accounts receivable - trade	16	19
Real estate for sale	41,337	35,885
Real estate for sale in process	283	375
Other	242	473
Allowance for doubtful accounts	(8)	(4)
Total current assets	57,937	54,098
Non-current assets		
Property, plant and equipment		
Buildings	2,292	2,298
Accumulated depreciation	(397)	(444)
Buildings, net	1,895	1,854
Land	1,908	1,900
Other	114	140
Accumulated depreciation	(79)	(77)
Other, net	34	62
Total property, plant and equipment	3,838	3,817
Intangible assets	83	79
Investments and other assets		
Deferred tax assets	241	208
Other	342	335
Total investments and other assets	583	544
Total non-current assets	4,504	4,441
Deferred assets	45	44
Total assets	62,487	58,585

(Million yen)

	FY2020 (As of December 31, 2020)	FY2021 2Q (As of June 30, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	216	284
Short-term borrowings	2,050	2,015
Current portion of bonds payable	860	842
Current portion of long-term borrowings	6,192	4,030
Income taxes payable	573	321
Provision for bonuses	23	3
Construction warranty reserve	42	54
Other	1,178	989
Total current liabilities	11,137	8,540
Non-current liabilities		
Bonds payable	3,307	3,300
Long-term borrowings	24,713	22,968
Retirement benefit liability	101	103
Other	622	562
Total non-current liabilities	28,744	26,935
Total liabilities	39,882	35,476
Net assets		
Shareholders' equity		
Share capital	2,552	2,552
Capital surplus	2,475	2,475
Retained earnings	17,790	18,288
Treasury shares	(300)	(300)
Total shareholders' equity	22,518	23,016
Share acquisition rights	86	92
Total net assets	22,605	23,109
Total liabilities and net assets	62,487	58,585

(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, 2021)

(Million yen)

	FY2020 2Q (From January 1 to June 30, 2020)	FY2021 2Q (From January 1 to June 30, 2021)
Net sales	14,262	17,795
Cost of sales	11,754	14,913
Gross profit	2,507	2,882
Selling, general and administrative expenses	1,695	1,563
Operating income	812	1,318
Non-operating income		
Interest and dividend income	1	1
Commission fee	9	7
Penalty income	8	3
Refund of real estate acquisition tax	2	1
Other	7	4
Total non-operating income	29	18
Non-operating expenses		
Interest expenses	339	250
Commission fee	26	21
Other	17	15
Total non-operating expenses	383	287
Ordinary profit	458	1,050
Extraordinary income		
Gain on sales of non-current assets	0	6
Gain on reversal of share acquisition rights	38	
Total extraordinary income	38	6
Extraordinary losses		
Loss on sales of non-current assets	0	
Loss on retirement of non-current assets	9	
Total extraordinary losses	9	
Profit before income taxes	486	1,056
Income taxes - current	169	285
Income taxes - deferred	(16)	33
Total income taxes	153	318
Profit	333	737
Profit attributable to owners of parent	333	737

[Quarterly Consolidated Statements of Comprehensive Income]

(For six months from January 1 to June 30, 2021)

(Million yen)

	FY2020 2Q (From January 1 to June 30, 2020)	FY2021 2Q (From January 1 to June 30, 2021)
Income before minority interests	333	737
Comprehensive income	333	737
(Breakdown)		
Comprehensive income attributable to owners of parent	333	737

(3) Quarterly Consolidated Cash Flow

(Million yen)

	FY2020 2Q (From January 1 to June 30, 2020)	FY2021 2Q (From January 1 to June 30, 2021)
Cash flows from operating activities		
Profit before income taxes	486	1,056
Depreciation	449	324
Increase (decrease) in allowance for doubtful accounts	0	(3)
Increase (decrease) in provision for bonuses	(27)	(19)
Increase (decrease) in construction warranty reserve	(4)	11
Increase (decrease) in net defined benefit liability	5	2
Interest and dividend income	(1)	(1)
Interest expenses	339	250
Share-based remuneration expenses	3	5
Refund of real estate acquisition tax	2	1
Amortization of bond issuance costs	10	9
Loss (gain) on sales of non-current assets	0	(6)
Gain on reversal of share acquisition rights	(38)	
Loss on retirement of non-current assets	9	
Decrease (increase) in trade receivables	(0)	(3)
Decrease (increase) in inventories	(2,515)	5,093
Increase (decrease) in trade payables	(93)	67
Increase (decrease) in accrued consumption taxes	(296)	(168)
Decrease (increase) in consumption taxes refund receivable	(53)	1
Increase (decrease) in lease and guarantee deposits received	4	(62)
Decrease (increase) in other current assets	185	(237)
Increase (decrease) in other current liabilities	27	(28)
Other, net	5	10
Subtotal	(1,501)	6,301
Interest and dividends received	1	1
Interest paid	(341)	(254)
Income taxes refund		0
Income taxes paid	(376)	(530)
Net cash provided by (used in) operating activities	(2,217)	5,519
Cash flows from investing activities		
Payments into time deposits	(928)	(975)
Proceeds from withdrawal of time deposits	814	828
Purchase of property, plant and equipment	(1,069)	(46)
Proceeds from sales of property, plant and equipment	1	24
Purchase of intangible assets	(5)	(0)
Payments of leasehold and guarantee deposits	(199)	(0)
Proceeds from refund of leasehold and guarantee deposits	6	0
Payments for investments in capital	(11)	
Net cash provided by (used in) investing activities	(1,392)	(168)

(Million yen)

	FY2020 2Q (From January 1 to June 30, 2020)	FY2021 2Q (From January 1 to June 30, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	800	(34)
Proceeds from long-term loans payable	10,097	6,780
Repayments of long-term loans payable	(8,259)	(10,686)
Proceeds from issuance of bonds	540	391
Redemption of bonds	(412)	(425)
Repayments of lease obligations	(0)	(0)
Purchase of treasury shares	(76)	
Dividends paid	(722)	(239)
Net cash provided by (used in) financing activities	1,967	(4,215)
Net increase (decrease) in cash and cash equivalents	(1,642)	1,135
Cash and cash equivalents at beginning of period	12,268	14,649
Cash and cash equivalents at end of period	10,626	15,785

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Additional information)

There are no significant changes concerning assumptions about the future prevalence of COVID-19 or the timing of it finally being brought under control as described in (Additional information) (Accounting estimate regarding the impact of the COVID-19 pandemic) in the Securities Report for the previous consolidated fiscal year.

(Segment Information)

For six months ended June 30, 2020 (From January 1 to June 30, 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	12,717	1,544	14,262	-	14,262
Inter-segment sales or transfer	1	11	13	(13)	-
Total	12,719	1,556	14,276	(13)	14,262
Segment profit	1,006	558	1,565	(752)	812

(Note) 1. The segment profit adjustment of (752) 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, 2021 (From January 1 to June 30, 2021)

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	16,721	1,074	17,795	-	17,795
Inter-segment sales or transfer	4	16	21	(21)	-
Total	16,725	1,091	17,817	(21)	17,795
Segment profit	1,584	380	1,965	(646)	1,318

(Note) 1. The segment profit adjustment of (646) 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.