

Summary of Business Results for the First Quarter Ended June 30, 2019 [Japan GAAP] (Consolidated)

Company Akatsuki Corp.

August 14, 2019

Stock Code 8737 URL <http://www.akatsuki-fg.com/>

Listed on the TSE

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Expected date of filing of quarterly report: August 14, 2019

Expected starting date of dividend payment: —

Preparation of quarterly supplementary financial document: None

Quarterly results briefing: None

(Rounded down to million yen)

1. Consolidated business results for the three months ended June 2019(April 1, 2019 through June 30, 2019)

(1) Consolidated results of operations

(% change from the previous corresponding period)

	Operating revenues		Net operating revenues		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 2019	7,722	8.9	2,133	△11.8	135	△13.6	△1	—	1	△98.7
Three months ended June 2018	7,091	247.2	2,420	22.8	156	△82.5	97	△88.5	125	△84.4

(Note) Comprehensive income:

Three months ended June 2019 $\Delta 6$ Million yen (— %)
 Three months ended June 2018 63 Million yen (△90.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended June 2019	0.05	0.05
Three months ended June 2018	5.81	5.60

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 2019	53,754	12,143	22.4	400.41
As of Mar. 2019	54,544	12,400	22.6	409.32

(Reference) Shareholders' equity:

As of June 2019 12,063 Million yen
 As of Mar. 2019 12,320 Million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Year ended Mar. 2019	— Yen	10.00 Yen	— Yen	8.00 Yen	18.00 Yen
Year ending Mar. 2020	—				
Year ending Mar. 2020 (forecast)		9.00	—	9.00	18.00

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending March 2020(April 1, 2019 through March 31, 2020)

(% change from the previous corresponding period)

	Operating revenues		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ending Mar. 2020	36,000	0.7	2,200	21.8	1,700	25.4	1,200	16.4

(Note) Revisions to business forecast for the current quarter: None

※ **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Applications of simplified accounting procedures and specific accounting procedures: None

(3) Changes in accounting policies, accounting estimates and restatement

- | | |
|--|------|
| ① Changes in accounting policies associated with revision of accounting standards: | None |
| ② Changes in accounting policies other than ①: | None |
| ③ Changes in accounting estimates: | None |
| ④ Restatement: | None |

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)	
As of June 2019	32,274,144 shares
As of March 2019	32,274,144 shares
② Treasury stock at the end of period	
As of June 2019	2,146,567 shares
As of March 2019	2,174,141 shares
③ Average number of stock during period (quarterly cumulative period)	
Three months ended June 2019	30,113,834 shares
Three months ended June 2018	21,566,112 shares

(Note) The number of treasury stock which is deducted for calculating the number of treasury stock during period and the average number of shares during the period includes the shares of the Company owned by the ESOP Trust Account and the BBT Trust Account.

※ **Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.**

※ **Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors.

This document is an English translation of a Japanese announcement made on the date above. Although the we intended to faithfully translate the Japanese document into English, the accuracy and correctness of this English translation is not guaranteed and thus you are encouraged to refer to the original Japanese document.

1. Summary of Business Results

(1) Summary of Business Results

In the securities-related business, at Akatsuki Securities Co., Ltd., despite a decline in brokerage commissions of the domestic stocks, operating revenue increased year-on-year due to an increase in trading revenue from the sale of structured bonds. In addition to expanding our independent financial advisory (IFA) business, which we are strategically promoting, we also entered into new contracts with two securities companies to expand our distribution channels for foreign stocks and private placement bonds.

(Operating revenue and segment profit of the securities-related business)

(millionyen, except Rate of change)

	Three months ended June 2018	Three months ended June 2019	Rate of change
Operating revenue	973	1,057	8.7%
Segment profit	99	87	△11.9%

The group operates its real estate related business mainly through Total Estate Group and EW Asset Management Co.

In the resale business of renovated condominiums at Total Estate Group, the number of purchases of vacant units decreased due to intensified competition, while the number of purchases of units with lessees remained firm. Revenues and profits have been in line with our previously forecasted plan, although the profits from large-scale non-condominium projects that contributed to operating profit in the previous fiscal year disappeared.

We are revising various operating rules relating to the acquisition of the condominiums and strengthening our inventory risk management practices, etc. while at the same time, seeking ways to strengthen our financial base.

EW Asset Management Co., Ltd. purchased a land in Nishinomiya, Hyogo Prefecture, in April of this year, aiming to developing a senior home facility for which it has already entered into a long-term lease contract with a nursing care operator. We expect stable earnings from this project after operations commence in Jun. 2021.

(Operating revenue and segment profit of the real estate related business)

(million yen, except Rate of change)

	Three months ended June 2018	Three months ended June 2019	Rate of change
Operating revenue	6,205	6,764	9.0%
Segment profit	386	309	△19.9%

Based on these results, the Company's consolidated operating results in the first three months of the current fiscal year are shown below.

(million yen, except Rate of change)

	Three months ended June 2018	Three months ended June 2019	Rate of change
Operating revenue	7,091	7,722	8.9%
Operating income	156	135	△13.6%
Ordinary income	97	△1	—%
Net income attributable to owners of parent	125	1	△98.7%

Total Estate, Inc.'s business results significantly affect the consolidated business performance of our group. Therefore, we disclose supplementary information below.

(Supplementary information)

Concerning the condominium resale business in Total Estate, Inc.,

- ① Type A: Buy existing vacant condominiums, renovate and sell
- ② Type B: Buy existing occupied condominium to enjoy rental income during the lease term and after the tenant moves out, renovate and sell

(a) Business results of Total Estate, Inc.

(million yen, except Rate of change)

	Year ended Mar. 2019				Year ended Mar. 2020			
	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)
Sales	5,777	6,797	7,282	7,545	6,362	—	—	—
Ordinary income	334	385	610	465	310	—	—	—
Net income	336	261	421	32	207	—	—	—

(b) Number of units purchased

(units)

	Year ended Mar. 2019				Year ended Mar. 2020			
	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)
Type A	159 (+3)	147 (△14)	139 (△27)	130 (△45)	125 (△34)	—	—	—
Type B	46 (+17)	50 (△2)	54 (△51)	90 (+39)	62 (+16)	—	—	—
Total	205 (+20)	197 (△16)	193 (△78)	220 (△6)	187 (△18)	—	—	—

(c) Number of units sold

(units)

	Year ended Mar. 2019				Year ended Mar. 2020			
	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)
Sales units	162 (+48)	170 (-)	176 (+39)	216 (+69)	189 (+27)	—	—	—

(d) Inventories

(units)

	Year ended Mar. 2019				Year ended Mar. 2020			
	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)	1Q (Apr. - Jun.)	2Q (Jul. - Sep)	3Q (Oct. - Dec)	4Q (Jan. - Mar)
Type A	426	418	398	335	292	—	—	—
Type B	416	451	488	555	590	—	—	—
Total	842	869	886	890	882	—	—	—

(2) Overview of the state of our properties in the current period

① status of assets

Total assets at the end of the 1Q under review decreased by 790 million yen (versus the end of the previous fiscal year) to 53,754 million yen. This was mainly due to decreases of 744 million yen in cash and deposits, 272 million yen in margin transaction assets, and 259 million yen in property, plant and equipment, while there was an increase of 529 million yen in real estate for sale.

② status of debts

Liabilities decreased by 533 million yen from the end of the previous fiscal year to 41,611 million yen. This was mainly attributable to an increase of 1,000 million yen in short-term bond payable, 606 million yen in deposits received, 218 million yen in margin transaction liabilities, 215 million yen in long-term borrowings, and 219 million yen in non-recourse long-term loans payable, while a decrease of 1,800 million yen in short-term borrowings and 1,000 million yen in bonds payable (fixed liabilities).

③ status of total equity (including the one attributable to the non-controlling interests)

Net assets was 12,143 million yen, a decrease of 256 million yen from the end of the previous fiscal year. This was mainly due to dividend payments.

(3) Future outlook

Considering the sales status of renovated condominiums at Total Estate Co., Ltd. and the prospect for the sale of a large-scale project at EW Asset Management Co., Ltd., there is no change in the full-year consolidated earnings forecast announced on May. 15, 2019.

(Thousands of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	12,747,964	12,003,524
Cash segregated as deposits	5,200,000	5,200,000
Trading products	1,065,002	829,253
Margin transaction assets	3,099,351	2,827,126
Loans on margin transactions	2,598,320	2,387,595
Cash collateral pledged for securities borrowing on margin transactions	501,031	439,531
Guarantee deposits	270,001	350,195
Real estate for sale	25,241,007	25,770,102
Other	1,064,066	949,776
Total current assets	48,687,393	47,929,978
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,610,789	1,366,201
Land	831,948	802,642
Other	130,062	144,572
Total property, plant and equipment	2,572,800	2,313,417
Intangible assets		
Goodwill	2,005,589	1,949,328
Other	148,876	269,613
Total intangible assets	2,154,465	2,218,942
Investments and other assets		
Investment securities	404,061	677,299
Other	906,323	810,040
Allowance for doubtful accounts	△180,435	△195,235
Total investments and other assets	1,129,949	1,292,104
Total non-current assets	5,857,216	5,824,464
Total assets	54,544,609	53,754,442

(Thousands of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Trading products	41,582	89,718
Trade date accrual	847,029	526,806
Margin transaction liabilities	903,439	1,121,948
Borrowings on margin transactions	667,082	658,724
Cash received for securities lending on margin transactions	236,357	463,224
Deposits received	4,504,359	5,111,019
Guarantee deposits received	325,744	373,387
Short-term bonds payable	4,000,000	5,000,000
Short-term borrowings	11,195,197	9,395,183
Current portion of long-term borrowings	1,001,609	1,047,191
Current portion of long-term non-recourse loans payable	60,320	60,320
Income taxes payable	154,919	174,678
Other	1,468,264	1,578,858
Total current liabilities	24,502,465	24,479,112
Non-current liabilities		
Bonds payable	4,000,000	3,000,000
Non-recourse Bond	99,000	99,000
Long-term borrowings	9,513,844	9,729,053
Non-recourse Long-term loans payable	2,626,840	2,846,760
Retirement benefit liability	227,843	242,344
Provision for share-based remuneration for directors (and other officers)	659,365	691,988
Other	493,729	501,482
Total non-current liabilities	17,620,623	17,110,629
Reserves under special laws		
Reserve for financial instruments transaction liabilities	21,435	21,435
Total reserves under special laws	21,435	21,435
Total liabilities	42,144,524	41,611,176
Net assets		
Shareholders' equity		
Share capital	5,492,516	5,492,516
Capital surplus	3,141,209	3,138,836
Retained earnings	4,553,464	4,296,980
Treasury shares	△835,092	△824,859
Total shareholders' equity	12,352,098	12,103,474
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△37,275	△44,421
Foreign currency translation adjustment	5,698	4,461
Total accumulated other comprehensive income	△31,577	△39,959
Share acquisition rights	21,034	21,034
Non-controlling interests	58,529	58,716
Total net assets	12,400,085	12,143,266
Total liabilities and net assets	54,544,609	53,754,442

(Thousands of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Operating revenue		
Commission received	416,473	333,116
Net trading income	441,357	600,973
Financial revenue	22,068	16,133
Sales in real estate business	6,202,919	6,764,717
Other	9,012	7,559
Total operating revenue	7,091,831	7,722,501
Financial expenses		
	241	4,363
Cost of sales		
Cost of sales in real estate business	4,670,846	5,584,181
Total cost of sales	4,670,846	5,584,181
Net operating revenue	2,420,743	2,133,956
Selling, general and administrative expenses		
Trading related expenses	133,844	220,264
Personnel expenses	893,876	880,426
Real estate expenses	96,563	101,514
Office cost	120,474	122,567
Depreciation	41,189	29,615
Taxes and dues	198,582	115,752
Sales commission	272,241	167,343
Amortization of goodwill	52,112	56,260
Other	455,094	304,805
Total selling, general and administrative expenses	2,263,978	1,998,551
Operating profit	156,765	135,405
Non-operating income		
Foreign exchange gains	27,479	—
Penalty income	45,754	—
Real estate acquisition tax refund	9,137	23,739
Other	10,572	17,441
Total non-operating income	92,944	41,181
Non-operating expenses		
Interest expenses	114,864	118,136
Commission expenses	25,030	8,756
Other	11,923	51,390
Total non-operating expenses	151,818	178,282
Ordinary profit (loss)	97,890	△1,696
Extraordinary income		
Gain on sales of non-current assets	175,971	—
Other	7,191	—
Total extraordinary income	183,162	—
Extraordinary losses		
Loss on retirement of non-current assets	—	14,101
Other	—	1,129
Total extraordinary losses	—	15,230
Profit (loss) before income taxes	281,053	△16,926
Income taxes - current	110,560	131,295
Income taxes - deferred	43,130	△150,036
Total income taxes	153,690	△18,740
Profit	127,362	1,813
Profit attributable to non-controlling interests	2,039	187
Profit attributable to owners of parent	125,323	1,626

(Thousands of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	127,362	1,813
Other comprehensive income		
Valuation difference on available-for-sale securities	△63,900	△7,145
Share of other comprehensive income of entities accounted for using equity method	△353	△1,237
Total other comprehensive income	△64,254	△8,382
Comprehensive income	63,108	△6,568
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	61,069	△6,755
Comprehensive income attributable to non-controlling interests	2,039	187