

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

November 14, 2019

Company Akatsuki Corp.
 Stock Code 8737
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 Expected date of filing of quarterly report: November 14, 2019
 Preparation of quarterly supplementary financial document: None
 Quarterly results briefing: None

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Expected starting date of dividend payment: December 9, 2019

(Rounded down to million yen)

1. Consolidated business results for the six months ended September 2019

(April 1, 2019 through September 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	%
Six months ended Sep. 2019	15,985	4.7	4,737	2.2	604	72.2	320	74.2	216	55.1
Six months ended Sep. 2018	15,270	61.7	4,633	10.4	351	-68.4	184	-86.7	139	-87.5

(Note) Comprehensive income:

Year ended September 2019: 253 million yen (535.4%)

Year ended September 2018: 39 million yen (-94.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 2019	7.16	7.03
Six months ended Sep. 2018	6.18	5.73

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 2019	58,394	12,495	21.3	405.80
As of Mar. 2019	54,544	12,400	22.6	409.32

(Reference) Shareholders' equity:

As of September 2019: 12,419 million yen

As of September 2018: 12,320 million yen

2. Dividends

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

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

Dividend forecasts for the fiscal year ending March 2020 is currently 9 yen per share.

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)

	Net sales		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) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements:
None

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

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

(4) Shares outstanding (common stock)

①Number of shares outstanding at the end of period (treasury stock included)

As of September 2019	32,688,944 shares
As of March 2019	32,274,144 shares

②Treasury stock at the end of period

As of September 2019	2,083,512 shares
As of March 2019	2,174,141 shares

③Average number of stock during period (quarterly cumulative period)

Six months ended September 2019	30,304,072 shares
Six months ended September 2018	22,646,289 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 we intended to faithfully translate the Japanese document into English, the accuracy and corrections of this English translation is not guaranteed and thus you are encouraged to refer to the original Japanese document.

1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the six months ended September 2019 (April 1, 2019 to September 30, 2019), our group has engaged in the following initiatives.

In the securities-related business, while brokerage commissions of Akatsuki Securities, Inc. declined due to weak domestic stock markets, operating revenue and operating income increased from the previous fiscal year. This was attributable to an increase in trading revenue from the sale of structured bonds and substantial increase in the revenue of IFA segment due to an increase in the number of contracted intermediaries and the balance of assets under management as a result of strengthening of the IFA business. We are also promoting alliances with regional financial institutions to expand our sales channels.

As a result, the performances of the securities-related business were as follows.

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

	Six months ended September 2018	Six months ended September 2019	Rate of change
Operating revenues	1,892	2,281	20.5%
Segment profit	144	192	33.0%

In the real estate-related business, purchases of vacant properties and properties with lessees in the Total Estate Group remained firm. Profits declined slightly compared with the previous fiscal year as a result of efforts to reduce inventories of vacant properties in particular. We are promoting to establish and operate purchasing and settlement standards, strengthen inventory risk management, and strengthen our financial base, that accurately reflect changes in the real estate market and financial conditions.

In April of this year, EW Asset Management Co., Ltd. purchased the land of Kamikoto-en, Nishinomiya City, Hyogo Prefecture, and launched the development of a residential-type private pay nursing home. This facility has already entered into long-term lease agreements with a blue-chip nursing care provider, and we expect stable earnings after the completion of construction and commencement of operation in June 2021.

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

	Six months ended September 2018	Six months ended September 2019	Rate of change
Operating revenues	13,552	13,844	2.2%
Segment profit	870	854	-1.8%

As a result, the performances of our Group for the six months ended 2019 were as follows.

	Six months ended September 2018	Six months ended September 2019	Rate of change
Operating revenues	15,270	15,985	4.7%
Operating income	351	604	72.2%
Ordinary income	184	320	74.2%
Net income attributable to owners of parent	139	216	55.1%

The non-consolidated performances of Total Estate Co., Ltd. are disclosed in the following supplementary information as they have a particularly significant impact on our consolidated results.

(Supplementary Information)

Total Estate Co., Ltd. operates existing condominium business in the Tokyo metropolitan area, primarily in Tokyo and Kanagawa Prefecture, targeting primary buyers of residential properties, which consists of ① a case in which a tenant-less vacant condominium is purchased and immediately renovated and sold (hereinafter referred to as "Type A") and ② a case in which an existing condominium with tenant is purchased rental income for a certain period, renovates it after the tenant vacates, and sells it (hereinafter referred to as "Type B").

(a) Business results of Total Estate, Inc. (Quarterly basis)

(Million yen)

	FY3/19				FY3/20			
	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	6,523	-	-
Ordinary income	334	385	610	465	310	421	-	-
Net income	336	261	421	326	207	290	-	-

(b) Number of units purchased (Quarterly basis. Figures in parenthesis represent YoY changes)

(Units)

	FY3/19				FY3/20			
	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)	167 (+20)	-	-
Type B	46 (+17)	50 (-2)	54 (-51)	90 (+39)	62 (+16)	75 (+25)	-	-
Total	205 (+20)	197 (-16)	193 (-78)	220 (-6)	187 (-18)	242 (+45)	-	-

(c) Number of units sold (Quarterly basis. Figures in parenthesis represent YoY changes)

(Units)

	FY3/19				FY3/20			
	1Q (Apr.-Jun.)	2Q (Jul.-Sep.)	3Q (Oct.-Dec.)	4Q (Jan.-Mar.)	1Q (Apr.-Jun.)	2Q (Jul.-Sep.)	3Q (Oct.-Dec.)	4Q (Jan.-Mar.)
Number of units sold	162 (+48)	170 (-)	176 (+39)	216 (+69)	189 (+27)	172 (+2)	-	-

(b) Inventories (At the end of each quarter)

(Units)

	FY3/19				FY3/20			
	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	322	-	-
Type B	416	451	488	555	590	630	-	-
Total	842	869	886	890	882	952	-	-

(2) Financial Position

Assets

Total assets at the end of the six months ended September 2019 increased 3,850 million yen from the end of the previous fiscal year to 58,394 million yen. This was mainly due to increases of 1,838 million yen in cash and deposits and 1,815 million yen in real estate for sale.

Liabilities

Liabilities increased 3,754 million yen from the end of the previous fiscal year to 45,898 million yen. This was mainly due to increases of 2,287 million yen in deposits received and 1,476 million yen in long-term loans payable.

Net assets

Net assets increased 95 million yen from the end of the previous fiscal year to 12,495 million yen.

(3) Cash Flow Situations

Cash and cash equivalents (hereinafter, "cash") for the six months ended September 2019 increased 2,012 million yen compared with the previous fiscal year to 12,942 million yen.

Cash flows from operating activities

Net cash provided by operating activities was 1,507 million yen (compared with net cash earned of 562 million yen in the same period of the previous fiscal year). This was mainly due to the recording of 256 million yen in quarterly net income before income taxes and minority interests and an increase of 2,289 million yen in advances and deposits received, despite a decrease in cash flow mainly due to the recording of 1,516 million yen in real estate for sale.

Cash flows from investing activities

Net cash used in investing activities was 261 million yen (compared with net cash used of 246 million yen in the same period of the previous fiscal year). This was mainly due to the recording of 362 million yen in payments for purchase of investment securities.

Cash flows from financing activities

Net cash provided by financing activities was 767 million yen (compared with 5,135 million yen provided in the same period of the previous fiscal year). This was mainly due to recording of proceeds from borrowings of 10,383 million yen and proceeds from issuance of bonds of 2,993 million yen, while repayment of borrowings of 9,622 million yen and redemption of bonds of 3 thousand million yen were recorded.

(4) Comment on forecast information including consolidated earnings forecasts

There are no changes to the full-year consolidated earnings forecasts announced in the "Consolidated Financial Results for the Fiscal Year Ended March 31, 2019" announced on May 15, 2019.

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	12,747,964	14,586,324
Cash segregated as deposits	5,200,000	5,800,000
Trading products	1,065,002	851,744
Margin transaction assets	3,099,351	2,753,844
Loans on margin transactions	2,598,320	2,183,030
Cash collateral pledged for securities borrowing on margin transactions	501,031	570,814
Guarantee deposits	270,001	350,008
Real estate for sale	25,241,007	27,056,667
Other	1,064,066	1,096,388
Total current assets	48,687,393	52,494,978
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,610,789	1,360,109
Land	831,948	798,660
Other	130,062	134,052
Total property, plant and equipment	2,572,800	2,292,822
Intangible assets		
Goodwill	2,005,589	1,893,067
Other	148,876	245,708
Total intangible assets	2,154,465	2,138,776
Investments and other assets		
Investment securities	404,061	730,118
Other	906,323	933,032
Allowance for doubtful accounts	△180,435	△194,925
Total investments and other assets	1,129,949	1,468,225
Total non-current assets	5,857,216	5,899,825
Total assets	54,544,609	58,394,803

(Thousands of yen)

As of March 31, 2019

As of September 30, 2019

Liabilities		
Current liabilities		
Trading products	41,582	23,382
Trade date accrual	847,029	499,602
Margin transaction liabilities	903,439	1,210,798
Borrowings on margin transactions	667,082	614,125
Cash received for securities lending on margin transactions	236,357	596,673
Deposits received	4,504,359	6,791,867
Guarantee deposits received	325,744	547,977
Short-term bonds payable	4,000,000	5,000,000
Short-term borrowings	11,195,197	10,178,777
Current portion of long-term borrowings	1,001,609	1,302,336
Current portion of long-term non-recourse loans payable	60,320	703,220
Income taxes payable	154,919	174,227
Other	1,468,264	1,715,298
Total current liabilities	24,502,465	28,147,487
Non-current liabilities		
Bonds payable	4,000,000	3,000,000
Non-recourse Bond	99,000	99,000
Long-term borrowings	9,513,844	10,990,126
Non-recourse Long-term loans payable	2,626,840	2,188,780
Retirement benefit liability	227,843	238,847
Provision for share-based remuneration for directors (and other officers)	659,365	711,545
Other	493,729	501,775
Total non-current liabilities	17,620,623	17,730,074
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	45,898,997
Net assets		
Shareholders' equity		
Share capital	5,492,516	5,530,883
Capital surplus	3,141,209	3,172,678
Retained earnings	4,553,464	4,512,325
Treasury shares	△835,092	△800,830
Total shareholders' equity	12,352,098	12,415,057
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△37,275	267
Foreign currency translation adjustment	5,698	4,437
Total accumulated other comprehensive income	△31,577	4,704
Share acquisition rights	21,034	17,110
Non-controlling interests	58,529	58,933
Total net assets	12,400,085	12,495,806
Total liabilities and net assets	54,544,609	58,394,803

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Operating revenue		
Commission received	814,635	659,976
Net trading income	842,937	1,431,870
Financial revenue	47,363	35,435
Sales in real estate business	13,547,356	13,843,986
Other	18,687	14,039
Total operating revenue	15,270,980	15,985,309
Financial expenses	8,648	9,302
Cost of sales		
Cost of sales in real estate business	10,628,686	11,238,322
Total cost of sales	10,628,686	11,238,322
Net operating revenue	4,633,645	4,737,684
Selling, general and administrative expenses		
Trading related expenses	259,797	550,452
Personnel expenses	1,742,931	1,758,642
Real estate expenses	192,191	190,735
Office cost	242,012	248,161
Depreciation	86,650	80,443
Taxes and dues	382,095	237,089
Sales commission	463,885	344,476
Amortization of goodwill	104,224	112,521
Other	808,845	610,763
Total selling, general and administrative expenses	4,282,635	4,133,287
Operating profit	351,010	604,396
Non-operating income		
Gain on sales of investment securities	—	2,985
Foreign exchange gains	47,073	—
Penalty income	45,754	—
Real estate acquisition tax refund	11,069	34,777
Other	31,914	30,509
Total non-operating income	135,811	68,272
Non-operating expenses		
Interest expenses	240,829	242,733
Commission expenses	40,309	56,618
Other	21,482	52,506
Total non-operating expenses	302,621	351,858
Ordinary profit	184,200	320,811

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Extraordinary income		
Gain on sales of non-current assets	176,408	3,508
Other	7,191	—
Total extraordinary income	183,600	3,508
Extraordinary losses		
Loss on liquidation of subsidiaries and associates	7,874	—
Loss on valuation of investment securities	—	52,819
Loss on retirement of non-current assets	0	14,101
Other	—	1,129
Total extraordinary losses	7,874	68,050
Profit before income taxes	359,926	256,270
Income taxes - current	207,596	283,768
Income taxes - deferred	16,940	△244,873
Total income taxes	224,537	38,894
Profit	135,389	217,375
Profit (loss) attributable to non-controlling interests	△4,486	403
Profit attributable to owners of parent	139,875	216,971

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	135,389	217,375
Other comprehensive income		
Valuation difference on available-for-sale securities	△96,315	37,543
Share of other comprehensive income of entities accounted for using equity method	848	△1,261
Total other comprehensive income	△95,466	36,282
Comprehensive income	39,922	253,657
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	44,409	253,253
Comprehensive income attributable to non-controlling interests	△4,486	403

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	359,926	256,270
Depreciation	207,012	142,771
Amortization of goodwill	104,224	112,521
Increase (decrease) in provision for bonuses	△7,020	43,370
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	128,620	60,139
Increase (decrease) in retirement benefit liability	△1,287	11,003
Interest and dividend income	△5,456	△3,619
Interest expenses	241,006	242,733
Loss (gain) on sales of property, plant and equipment	△176,408	△2,379
Decrease (increase) in real estate for sale	△1,697,343	△1,516,382
Decrease (increase) in trading products - assets (liabilities)	882,385	195,058
Decrease (increase) in trade date accruals	△572,870	△347,427
Decrease (increase) in cash segregated as deposits	700,000	△600,000
Decrease/increase in assets/liabilities for margin transaction	494,526	652,865
Decrease/increase in advance paid/deposits received	96,398	2,289,504
Other, net	631,724	515,047
Subtotal	1,385,438	2,051,477
Interest and dividends received	17,503	3,536
Interest paid	△220,836	△261,590
Income taxes (paid) refund	△619,973	△285,994
Net cash provided by (used in) operating activities	562,131	1,507,429

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from investing activities		
Payments into time deposits	△55,000	△10,000
Proceeds from withdrawal of time deposits	10,006	160,009
Purchase of property, plant and equipment	△779,895	△91,298
Proceeds from sales of property, plant and equipment	649,556	8,983
Purchase of intangible assets	△2,690	△5,727
Purchase of investment securities	△50,000	△362,192
Proceeds from sales of investment securities	2,049	12,610
Purchase of shares of subsidiaries resulting in change in scope of consolidation	△3,744	—
Loan advances	△38,804	△4,152
Collection of loans receivable	21,934	11,611
Other, net	209	18,180
Net cash provided by (used in) investing activities	△246,379	△261,976
Cash flows from financing activities		
Proceeds from borrowings	12,669,044	9,570,210
Repayments of borrowings	△10,093,922	△8,809,622
Proceeds from long-term non recourse loans payable	550,000	235,000
Repayment of long-term non recourse loans payable	△60,110	△30,160
Proceeds from issuance of bonds	4,990,150	2,993,815
Redemption of bonds	△4,000,000	△3,000,000
Proceeds from issuance of shares	1,425,881	72,810
Proceeds from payment of new stock application margin	101,991	—
Purchase of treasury shares	△203,797	△221
Dividends paid	△229,674	△258,110
Other, net	△14,556	△6,536
Net cash provided by (used in) financing activities	5,135,004	767,185
Effect of exchange rate change on cash and cash equivalents	47,073	5
Net increase (decrease) in cash and cash equivalents	5,497,830	2,012,643
Cash and cash equivalents at beginning of period	6,567,542	10,929,866
Cash and cash equivalents at end of period	12,065,372	12,942,510