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Consolidated Financial Report
For the First Quarter of Fiscal 2020 Ending March 31, 2020 (Japanese GAAP)

August 5, 2019

Company Name: Grandy House Corporation	Stock Exchange Listing: Tokyo Stock Exchange
Securities Code: 8999	URL: https://www.grandy.co.jp
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Scheduled date of quarterly securities report filing: August 8, 2019	
Scheduled date of dividend payment commencement: —	
Preparation of quarterly supplementary explanatory materials: None	
Quarterly results briefing held: None	

(Figures are rounded down to the nearest million yen unless otherwise stated.)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to June 30, 2019)

(1) Consolidated Operating Results

(Percentage figures show the year-on-year increase (decrease).)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Three months ended June 30, 2019	10,550	2.0	589	(16.8)	632	(15.1)	420	43.3
Three months ended June 30, 2018	10,341	1.4	709	34.7	744	34.2	293	(20.8)

Note: Comprehensive income Three months ended June 30, 2019: ¥419 million (49.6%)
Three months ended June 30, 2018: ¥280 million (-22.3%)

	Net Income per Share	Net Income per Share (Diluted)
	(¥)	(¥)
Three months ended June 30, 2019	14.58	14.40
Three months ended June 30, 2018	10.18	10.01

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
June 30, 2019	48,953	21,024	42.6	721.91
March 31, 2019	46,864	21,124	44.7	725.35

Reference: Shareholders' equity June 30, 2019: ¥20,832 million
March 31, 2019: ¥20,932 million

2. Dividends

	Annual Dividend per Shares				
	1Q-End	2Q-End	3Q-End	Period-End	Total
	(¥)	(¥)	(¥)	(¥)	(¥)
Fiscal 2019	—	0.00	—	18.00	18.00
Fiscal 2020	—				
Fiscal 2020 (Forecast)		0.00	—	23.00	23.00

Note: Revisions to the most recently announced forecast of cash dividends in the current quarter: None

3. Consolidated Financial Forecasts for Fiscal 2020 (April 1, 2019 to March 31, 2020)

(Percentage figures show year-on-year increase (decrease).)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent Company		Net Income per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Fiscal Year	48,500	9.1	3,200	2.2	3,400	3.4	2,200	6.5	76.24

Note: Revisions to the most recently announced financial forecasts in the current quarter: None

* **Explanatory Notes**

(1) Changes of important subsidiaries during the period
 (changes in specified subsidiaries resulting in a change in the scope of consolidation): None
 Newly included: — Excluded: —

(2) Adoption of specific methods for preparation of the quarterly consolidated financial statements: None

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

- 1) Changes in accounting policies in connection with revision to accounting standards, etc.: None
- 2) Changes in accounting policies other than 1): None
- 3) Changes in accounting estimates: None
- 4) Restatements: None

(4) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding as of the period-end (including treasury shares)	June 30, 2019	30,823,200 shares	March 31, 2019	30,823,200 shares
2) Number of treasury shares	June 30, 2019	1,965,245 shares	March 31, 2019	1,965,245 shares
3) Average number of shares issued and outstanding for the period	Three months ended June 30, 2019	28,857,955 shares	Three months ended June 30, 2018	28,837,955 shares

* **This consolidated quarterly financial report is not subject to auditing by a certified public accountant or an audit firm.**

* **Explanation concerning the appropriate use of forecasts and other special instructions**

Results forecasts and other forward-looking statements contained in this report are based on assumptions, beliefs, and uncertainties in light of information available to the Company's management as of the publication date. Actual results may differ materially from forecasts due to a variety of factors. Therefore, the Company does not guarantee the accuracy of forecasts and other forward-looking statements and its ability to achieve stated targets.

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1. QUALITATIVE INFORMATION ON FINANCIAL STATEMENTS

(1) Explanation regarding Operating Results

During the three months ended June 30, 2019, the Japanese economy was considered to be on a gradual recovery path, although exports and production showed some softness.

In the housing sector, new housing starts of both custom-made and ready-made detached homes exceeded those in the same period of the previous fiscal year considerably as favorable conditions for the acquisition of homes continued with the interest rate on housing loans remaining at low levels, and as a planned consumption tax hike seemed to trigger an anticipatory move.

Under these circumstances, the Grady House Group continued to strive to expand and reinforce business under the basic policy in the second medium-term business plan (from the fiscal year ended March 2019 to the fiscal year ending March 2021) of "continuous growth through reinforcing the core operation (new homes)" and "expansion of business through enhancing the stock business."

With regard to new home sales, one of our core operations, we continued to strive to reinforce the organizations of subsidiaries and boost the sales of strategic large housing lots while strengthening product appeal and expanding into Saitama Prefecture, among others. In respect of existing home sales, we endeavored to build up inventory toward the expansion of home sales.

Due to these efforts, both the number of homes sold and sales amounts for the first quarter of Fiscal 2020 increased in new and existing homes on a year-on-year basis, which, however, were not high enough to cover increases in manufacturing expenses and selling, general and administrative expenses accompanying mainly investments in human resources toward future business expansion. As a result, operating income and ordinary income decreased. On the other hand, net income attributable to owners of the parent company increased as opposed to the same period of the previous fiscal year, which had booked an extraordinary loss.

Consequently, the Grady House Group's consolidated results for the first quarter of Fiscal 2020 were as follows. Net sales were ¥10,550 million, an increase of 2.0% year-on-year; operating income declined to ¥589 million, a decrease of 16.8% year-on-year; ordinary income was ¥632 million, a decrease of 15.1% year-on-year; net income attributable to owners of the parent company increased to ¥420 million, an increase of 43.3% year-on-year.

Results by business segment are presented as follows.

a. Real Estate Sales

In new housing sales, we conducted personnel changes in board members of subsidiaries April to reinforce the organization and structure with the aim of revitalizing the subsidiaries that suffered a deviation from the planned sales numbers in the previous fiscal year. In addition, for sales expansion, we boosted sales promotional activities, centered on measures to sell out "Yotsuba no Mori" strategic large housing lots (211 lots, Tsukuba in Ibaraki Prefecture) and GRAND BEAT PARK Kaminokawa (141 lots, Kaminokawamachi, Tochigi Prefecture) at an early stage. In terms of products, we continued to differentiate our products from those of our competitors by pursuing our "Townscape creation" policy, which gives a theme to each housing lot and harmonized the distinctive appearance of homes and the uniform image of the housing lot as well as offering products that excelled in terms of design, functionality, energy-saving and safety.

On the other hand, as for expanding our sales areas, purchases of housing lots reached an immediate targeted number in Saitama Prefecture, which is planned to make a full-scale contribution to earnings from the second half of Fiscal 2020. To this end, in April, we set up a sales force in the Saitama Branch (Saitama, Saitama Prefecture) and upgraded it to the Saitama Regional Office, which has started activities to capture orders.

Through these initiatives, the number of new homes sold in the first quarter of Fiscal 2020 reached 316 homes (an increase of eight homes year-on-year).

In existing home sales, we continued making efforts to expand the number of homes sold by enhancing product inventory as we did in the previous fiscal year. Amid intensifying competition in procurement, we strove to strengthen procurement through measures including expansion and reinforcement of activities in the metropolitan area and exploration of new areas by setting up a goal of keeping 80 completed homes in inventory at any time whereby orders received stayed above the level of the same period of the previous fiscal year. Consequently, the number of existing homes sold for the first quarter of Fiscal 2020 reached 35 homes (an increase of four homes year-on-year).

As a result of these initiatives, sales in the real estate sales segment increased by 2.9% year-on-year to ¥9,800 million. Segment profit was ¥573 million, a decrease of 13.7% year-on-year.

b. Construction Material Sales

In construction material sales, the number of new housing starts for wooden houses managed to maintain the level of the same period of the previous fiscal year due to a recovery in owner-occupied homes, etc. despite a decline in the number of homes for rent. Wood material prices remained almost unchanged on a year-on-year basis.

Under these circumstances, the Grandy House Group made efforts to expand receiving orders for building materials and equipment in addition to pre-cut materials, which are our core product. Although we generally achieved the sales plan for the first quarter of Fiscal 2020, which included a 10-day holiday period, segment profit decreased due to the occurrence of an uncollectable account receivable in addition to an increase in personnel costs accompanying the staffing reinforcement that had been implemented since the fourth quarter of the previous fiscal year.

As a result of these factors, sales in the construction materials sales segment decreased by 9.2% year-on-year to ¥686 million. Segment profit was ¥22 million, a decrease of 52.8% year-on-year.

c. Real Estate Leasing

In the real estate leasing, more stores were opened in or relocated to the city center in the office building market in and around Utsunomiya, which is our main market, leading to an improvement in the vacancy rate. In the parking lot market, competition remained intense between parking lots in the vicinity.

Under such circumstances, the Grandy House Group endeavored to improve the operation rate of existing assets and reducing management costs. Consequently, sales in the real estate leasing segment for the first quarter of Fiscal 2020 were ¥63 million, an increase of 0.6% year-on-year, and segment profit was ¥41 million, a decrease of 4.1% year-on-year, mainly to the occurrence of expenses for renovating properties for leasing.

(2) Explanation regarding Financial Position

As of the end of the first quarter of Fiscal 2020, total consolidated assets rose to ¥48,953 million, an increase of ¥2,088 million, compared to the end of the previous consolidated fiscal year. This was due to an increase in current assets caused primarily by the procurement of large housing lots while we were attempting to expand real estate sales business.

Liabilities increased to ¥27,928 million, an increase of ¥2,188 million from the end of the previous consolidated fiscal year, due to the procuring of funds for the acquiring of housing lots, as mentioned above, through short-term loans payable. We continued in the current fiscal year as well to switch our fund procurement method to financing by bonds for part of our loans in order to reduce the burden of interest payments and to flexibly use funds.

Total net assets stood at ¥21,024 million as of June 30, 2019, down ¥99 million compared with the end of the previous fiscal year. After accounting for the acquisition of net income attributable to owners of the parent company, this decrease was largely due to the payment of dividends.

(3) Explanation regarding Future Prospects including Consolidated Financial Forecasts

On July 8, 2019, the Grandy House announced its decision to acquire shares in PLAZA HOUSE INC. and WELCOME HOUSE INC. On July 19, 2019, we acquired their shares and made both companies our subsidiaries as per the announced plan. At this moment, we consider the impact of these acquisitions on the financial forecast for Fiscal 2020 (announced on May 7, 2019) to be immaterial.

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

(1) Quarterly Consolidated Balance Sheets

(Thousands of Yen)

	FY2019 (As of March 31, 2019)	First Quarter of FY2020 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	10,001,725	10,047,844
Notes and accounts receivable – trade	547,282	560,351
Real estate for sale	17,322,784	16,493,771
Costs on uncompleted construction contracts	7,244	5,600
Real estate for sale in process	7,062,704	9,902,796
Merchandise and finished goods	244,048	240,029
Raw materials and supplies	128,188	115,549
Other	816,802	867,001
Allowance for doubtful accounts	(3,305)	(4,095)
Total current assets	36,127,474	38,228,849
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,201,619	3,189,418
Machinery, equipment and vehicles, net	4,171	5,262
Tools, furniture and fixtures, net	68,523	67,501
Land	5,576,884	5,600,663
Leased assets, net	80,456	78,241
Construction in progress	1,011	–
Total property, plant and equipment	8,932,666	8,941,087
Intangible assets	80,077	74,158
Investments and other assets		
Investment securities	363,031	361,455
Long-term loans receivable	13,701	13,407
Deferred tax assets	413,834	389,443
Other	897,508	910,046
Allowance for doubtful accounts	(1,030)	(9,131)
Total investments and other assets	1,687,045	1,665,222
Total non-current assets	10,699,789	10,680,468
Deferred assets		
Bond issuance costs	37,512	44,145
Total deferred assets	37,512	44,145
Total assets	46,864,776	48,953,462

(Thousands of Yen)

	FY2019 (As of March 31, 2019)	First Quarter of FY2020 (As of June 30, 2019)
Liabilities		
Current liabilities		
Accounts payable for construction contracts	3,132,890	3,469,847
Short-term loans payable	17,324,800	19,061,200
Current portion of long-term loans payable	503,345	368,845
Current portion of bonds	21,000	21,000
Lease obligations	28,366	28,834
Income taxes payable	544,514	132,281
Provision for warranties for completed construction	85,853	82,121
Other	758,230	1,076,383
Total current liabilities	22,398,999	24,240,513
Non-current liabilities		
Bonds payable	1,545,000	1,834,500
Long-term loans payable	881,461	899,264
Lease obligations	58,582	55,900
Provision for directors' retirement benefits	168,654	176,791
Net defined benefit liability	629,972	660,856
Asset retirement obligations	12,227	12,244
Other	45,730	48,713
Total non-current liabilities	3,341,627	3,688,270
Total liabilities	25,740,627	27,928,783
Net assets		
Shareholders' equity		
Capital stock	2,077,500	2,077,500
Capital surplus	2,228,898	2,228,898
Retained earnings	17,011,385	16,912,610
Treasury shares	(337,899)	(337,899)
Total shareholders' equity	20,979,883	20,881,109
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(47,634)	(48,330)
Total accumulated other comprehensive income	(47,634)	(48,330)
Subscription rights to shares	191,900	191,900
Total net assets	21,124,148	21,024,678
Total liabilities and net assets	46,864,776	48,953,462

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated cumulative first quarter)

(Thousands of Yen)

	Three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)
Net sales	10,341,270	10,550,042
Cost of sales	8,398,019	8,678,606
Gross profit	1,943,250	1,871,435
Selling, general and administrative expenses	1,234,066	1,281,578
Operating income	709,183	589,856
Non-operating income		
Interest income	197	193
Dividends income	2,953	2,953
Operations consignment fee	58,574	57,926
Office work fee	36,500	38,022
Other	10,338	3,290
Total non-operating income	108,564	102,386
Non-operating expenses		
Interest expenses	69,356	55,686
Commission for syndicate loan	1,666	1,666
Other	2,382	2,695
Total non-operating expenses	73,404	60,048
Ordinary income	744,343	632,194
Extraordinary loss		
Loss on retirement of non-current assets	5,925	4,872
Loss on cancellation of lease contracts	439	-
Directors' retirement benefits	300,000	-
Total extraordinary loss	306,365	4,872
Net income before income taxes	437,978	627,322
Income taxes – current	118,748	181,958
Income taxes – deferred	25,594	24,695
Total income taxes	144,342	206,653
Net income	293,635	420,668
Net income attributable to owners of the parent company	293,635	420,668

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative first quarter)

(Thousands of Yen)

	Three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)
Net income	293,635	420,668
Other comprehensive income		
Valuation difference on available-for-sale securities	(12,864)	(695)
Total other comprehensive income	(12,864)	(695)
Comprehensive income	280,770	419,973
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent company	280,770	419,973
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Segment Information)

I. The three months ended June 30, 2018 (April 1, 2018 to June 30, 2018)

1. Information relating to the amounts of net sales, profit and loss by reportable segment

(Thousands of Yen)

	Reportable Segment				Adjustments (Note 1)	Amount Recorded on Quarterly Consolidated Statements of Income (Note 2)
	Real Estate Sales	Construction Material Sales	Real Estate Leasing	Total		
Net sales						
Sales to outside customers	9,522,175	755,780	63,314	10,341,270	–	10,341,270
Inter-segment sales and transfers	–	789,868	20,748	810,617	(810,617)	–
Total	9,522,175	1,545,649	84,062	11,151,887	(810,617)	10,341,270
Segment profit	664,374	46,664	42,991	754,030	(9,686)	744,343

Notes: 1 Adjustments of segment profit (¥9,686 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted to ordinary income described in quarterly consolidated statements of income.

2. Information concerning the impairment loss of non-current assets and goodwill by reportable segment

Not applicable.

II. The three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

1. Information relating to the amounts of net sales, profit and loss by reportable segment

(Thousands of Yen)

	Reportable Segment				Adjustments (Note 1)	Amount Recorded on Quarterly Consolidated Statements of Income (Note 2)
	Real Estate Sales	Construction Material Sales	Real Estate Leasing	Total		
Net sales						
Sales to outside customers	9,800,186	686,172	63,683	10,550,042	–	10,550,042
Inter-segment sales and transfers	–	819,404	21,221	840,626	(840,626)	–
Total	9,800,186	1,505,577	84,905	11,390,669	(840,626)	10,550,042
Segment profit	573,653	22,044	41,244	636,942	(4,748)	632,194

Notes: 1 Adjustments of segment profit (¥4,748 thousand) are eliminations of inter-segment transactions.

2 Segment profit has been adjusted to ordinary income described in quarterly consolidated statements of income.

2. Information concerning the impairment loss of non-current assets and goodwill by reportable segment

Not applicable.

(Important subsequent events)

Business combinations through acquisition

The Grandy House resolved to acquire all shares in PLAZA HOUSE INC. and WELCOME HOUSE INC. to make them subsidiaries at the board of directors meeting held on July 8, 2019, as described below, and entered into a share transfer agreement effective the same day. Subsequently, we acquired all shares in both companies on July 19, 2019.

(1) Outline of business combinations

a. Names of acquired companies and their lines of business

Name of acquired company: PLAZA HOUSE INC.

Line of business: Real estate trading and brokerage

Name of acquired company: WELCOME HOUSE INC.

Line of business: Real estate trading and brokerage

b. Main reasons for implementing business combinations

PLAZA HOUSE INC. and WELCOME HOUSE INC. are engaged in real estate trading and brokerage. Their sales area is the district along the railway Denentoshi Line, centered on Kawasaki in Kanagawa Prefecture. Going forward, both companies are expected to grow further through the reinforcement of procurement and sales, and the expansion of the detached home business in their sales area through collaboration with the Grandy House. Furthermore, we considered that making both companies subsidiaries would allow us to expand into Kanagawa Prefecture, which is a new market for us, thereby accelerating the Grandy House Group's business expansion. Thus, we came to the conclusion that we will acquire their shares.

c. Date of business combinations

July 19, 2019

d. Legal format for business combinations

Acquisition of shares with cash as consideration

e. Names of companies after business combinations

Unchanged

f. Rate of voting rights acquired

100%

g. Main grounds for deciding to acquire companies

The Grandy House acquired the shares with cash as consideration.

(2) Breakdown of acquisition costs and considerations of acquired companies

PLAZA HOUSE INC.

Acquisition consideration	Cash	¥2,287,200,000
Acquisition cost		¥2,287,200,000

WELCOME HOUSE INC.

Acquisition consideration	Cash	¥32,000,000
Acquisition cost		¥32,000,000

(3) Amounts, reasons for occurrence, amortization methods and amortization periods of resultant goodwill

They are not confirmed yet at this moment.

(4) Amounts of assets received and liabilities assumed on the date of business combinations and a rough breakdown

They are not confirmed yet at this moment.