

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FIRST QUARTER OF THE FISCAL YEAR ENDING
December 31, 2019 (January 1, 2019 to March 31, 2019)

April 26, 2019

Arealink Co., Ltd. is listed on the Mothers market of the Tokyo Stock Exchange under the securities code number 8914.

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Supplemental materials prepared for quarterly financial results: No

Holding of quarterly financial results meeting: No

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for the First Quarter of Fiscal 2019
(January 1, 2019 to March 31, 2019)

(1) Non-Consolidated Operating Results (Cumulative)

(Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.)

	Operating Revenues		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY2019	9,634	48.3	1,278	103.1	1,177	88.9	801	89.0
1Q FY2018	6,498	27.8	629	(6.1)	623	(5.5)	424	(1.4)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
1Q FY2019	63.49	—
1Q FY2018	34.60	—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
March 31, 2019	41,650	18,973	45.6
As of December 31, 2018	37,862	18,749	49.5

(Reference) Shareholders' equity: March 31, 2019: 18,973 million yen December 31, 2018: 18,749 million yen

2. Dividends

(Record Date)	Dividends per Share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2018	—	0.00	—	46.0	46.0
Fiscal 2019	—	—	—	—	—
Fiscal 2019 (Forecast)	—	0.00	—	40.0	40.0

Note: Revision to the most recently announced cash dividend forecast: None

3. Forecasts of Non-Consolidated Operating Results for the Fiscal Year Ending December 31, 2019 (January 1, 2019 to December 31, 2019)

(% figures for the full fiscal year represent year-on-year increase or decrease,

% figures for the interim period are the increase / (decrease) for the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	16,613	19.1	1,907	27.7	1,785	32.8	1,205	32.3	95.45
Fiscal year ending December 31, 2019	27,918	(3.2)	2,694	(3.1)	2,500	(1.5)	1,450	(19.9)	114,80

Note: Revision to the most recently announced operating results forecast: No

For revisions to forecasts for the second quarter cumulative period and full fiscal year period of Fiscal 2019, see “Notice Concerning Revisions to Earnings Forecasts” released on April 23, 2019.

Notes

- (1) Application of Special Accounting Practices in the Preparation of the Quarterly Non-Consolidated Financial Statements: No
- (2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: No
 - 2) Changes of accounting principles other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (3) Number of Shares Issued and Outstanding (Common Stock)
 1. Total number of shares issued and outstanding (including treasury stock) as of the period-end:
 March 31, 2019: 12,940,900 shares As of December 31, 2018: 12,940,900 shares
 2. Total number of treasury stock as of the period-end:
 March 31, 2019: 310,031 shares As of December 31, 2018: 309,931 shares
 3. Average number of shares for the period (Cumulative total for the quarterly non-consolidated period)
 First quarter fiscal 2019: 12,630,933 shares First quarter fiscal 2018: 12,267,419 shares

* The financial statement summary is not subject to auditing by certified public accountants or audit firms.

Cautionary Statement Concerning Operating Results Forecasts and Other Special Items

The aforementioned forecasts were made based on information available to management as of the date of this report. Actual results could differ significantly from forecasts due to a variety of factors. Please refer to “Explanation of Results Forecasts and Other Future Predictions” on page 5 for assumptions of the revision of forecasts of business results.

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1. Qualitative Information Regarding Non-Consolidated Quarterly Business Results

(1) Explanation of Business Results

During the first quarter period (January 1, 2019 to March 31, 2019) of fiscal 2019 (ending December 31, 2019), the Japanese economy maintained a tone of moderate recovery against a backdrop of improving employment conditions and an increase in capital investment. In the global economy, considering prolonged concerns such as U.S.-China trade friction and Brexit, and the downward revision in the World Economic Outlook from the International Monetary Fund (IMF), the outlook remains unclear and careful attention is warranted.

In the real estate industry, Arealink's principal business field, despite expectations that low interest rate policy would provide support, factors such as the distrust of the industry resulting from instances of fraudulent loans and substandard construction, as well as the consumption tax increase scheduled for October 2019, have led to a situation of uncertainty regarding the future direction of the market.

Property Management Service

In the mainstay Property Management Service business, to strengthen the "stock-type" (service oriented) business model, Arealink focused on improving earnings for existing properties, and differentiating itself from the competition. Along with increased brand recognition from the ongoing collaboration with Sanrio Company's "Hello Kitty" character, we also worked to enhance convenience for users by strengthening service aspects, including the "seven service benefits" of Hello Storage, and the development of the Hello Storage app allowing contract holders to use a smartphone to access the entrances to self-storage facilities, and introducing the system at select locations. For self-storage units with accompanying land (asset-type indoor storage), considering future market conditions for real estate and finance, Arealink sold certain properties in bulk, leading to a decline in the profit ratio. As a result, net sales in the Property Management Service segment amounted to ¥7,270 million (up 24.9% from the same period of the previous fiscal year), with operating income of ¥826 million (down 3.1%).

Property Revitalization & Liquidation Service

Arealink focused on the land rights business, which is less susceptible to real estate market conditions, buying and selling land rights. We also completed the sale of held properties switched to real estate held for resale at the end of the previous fiscal year, which made a significant contribution to increasing earnings. As a result, net sales in the Property Revitalization & Liquidation Service segment amounted to ¥2,363 million (up 248.2% from the same period of the previous fiscal year), with operating income of ¥777 million (up 662.9%).

As a result, net sales for the first quarter period of fiscal 2019 amounted to ¥9,634 million (an increase of 48.3% from the same period of the previous fiscal year), with operating income of ¥1,278 million (an increase of 103.1%), ordinary income of ¥1,177 million (an increase of 88.9%), and net income of ¥801 million (an increase of 89.0%).

(2) Explanation of Financial Position

Total assets as of the end of the first quarter period (March 31, 2019) stood at ¥41,650 million, an increase of ¥3,787 million compared with the end of the previous fiscal year (December 31, 2018). The main factors were increases of ¥2,997 million in cash and deposits; and ¥2,508 million in lease assets; along with decreases of ¥1,768 million in real estate for sale; and ¥940 million in real estate for sale in process.

Total liabilities amounted to ¥22,676 million, an increase of ¥3,564 million compared with the end of the previous fiscal year. The main factors were increases of ¥2,236 million in long-term lease obligations; and ¥2,196 million in long-term unearned revenue; along with decreases of ¥1,029 million in short-term loans payable; and ¥878 million in long-term loans payable; and ¥103 million in bonds payable.

Total net assets amounted to ¥18,973 million, an increase of ¥223 million compared with the end of the previous fiscal year. The main factor was a ¥220 million increase in retained earnings (comprising mainly an ¥801 million increase from net income, and a ¥581 million decrease from dividend payments). As a result, the equity ratio was 45.6%.

(3) Explanation of Results Forecasts and Other Future Predictions

For the second quarter cumulative period and full fiscal year period of the fiscal year ending December 31, 2019, the Company is revising upward its forecasts as announced in “Notice Concerning Revisions to Earnings Forecasts” dated April 23, 2019.

Of note, regarding dividends for the fiscal year ending December 31, 2019, based on its basic policy and current earnings forecasts, the Company plans to pay an annual dividend of ¥40.00 per share. There are no plans for an interim dividend payment.

3. Quarterly Financial Statements

(1) Non-Consolidated Quarterly Balance Sheets

	(Thousands of yen)	
	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)	End of the First Quarter of the Fiscal Year Ending December 31, 2019 (As of March 31, 2019)
ASSETS		
Current assets:		
Cash and deposits	9,672,895	12,670,056
Accounts receivable — trade	110,156	131,155
Merchandise	157	154
Real estate for sale	9,493,172	7,725,160
Real estate for sale in process	5,853,893	4,913,878
Costs on uncompleted construction contracts	47,979	105,337
Supplies	43,773	30,736
Other current assets	643,230	588,468
Allowance for doubtful accounts	(24,900)	(28,571)
Total current assets	25,840,358	26,136,377
Noncurrent assets:		
Property, plant and equipment:		
Buildings	5,789,018	5,792,818
Accumulated depreciation	(1,894,556)	(1,966,734)
Accumulated impairment loss	(217,115)	(217,115)
Buildings, net	3,677,346	3,608,967
Land	3,674,867	3,674,867
Other	4,578,153	7,449,988
Accumulated depreciation	(1,709,332)	(1,811,049)
Accumulated impairment loss	(479,483)	(479,483)
Other, net	2,389,338	5,159,456
Total property, plant and equipment	9,741,552	12,443,291
Intangible assets:		
Other	177,721	210,359
Total intangible assets	177,721	210,359
Investments and other assets:		
Other	3,406,716	4,164,054
Allowance for doubtful accounts	(1,303,898)	(1,303,906)
Total investments and other assets	2,102,817	2,860,147
Total noncurrent assets	12,022,092	15,513,798
Total assets	37,862,450	41,650,175

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)	End of the First Quarter of the Fiscal Year Ending December 31, 2019 (As of March 31, 2019)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	216,101	268,798
Accounts payable for construction contracts	324,541	197,521
Short-term loans payable	1,923,100	894,000
Current portion of bonds	207,000	207,000
Current portion of long-term loans payable	1,385,996	1,243,235
Income taxes payable	495,281	1,208,381
Sublease loss allowance	137,338	147,998
Other	1,917,708	2,650,504
Total current liabilities	6,607,067	6,817,439
Noncurrent liabilities:		
Bonds payable	732,500	629,000
Long-term loans payable	9,892,823	9,014,766
Asset retirement obligations	777,812	784,015
Sublease loss allowance	23,352	38,453
Other	1,078,998	5,393,217
Total noncurrent liabilities	12,505,487	15,859,452
Total liabilities	19,112,555	22,676,892
NET ASSETS		
Shareholders' equity:		
Capital stock	6,111,539	6,111,539
Capital surplus		
Legal capital surplus	6,156,037	6,156,037
Total capital surplus	6,156,037	6,156,037
Retained earnings		
Other retained earnings		
Retained earnings brought forward	6,751,957	6,972,390
Total retained earnings	6,751,957	6,972,930
Treasury stock	(273,906)	(274,024)
Total shareholders' equity	18,745,627	18,966,482
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	5,543	8,005
Deferred gains or losses on hedges	(1,275)	(1,204)
Total valuation and translation adjustments	4,267	6,800
Total net assets	18,749,895	18,973,283
Total liabilities and net assets	37,862,450	41,650,175

(2) Non-Consolidated Quarterly Statements of Income
First Quarter Cumulative

(Thousands of yen)

	First Quarter of the Fiscal Year Ended December 31, 2018 (January 1, 2018 to March 31, 2018)	First Quarter of the Fiscal Year Ending December 31, 2019 (January 1, 2019 to March 31, 2019)
Net sales	6,498,210	9,634,307
Cost of Sales	4,978,690	7,395,773
Gross profit	1,519,519	2,238,533
Selling, general and administrative expenses	889,654	959,572
Operating income	629,865	1,278,961
Non-operating income:		
Interest income	2,028	1,949
Reversal of allowance for doubtful accounts	26	9
Default charge income	468	950
Foreign exchange gains	—	65
Compensation for transfer	22,747	—
Other	5,130	6,542
Total non-operating income	30,401	9,517
Non-operating expenses:		
Interest expenses	22,356	31,687
Interest on bonds	297	704
Foreign exchange losses	1,251	—
Commission fee	6,106	70,688
Other	6,608	7,508
Total non-operating expenses	36,620	110,589
Ordinary income	623,647	1,177,889
Extraordinary income:		
Gain on sales of noncurrent assets	7,614	4,302
Gain on transfer of business	2,887	—
Total extraordinary income	10,501	4,302
Extraordinary loss:		
Loss on retirement of noncurrent assets	3,044	1,800
Total extraordinary losses	3,044	1,800
Net income before income taxes	631,105	1,180,390
Income taxes — current	169,226	1,147,010
Income taxes — deferred	37,471	(768,617)
Total income taxes	206,697	378,393
Net income	424,407	801,997

(3) Notes Regarding the Quarterly Financial Statements
(Notes Regarding Going Concern Assumptions)

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Additional Information)

From the first period of the subject fiscal year, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). Deferred tax assets are shown in "Investments and other assets," and deferred tax liabilities are shown in "Noncurrent liabilities."

(Segment and Other Information)

1) Overview of Reportable Segments

The reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the Company's Board of Directors when making decision about the allocation of management resources and assessing performance.

Arealink is primarily engaged in Property Management Service and Property Revitalization & Liquidation Service business activities. In its Property Management Service business, the Company leases land, vacant facilities, and other property assets while also acquiring, holding, and operating land, buildings, and other property assets. In addition, Arealink receives orders and provides for the installation and construction of containers and storage rooms in accordance with the needs of land and building property owners. In the Property Revitalization & Liquidation Service business, the Company refurbishes existing real estate properties held for the purpose of adding value and increasing operating efficiency. These properties are then sold to investors and other interested parties. In addition, the Company resolves problems for both landowners and leaseholders through the buying and selling of leaseholds and limited land rights where the rights interests are complicated.

2) Information Relating to the Amounts of Net Sales, Profit, and Loss

The first quarter of fiscal 2018 (January 1, 2018 to March 31, 2018)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated quarterly statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	5,819,444	678,766	6,498,210	—	6,498,210
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	5,819,444	678,766	6,498,210	—	6,498,210
Segment Profit	852,344	101,862	954,206	(324,340)	629,865

Notes:

1. The negative segment profit adjustment of ¥324,340 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
2. Segment profit is adjusted based on operating income recorded in the quarterly statement of income.

The first quarter of fiscal 2019 (January 1, 2019 to March 31, 2019)

(Thousands of yen)

	Reportable Segment			Adjustment amount	Amount recorded on consolidated quarterly statements of income
	Property Management Service	Property Revitalization & Liquidation Service	Total		
Net Sales					
Sales to Outside Customers	7,270,533	2,363,774	9,634,307	—	9,634,307
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	7,270,533	2,363,774	9,634,307	—	9,634,307
Segment Profit	826,079	777,100	1,603,180	(324,218)	1,278,961

Notes:

1. The negative segment profit adjustment of ¥324,218 thousand represents corporate expenses that are not allocated to each segment. These expenses mainly relate to the Administration Division.
2. Segment profit is adjusted based on operating income recorded in the quarterly statement of income.