

NON-CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FIRST HALF OF THE FISCAL YEAR ENDING
December 31, 2019
(January 1, 2019 to June 30, 2019)

July 29, 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: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and security analysts)

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Non-Consolidated Operating Results for the First Half of Fiscal 2019
(January 1, 2019 to June 30, 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	%
FY2019 First Half	20,145	44.5	2,634	76.3	2,472	83.9	1,686	85.1
FY2018 First Half	13,943	34.2	1,494	17.2	1,344	3.4	910	6.2

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
FY2019 First Half	133.52	—
FY2018 First Half	74.16	74.02

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
June 30, 2019	41,221	19,856	48.2
December 31, 2018	37,862	18,749	49.5

(Reference) Shareholders' equity: June 30, 2019: 19,856 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	—	46.00	46.00
Fiscal 2019	—	0.00	—	—	—
Fiscal 2019 (Forecast)	—	—	—	40.00	40.00

Note: Revision to the most recently announced cash dividend forecast: No

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

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

	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
Fiscal 2019	29,000	0.6	2,800	0.6	2,700	6.4	1,500	(17.1)	118.76

Note: Revision to the most recently announced operating results forecast: None

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 July 25, 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:
 June 30, 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:
 June 30, 2019: 310,110 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)
 FY2019 First Half: 12,630,880 shares FY2018 First Half: 12,284,211 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 half (January 1, 2019 to June 30, 2019) of fiscal 2019 (ending December 31, 2019), in the real estate industry, although distrust of the real estate business due to instances of fraudulent loans, substandard construction and the like is being swept away, and the industry is expecting to be shored up by the low interest rate policy, the future direction of the market remains uncertain due to the consumption tax increase scheduled for October 2019 and other matters of concern.

The performance of each of our business segments was as follows.

Property Management Service

In the mainstay self-storage business, the self-storage brokerage sub-segment contributed to an earnings increase. This was due to the sale of self-storage units with accompanying land included (asset indoor-type self-storage). Some properties were sold in bulk due to considerations of the real estate and financial markets going forward and this caused the profit margin to drop, but in April, the unplanned establishment of the private placement fund, Trunk house 24, and the closure of the sale of eight buildings were major factors. At the same time, although outdoor container orders and location development is declining due to the tightening of criteria, it is proceeding according to plan.

In self-storage management, Arealink gained increased brand recognition due to its ongoing collaboration with Sanrio Company's "Hello Kitty" character. We also worked to strengthen service aspects, including the "seven service benefits" of Hello Storage. Also, even though the utilization rate declined slightly from the scaling back of the promotional pricing campaign, which was done to improve profitability, we are seeing improvements in profitability. As a result, net sales were ¥15,582 million yen (up 26.1% from the same period of the previous fiscal year) and operating income reached ¥2,062 million yen (up 11.2%).

Property Revitalization & Liquidation Service

In the Property Revitalization & Liquidation Service business, Arealink is focusing on the land rights business, which is less susceptible to real estate market conditions. Also, the sale of a large property, which had been a year-long plan, was front-loaded into the first half, so both net sales and operating income rose significantly over the same period of the prior year. In addition, Arealink began to purchase land rights in the Kansai area in order to expand its market share and further improve its business performance while maintaining inventory levels. Also contributing to the higher earnings was the sale of real estate that was transferred to real estate for sale at the end of the prior year. As a result, net sales were ¥4,562 million (up 187.4% from the same period of the previous fiscal year), and operating income reached ¥1,203 million (up 303.1%). Furthermore, the sale of land rights alone led to operating income of ¥560 million (up 87.7% from the same period of the previous fiscal year).

As a result, net sales were ¥20,145 million (up 44.5% from the same period of the previous fiscal year), operating income was ¥2,634 million (up 76.3%), ordinary income was ¥2,472 million (up 83.9%), and net income was ¥1,686 million (up 85.1%).

(2) Explanation of Financial Position

1. Assets, liabilities, and net assets

Total assets as of the end of the fiscal 2019 second quarter (June 30, 2019) amounted to ¥41,221 million, up by ¥3,358 million from the end of the prior fiscal year (December 31, 2018). The main factors were increases of ¥4,982 million in cash and deposits, and of ¥2,561 million in lease asset for sale and leaseback, which is included in other of property, plant and equipment, and decreases of ¥2,959 million in real estate for sale, and of ¥2,146 million in real estate for sale in process.

Also, total liabilities as of the end of the second quarter amounted to ¥21,364 million, up by ¥2,252 million from the end of the prior fiscal year. The main factors were increases of ¥2,192 million in long-term lease obligations, which are included in noncurrent liabilities, and ¥2,128 million in long-term unearned revenue, and decreases of ¥1,374 million in short-term loans payable and of ¥2,093 million in long-term loans payable.

Total net assets as of the end of the second quarter amounted to ¥19,856 million, up by ¥1,106 million from the end of the prior fiscal year. The main factor was a ¥1,105 million increase in retained

earnings (consisting of a ¥1,686 million increase from quarterly net income and a ¥581 million decrease from dividend payments). As a result, the equity ratio was 48.2%.

2. Cash flows

Cash and cash equivalents (hereinafter, Cash) at the end of the second quarter cumulative period totaled ¥14,655 million, up by ¥4,982 million from the end of the prior fiscal year.

Cash flows from operating activities were ¥7,489 million of cash provided (compared with ¥1,270 million of cash used in the same period of the prior year). The main factors in the increase were period net income before income taxes of ¥2,460 million and a decline in inventories of ¥5,148 million.

Cash flows from investing activities were ¥623 million of cash used (compared with ¥318 million of cash used in the same period of the prior year). The main factors in the increase were expenditures of ¥366 million to purchase property, plant and equipment and expenditures of ¥150 million to purchase investment securities.

Cash flows from financing activities were ¥1,883 million of cash used (compared with ¥2,694 million of cash provided in the same period of the prior year). The main factors were ¥2,561 million of proceeds from the sale and leaseback of certain used containers that had been owned and ¥6,431 million from the proceeds of new long-term loans, which were increasing factors, and ¥1,374 million in repayments of short-term loans payable, ¥8,709 million in repayments of long-term loans payable, and ¥578 million in dividend payments, which were decreasing factors.

(3) Explanation of Results Forecasts and Other Future Predictions

With respect to its earnings forecast for the full fiscal year ending December 31, 2019, the Company is revising its forecast upward, as described in the “Notice Concerning Revision to Earnings Forecasts” released on July 25, 2019.

Moreover, for its December 2019 dividend, in accordance with its basic policy and its earnings forecast at this point in time, the Company plans to pay an annual dividend of ¥40.00 per share.

2. Quarterly Financial Statements and Main Notes

(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 Second Quarter of the Fiscal Year Ending December 31, 2019 (As of June 30, 2019)
ASSETS		
Current assets:		
Cash and deposits	9,672,895	14,655,269
Accounts receivable — trade	110,156	138,487
Merchandise	157	151
Real estate for sale	9,493,172	6,533,558
Real estate for sale in process	5,853,893	3,707,102
Costs on uncompleted construction contracts	47,979	30,987
Supplies	43,773	18,598
Other current assets	643,230	599,926
Allowance for doubtful accounts	(24,900)	(30,429)
Total current assets	25,840,358	25,653,651
Noncurrent assets:		
Property, plant and equipment:		
Buildings	5,789,018	5,751,016
Accumulated depreciation	(1,894,556)	(2,009,379)
Accumulated impairment loss	(217,115)	(215,345)
Buildings, net	3,677,346	3,526,291
Land	3,674,867	3,674,867
Other	4,578,153	7,475,607
Accumulated depreciation	(1,709,332)	(1,925,356)
Accumulated impairment loss	(479,483)	(479,345)
Other, net	2,389,338	5,070,905
Total property, plant and equipment	9,741,552	12,272,064
Intangible assets:		
Other	177,721	252,285
Total intangible assets	177,721	252,285
Investments and other assets:		
Other	3,406,716	4,346,922
Allowance for doubtful accounts	(1,303,898)	(1,303,909)
Total investments and other assets	2,102,817	3,043,012
Total noncurrent assets	12,022,092	15,567,362
Total assets	37,862,450	41,221,014

(Thousands of yen)

	End of the Fiscal Year Ended December 31, 2018 (As of December 31, 2018)	End of the Second Quarter of the Fiscal Year Ending December 31, 2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities:		
Accounts payable — trade	216,101	152,470
Accounts payable for construction contracts	324,541	227,237
Short-term loans payable	1,923,100	549,000
Current portion of bonds	207,000	207,000
Current portion of long-term loans payable	1,385,996	1,201,379
Income taxes payable	495,281	1,684,701
Sublease loss allowance	137,338	297,040
Other	1,917,708	2,583,593
Total current liabilities	6,607,067	6,902,422
Noncurrent liabilities:		
Bonds payable	732,500	629,000
Long-term loans payable	9,892,823	7,799,275
Asset retirement obligations	777,812	783,663
Sublease loss allowance	23,352	51,039
Other	1,078,998	5,199,380
Total noncurrent liabilities	12,505,487	14,462,358
Total liabilities	19,112,555	21,364,780
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	7,857,470
Total retained earnings	6,751,957	7,857,470
Treasury stock	(273,906)	(274,109)
Total shareholders' equity	18,745,627	19,850,938
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	5,543	6,377
Deferred gains or losses on hedges	(1,275)	(1,081)
Total valuation and translation adjustments	4,267	5,295
Total net assets	18,749,895	19,856,233
Total liabilities and net assets	37,862,450	41,221,014

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

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2018 (January 1, 2018 to June 30, 2018)	First Half of the Fiscal Year Ending December 31, 2019 (January 1, 2019 to June 30, 2019)
Net sales	13,943,820	20,145,386
Cost of Sales	10,603,739	15,413,831
Gross profit	3,340,081	4,731,555
Selling, general and administrative expenses	1,845,654	2,097,109
Operating income	1,494,426	2,634,445
Non-operating income:		
Interest income	3,988	3,860
Reversal of allowance for doubtful accounts	36	19
Default charge income	1,059	2,102
Insurance income	798	4,634
Compensation for transfer	22,747	—
Other	9,887	12,414
Total non-operating income	38,518	23,031
Non-operating expenses:		
Interest expenses	49,721	62,568
Interest on bonds	588	1,455
Foreign exchange losses	390	1,729
Commission fee	111,404	92,214
Other	26,558	26,581
Total non-operating expenses	188,213	184,549
Ordinary income	1,344,731	2,472,928
Extraordinary income:		
Gain on sales of noncurrent assets	11,916	8,918
Gain on transfer of business	2,887	—
Total extraordinary income	14,803	8,918
Extraordinary loss:		
Loss on sales of noncurrent assets	—	216
Loss on retirement of noncurrent assets	5,342	21,303
Total extraordinary losses	5,342	21,520
Net income before income taxes	1,354,193	2,460,326
Income taxes — current	411,555	1,589,566
Income taxes — deferred	31,641	(815,777)
Total income taxes	443,197	773,789
Net income	910,995	1,686,537

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(3) Non-Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	First Half of the Fiscal Year Ended December 31, 2018 (January 1, 2018 to June 30, 2018)	First Half of the Fiscal Year Ending December 31, 2019 (January 1, 2019 to June 30, 2019)
Cash flows from operating activities:		
Income before income taxes	1,354,193	2,460,326
Depreciation	303,343	330,907
Interest and dividends income	(4,218)	(4,154)
Increase (decrease) in sublease loss allowance	—	187,388
Interest expenses and interest on bonds	49,860	64,024
Loss (gain) on sales of noncurrent assets	(11,916)	(8,702)
Loss on retirement of noncurrent assets	5,342	21,303
Decrease (increase) in notes and accounts receivable — trade	(6,572)	(28,330)
Decrease (increase) in inventories	(2,183,490)	5,148,577
Decrease (increase) in consumption taxes refund receivable	—	50,183
Increase (decrease) in notes and accounts payable — trade	(468,359)	(160,935)
Increase (decrease) in accrued consumption taxes	(15,089)	476,634
Increase (decrease) in guarantee deposits received	(30,611)	(75,160)
Other, net	327,637	(484,254)
Subtotal	(679,881)	7,977,806
Interest and dividends income received	4,218	4,154
Interest expenses paid	(53,334)	(56,737)
Income taxes paid	(541,893)	(435,427)
Net cash provided by (used in) operating activities	(1,270,891)	7,489,796
Cash flows from investing activities:		
Purchase of noncurrent assets	(154,071)	(366,857)
Proceeds from sales of property, plant and equipment	6,723	14,060
Purchase of intangible assets	(36,720)	(120,264)
Purchase of investment securities	(120,000)	(150,000)
Collection of loans receivable	6,101	3,214
Payments for investments in capital	(21,030)	—
Other, net	—	(4,074)
Net cash provided by (used in) investing activities	(318,996)	(623,922)
Cash flows from financing activities:		
Net increase (decrease) of short-term loans payable	(73,694)	(1,374,100)
Proceeds from long-term loans payable	4,836,316	6,431,214
Repayment of long-term loans payable	(2,211,346)	(8,709,379)
Redemption of bonds	(53,500)	(103,500)
Proceeds from issuance of common shares	690,686	—
Proceeds from issuance of share acquisition rights	10,055	—
Repayments of lease obligations	(10,636)	(111,114)
Proceeds from sales and leasebacks	—	2,561,903
Cash dividends paid	(489,764)	(578,332)
Purchase of treasury shares	(3,741)	(202)
Net cash provided by (used in) financing activities	2,694,374	(1,883,512)
Effect of exchange rate changes on cash and cash equivalents	(499)	11
Net increase (decrease) in cash and cash equivalents	1,103,987	4,982,373
Cash and cash equivalents at beginning of period	6,594,460	9,672,895
Cash and cash equivalents at end of period	7,698,447	14,655,269

(4) Notes Regarding Quarterly Financial Statements
(Notes Regarding Going Concern Assumptions)

Not applicable.

(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 engages 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 half of fiscal 2018 (January 1, 2018 to June 30, 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	12,356,025	1,587,795	13,943,820	—	13,943,820
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	12,356,025	1,587,795	13,943,820	—	13,943,820
Segment Profit	1,855,261	298,673	2,153,935	(659,508)	1,494,426

Notes:

1. The negative segment profit adjustment of ¥659,508 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 half of fiscal 2019 (January 1, 2019 to June 30, 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	15,582,496	4,562,890	20,145,386	—	20,145,386
Inter-Segment Sales and Transfers	—	—	—	—	—
Total	15,582,496	4,562,890	20,145,386	—	20,145,386
Segment Profit	2,062,742	1,203,905	3,266,648	(632,202)	2,634,445

Notes:

1. The negative segment profit adjustment of ¥632,202 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.