

Disclaimer: This document is an English translation of the original document in Japanese and has been prepared solely for reference purposes. In the event of any discrepancy between this English translation and the original in Japanese, the original shall prevail in all respects.

Non-Consolidated Financial Results for the Six Months Ended June 30, 2023 [Japanese GAAP]



July 27, 2023

Company name: Arealink Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 8914

URL: <https://www.arealink.co.jp/>

Representative: Yoshika Suzuki, President & CEO

Contact: Yasuaki Otaki, Director and General Manager, Administration Division

Phone: +81-3-3526-8555

Scheduled date of filing quarterly securities report: August 8, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary explanatory materials on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Non-Consolidated Financial Results for the Six Months Ended June 30, 2023 (January 1, 2023 – June 30, 2023)

(1) Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2023	11,184	5.4	2,208	14.7	2,206	11.2	1,544	(3.0)
June 30, 2022	10,611	(1.3)	1,926	15.2	1,984	19.0	1,592	16.8

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2023	121.79	–
June 30, 2022	125.74	–

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2023	46,843	23,741	50.7
As of December 31, 2022	45,643	23,072	50.5

(Reference) Equity: As of June 30, 2023: ¥23,741 million

As of December 31, 2022: ¥23,072 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	–	0.00	–	69.00	69.00
Fiscal year ending December 31, 2023	–	0.00			
Fiscal year ending December 31, 2023 (Forecast)			–	62.00	62.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 – December 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	21,800	4.4	4,050	8.2	3,930	4.6	2,600	(9.8)	205.09

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Adoption of accounting treatment specific to the preparation of quarterly non-consolidated financial statements: None

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(3) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

June 30, 2023: 12,940,900 shares

December 31, 2022: 12,940,900 shares

2) Total number of treasury shares at the end of the period:

June 30, 2023: 257,085 shares

December 31, 2022: 263,402 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

Six months ended June 30, 2023: 12,677,650 shares

Six months ended June 30, 2022: 12,665,895 shares

* These quarterly non-consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The forward-looking statements contained in this document, including the forecast of business results, are based on information available to the Company at the time of preparation of this document and certain assumptions that the Company deems to be reasonable. Actual results may differ materially from those statements due to a variety of different factors in the future. For details of assumptions for the financial results forecast and cautionary statements regarding the use of the forecast, please refer to “Explanation of Financial Results Forecast and Other Forward-Looking Information” on page 3 of the attachments for these quarterly non-consolidated financial results.

Attachment

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review.....	2
(1) Explanation of Operating Results.....	2
(2) Explanation of Financial Position.....	3
(3) Explanation of Financial Results Forecast and Other Forward-Looking Information.....	3
2. Quarterly Non-Consolidated Financial Statements and Primary Notes.....	4
(1) Quarterly Non-Consolidated Balance Sheets.....	4
(2) Quarterly Non-Consolidated Statements of Income.....	6
(3) Quarterly Non-Consolidated Statements of Cash Flows.....	7
(4) Notes on Quarterly Non-Consolidated Financial Statements.....	8
(Notes on going concern assumption).....	8
(Notes on significant changes in shareholders' equity).....	8
(Changes in accounting policies).....	8
(Segment information, etc.).....	8
(Significant subsequent events).....	9

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

For the six months ended June 30, 2023, net sales were ¥11,184 million (up 5.4% year on year), operating profit was ¥2,208 million (up 14.7% year on year), ordinary profit was ¥2,206 million (up 11.2% year on year), and profit was ¥1,544 million (down 3.0% year on year) due to the recording of income taxes - refund, etc. in the same period of the previous fiscal year.

The Company's business performance by segment is as follows.

Self-Storage Business

Arealink's mainstay self-storage business comprises the two subsegments of self-storage management and self-storage brokerage.

In self-storage management, the utilization rate for "Hello Storage," the trunk room brand under which the Company operates its self-storage business, decreased by 0.16 percentage points to 89.20% from the end of the previous fiscal year, but remained at a high level. The main factors behind the high utilization rate were an improvement in precision of store openings through data analysis, a reduction in the size of opened locations and the steady conclusion of contracts partly due to improved product recognition.

In the self-storage business, as described in the Medium-term Business Plan 2023-2025, which was announced on February 14, 2023, the Company aims to add 4,700 new openings in the fiscal year ending December 2023. For the six months ended June 30, 2023, the Company opened 1,815 new self-storage units and as a result, the number of self-storage units totaled 99,677 units, an increase of 1,096 units from the end of the previous fiscal year, partly due to the impact of regularly scheduled annual closures. In terms of contracts conclusion, in addition to greater precision in new location openings brought about by a built database and a reduction in the size of opened locations, the recognition of Arealink storage products improved owing to strengthened public relations. This helped to spur demand, leading to steady growth in the number of storage units utilized. As for profitability, the main style of opened locations continued to be highly profitable company-owned locations. Moreover, discount rates were reduced through controlled sales campaigns and efficient advertising was carried out. This resulted in a significant increase in earnings for the self-storage management.

The self-storage brokerage business recorded three sales for indoor asset-type "self-storage properties with land."

Consequently, net sales in the self-storage business amounted to ¥8,560 million (up 4.9% year on year), and operating profit was ¥2,288 million (up 15.9% year on year), resulting in increases in both revenue and profit.

Land Rights Consolidation Business

Net sales in the land rights consolidation business amounted to ¥1,935 million (up 10.1% year on year), and operating profit was ¥374 million (up 3.0% year on year), resulting in increases in both revenue and profit. In terms of purchases, the Company continued to concentrate on purchasing properties of good quality, with the result of an increase in asset value of ¥516 million from the end of the previous fiscal year to ¥4,472 million.

Other Operational Services Business

The other operational services business comprises businesses with a revenue base of rent income, such as asset business and office business. In the asset business, the utilization rate remained high despite cancellations of requisitioned properties, but the Company recorded decreases in both revenue and profit due to the recording of repair expenses, etc. In the office business, despite three new openings in 2022 and two new openings in February 2023 that contributed to sales, revenue increased while profit declined partly due to startup costs for new opened locations and the closure of properties. As a result, net sales in the other operational services business amounted to ¥687 million (down 0.6% year on year), and operating profit was ¥155 million (down 18.7% year on year), resulting in decreases in both revenue and profit.

(2) Explanation of Financial Position

1. Assets, Liabilities and Net Assets

Total assets as of June 30, 2023 increased by ¥1,199 million compared to the end of the previous fiscal year to ¥46,843 million. This was mainly attributable to increases of ¥458 million in tools, furniture and fixtures, ¥372 million in real estate for sale, ¥176 million in land, ¥150 million in real estate for sale in process, and ¥125 million in buildings.

Total liabilities as of June 30, 2023 increased by ¥531 million compared to the end of the previous fiscal year to ¥23,101 million. This was mainly attributable to increases of ¥479 million in current portion of long-term borrowings, ¥342 million in long-term borrowings, and ¥97 million in short-term borrowings, and decreases of ¥375 million in long-term accounts payable - other, and ¥130 million in lease obligations.

Net assets as of June 30, 2023 increased by ¥668 million compared to the end of the previous fiscal year to ¥23,741 million. This was mainly attributable to an increase of ¥669 million in retained earnings (an increase of ¥1,544 million due to profit and a decrease of ¥874 million due to the payment of dividends). As a result, the equity ratio was 50.7%.

2. Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) as of June 30, 2023 increased by ¥30 million compared to the end of the previous fiscal year to ¥14,330 million.

Cash flows from operating activities resulted in a net inflow of ¥1,443 million (a net inflow of ¥907 million for the same period of the previous fiscal year). This was mainly attributable to decrease factors such as an increase in inventories of ¥525 million and income taxes paid of ¥654 million, which were offset by increase factors such as profit before income taxes of ¥2,236 million and depreciation of ¥530 million.

Cash flows from investing activities resulted in a net outflow of ¥1,258 million (a net outflow of ¥1,387 million for the same period of the previous fiscal year). This was mainly attributable to decrease factors such as purchase of property, plant and equipment of ¥1,367 million.

Cash flows from financing activities resulted in a net outflow of ¥177 million (a net inflow of ¥272 million for the same period of the previous fiscal year). This was mainly attributable to increase factors such as proceeds from long-term borrowings of ¥2,095 million, which were offset by decrease factors such as repayments of long-term borrowings of ¥1,273 million and dividends paid of ¥872 million.

(3) Explanation of Financial Results Forecast and Other Forward-Looking Information

No changes have been made to the financial results forecast for the full year ending December 31, 2023 in “Non-Consolidated Financial Results for the Fiscal Year Ended December 31, 2022,” which was announced on February 14, 2023.

For the fiscal year ending December 31, 2023, in accordance with its basic policy and earnings forecasts at the present time, the Company plans to pay an annual dividend of ¥62.0 per share.

2. Quarterly Non-Consolidated Financial Statements and Primary Notes

(1) Quarterly Non-Consolidated Balance Sheets

(Thousand yen)

	For the fiscal year ended December 31, 2022 (As of December 31, 2022)	For the second quarter ended June 30, 2023 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	14,299,556	14,330,017
Accounts receivable - trade	130,914	133,957
Real estate for sale	4,993,920	5,366,404
Real estate for sale in process	142,903	293,553
Supplies	19,931	22,645
Other	471,743	538,722
Allowance for doubtful accounts	(26,607)	(25,968)
Total current assets	20,032,362	20,659,333
Non-current assets		
Property, plant and equipment		
Buildings	9,532,734	9,822,221
Accumulated depreciation	(3,069,336)	(3,238,347)
Accumulated impairment	(565,617)	(560,745)
Buildings, net	5,897,780	6,023,127
Tools, furniture and fixtures	7,358,853	8,057,706
Accumulated depreciation	(1,980,825)	(2,221,919)
Accumulated impairment	(240,995)	(240,748)
Tools, furniture and fixtures, net	5,137,031	5,595,038
Land	8,148,844	8,325,537
Other	5,678,344	5,877,396
Accumulated depreciation	(2,195,103)	(2,399,071)
Accumulated impairment	(814,905)	(812,228)
Other, net	2,668,334	2,666,095
Total property, plant and equipment	21,851,991	22,609,800
Intangible assets		
Other	49,576	56,676
Total intangible assets	49,576	56,676
Investments and other assets		
Deferred tax assets	1,921,978	1,826,797
Other	2,416,393	2,319,713
Allowance for doubtful accounts	(628,948)	(629,016)
Total investments and other assets	3,709,423	3,517,494
Total non-current assets	25,610,991	26,183,971
Total assets	45,643,354	46,843,305

(Thousand yen)

	For the fiscal year ended December 31, 2022 (As of December 31, 2022)	For the second quarter ended June 30, 2023 (As of June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	146,815	134,560
Short-term borrowings	109,000	206,555
Current portion of bonds payable	157,000	108,000
Current portion of long-term borrowings	1,893,583	2,373,261
Income taxes payable	715,760	655,336
Provision for loss on sublease	14,268	16,701
Lease obligations	289,015	292,371
Other	2,893,439	3,212,113
Total current liabilities	6,218,882	6,998,899
Non-current liabilities		
Bonds payable	29,500	-
Long-term borrowings	9,995,107	10,337,210
Long-term unearned revenue	1,242,936	1,120,658
Lease obligations	1,574,804	1,440,590
Asset retirement obligations	1,000,523	1,074,521
Provision for loss on sublease	6,881	9,883
Long-term accounts payable - other	2,152,643	1,777,199
Other	349,469	342,823
Total non-current liabilities	16,351,865	16,102,886
Total liabilities	22,570,747	23,101,786
Net assets		
Shareholders' equity		
Share capital	6,111,539	6,111,539
Capital surplus		
Legal capital surplus	6,156,037	6,156,037
Other capital surplus	17,346	8,705
Total capital surplus	6,173,384	6,164,743
Retained earnings		
Retained earnings brought forward	11,009,320	11,678,621
Total retained earnings	11,009,320	11,678,621
Treasury shares	(233,694)	(224,880)
Total shareholders' equity	23,060,549	23,730,023
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	12,057	11,495
Total valuation and translation adjustments	12,057	11,495
Total net assets	23,072,607	23,741,519
Total liabilities and net assets	45,643,354	46,843,305

(2) Quarterly Non-Consolidated Statements of Income
Six Months Ended June 30

(Thousand yen)

	For the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	For the six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Net sales	10,611,797	11,184,132
Cost of sales	7,209,916	7,225,132
Gross profit	3,401,880	3,958,999
Selling, general and administrative expenses	1,475,678	1,750,432
Operating profit	1,926,202	2,208,567
Non-operating income		
Interest income	8	14
Delinquency charge income	886	970
Foreign exchange gains	34,995	26,974
Insurance claim income	3,169	6,655
Compensation for forced relocation	47,174	84,919
Gain on investments in private placement fund	23,418	-
Other	19,564	5,652
Total non-operating income	129,219	125,186
Non-operating expenses		
Interest expenses	58,448	68,308
Interest on bonds	503	237
Commission expenses	8,758	46,712
Other	2,956	12,403
Total non-operating expenses	70,667	127,661
Ordinary profit	1,984,754	2,206,091
Extraordinary income		
Gain on sale of non-current assets	8,559	9,537
Gain on liquidation of investment securities	-	29,591
Total extraordinary income	8,559	39,128
Extraordinary losses		
Loss on sale of non-current assets	363	381
Loss on retirement of non-current assets	8,558	8,329
Total extraordinary losses	8,922	8,710
Profit before income taxes	1,984,390	2,236,509
Income taxes - current	515,285	597,014
Income taxes - refund	(235,930)	-
Income taxes - deferred	112,480	95,447
Total income taxes	391,835	692,461
Profit	1,592,554	1,544,048

(3) Quarterly Non-Consolidated Statements of Cash Flows

(Thousand yen)

	For the six month ended June 30, 2022 (from January 1, 2022 to June 30, 2022)	For the six month ended June 30, 2023 (from January 1, 2023 to June 30, 2023)
Cash flows from operating activities		
Profit before income taxes	1,984,390	2,236,509
Depreciation	478,962	530,914
Interest and dividend income	(382)	(484)
Increase (decrease) in provision for loss on sublease	(10,244)	5,435
Interest expenses on borrowings and bonds	58,952	68,546
Loss (gain) on sale of non-current assets	(8,195)	(9,155)
Loss on retirement of non-current assets	8,558	8,329
Loss (gain) on liquidation of investment securities	-	(29,591)
Decrease (increase) in trade receivables	(23,539)	(3,043)
Decrease (increase) in inventories	(681,477)	(525,848)
Increase (decrease) in trade payables	40,330	(12,255)
Increase (decrease) in accounts payable - other	57,247	148,754
Increase (decrease) in accrued consumption taxes	(177,207)	(58,789)
Increase (decrease) in guarantee deposits received	(10,408)	(6,645)
Other, net	(239,642)	(48,556)
Subtotal	1,477,345	2,304,120
Interest and dividends received	382	484
Interest paid	(62,055)	(71,263)
Payments for loss on repurchase	(176,488)	(136,669)
Income taxes paid	(496,212)	(654,699)
Income taxes refund	164,246	1,846
Net cash provided by (used in) operating activities	907,218	1,443,819
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,172,661)	(1,367,322)
Proceeds from sale of property, plant and equipment	135	2,684
Purchase of intangible assets	(4,419)	(14,462)
Proceeds from liquidation of investment securities	-	134,980
Other, net	(210,728)	(14,512)
Net cash provided by (used in) investing activities	(1,387,674)	(1,258,632)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(291,020)	97,555
Proceeds from long-term borrowings	2,808,968	2,095,025
Repayments of long-term borrowings	(1,435,132)	(1,273,244)
Redemption of bonds	(78,500)	(78,500)
Repayments of lease obligations	(141,371)	(144,615)
Proceeds from sale and leaseback transactions	3,670	-
Dividends paid	(593,500)	(872,625)
Purchase of treasury shares	(165)	(711)
Net cash provided by (used in) financing activities	272,948	(177,116)
Effect of exchange rate change on cash and cash equivalents	26,184	22,391
Net increase (decrease) in cash and cash equivalents	(181,322)	30,460
Cash and cash equivalents at beginning of period	13,440,532	14,299,556
Cash and cash equivalents at end of period	13,259,209	14,330,017

(4) Notes on Quarterly Non-Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") from the beginning of the three months period ended March 31, 2023, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. The decision does not affect the quarterly non-consolidated financial statements.

(Segment information, etc.)

1. Overview of reportable segments

The Company's reportable segments are components of the Company whose separate financial information is available. These segments are subject to periodic examinations to enable the Company's Board of Directors to decide how to allocate resources and assess performance.

The three segments, "self-storage business," "land rights consolidation business," and "other operational services business" comprise the Company's reportable segments.

In the self-storage business, the Company rents land and vacant rooms in buildings or holds land and buildings to provide them as storage containers, trunk rooms, and other rental storage space for users. The business also involves receiving orders for the installation or construction of storage containers and trunk rooms and selling such self-storage properties to suit the needs of landowners and investors.

The land rights consolidation business offers resolution of issues between landowners and leasehold rights holders through the buying and selling of leaseholder rights and limited land rights with complex rights circumstances. Revenue earned from ground rent for a period during which the Company holds limited land rights, etc. and revenue generated by buying and selling income properties are also included.

The other operational services business includes the asset business, which handles the leasing, maintenance, and management of the Company's own properties (offices, stores, residences, hotels, etc.), the office business, which rents vacant rooms in buildings and provides them as small rental offices for users, and other businesses run by adding value to the Company's products.

2. Information on net sales and profit (loss) by reportable segment

For the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in Quarterly Non-Consolidated Statements of Income
	Self-storage Business	Land Rights Consolidation Business	Other Operational Services Business	Subtotal		
Net sales						
Net sales to outside customers	8,161,826	1,758,140	691,830	10,611,797	-	10,611,797
Intersegment net sales or transfers	-	-	-	-	-	-
Total	8,161,826	1,758,140	691,830	10,611,797	-	10,611,797
Segment profit	1,974,981	363,665	190,894	2,529,541	(603,339)	1,926,202

(Notes) 1. The adjustment to segment profit of ¥(603,339) thousand is corporate expenses not allocated to reported segments. Corporate expenses are mainly expenses related to the Management Division.

2. Segment profit is adjusted with operating profit in the Quarterly Non-Consolidated Statements of Income.

For the six months ended June 30, 2023 (from January 1, 2023 to June 30, 2023)

(Thousand yen)

	Reportable segment				Adjustment	Amount recorded in Quarterly Non-Consolidated Statements of Income
	Self-storage Business	Land Rights Consolidation Business	Other Operational Services Business	Subtotal		
Net sales						
Net sales to outside customers	8,560,757	1,935,876	687,497	11,184,132	-	11,184,132
Intersegment net sales or transfers	-	-	-	-	-	-
Total	8,560,757	1,935,876	687,497	11,184,132	-	11,184,132
Segment profit	2,288,165	374,586	155,248	2,818,000	(609,432)	2,208,567

(Notes) 1. The adjustment to segment profit of ¥(609,432) thousand is corporate expenses not allocated to reported segments. Corporate expenses are mainly expenses related to the Management Division.

2. Segment profit is adjusted with operating profit in the Quarterly Non-Consolidated Statements of Income.

(Significant subsequent events)

Not applicable.