

Quarterly Report

Consolidated Financial Results in Q2 of FY2016

2nd Quarter : 3 months ended November 30, 2016
2nd Quarter aggregated : 6 months ended November 30, 2016

TAMA HOME CO.,LTD.

This report is provided solely for the information of professional analysts who are expected to make their own evaluation of the company. This report contains forward-looking statements that are based on management's assumptions and beliefs in light of the information currently available to it and therefore you should not place undue reliance on them.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to differ materially from that anticipated in these statements. These factors include changes in economic conditions, trends in our major markets, currency exchange rates, etc.

We accept no liability whatsoever for any direct or consequential loss arising from any use of this report.

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2nd Quarter aggregated : 6 months ended November 30, 2016

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1. Quarterly Consolidated Financial Highlights

(1) Revenue and Profit

(Millions of Yen)

	Consolidated cumulative Second quarter			
	November 30, 2015 (2Q)	November 30, 2016 (2Q)	Variance	
			Amount	(%)
Net sales	58,169	63,494	5,325	9.2
Operating income	△ 2,599	△ 1,346	1,253	—
Operating margin	—	—	—	—
Ordinary income	△ 2,814	△ 1,494	1,320	—
Ordinary margin	—	—	—	—
Income (loss) before income taxes and minority interests	△ 2,969	△ 1,548	1,421	—
Income rate before income taxes and minority interests	—	—	—	—
Income (loss) attributable to owners of parent	△ 2,365	△ 1,547	818	—
Income rate attributable to owners of parent	—	—	—	—
Net income (loss) per share(Yen)	△ 78.69	△ 51.48	27.21	—
Diluted net income per share	—	—	—	—
Return on equity	—	—	—	—
Ordinary income to total assets ratio	—	—	—	—
Operating income to sales	—	—	—	—

(2) Financial Position

	The end of the quarter			
	November 30, 2015 (2Q)	November 30, 2016 (2Q)	Variance	
			Amount	(%)
Total assets	83,866	90,398	6,532	7.8
Net assets	13,531	11,285	△ 2,246	△ 16.6
Equity ratio	15.9%	12.3%	-3.6%	—
Total equity per share of common stock	442.96	368.54	△ 74.4	△ 16.8

(3) Conditions of Cash Flows

	Consolidated cumulative Second quarter			
	November 30, 2015 (2Q)	November 30, 2016 (2Q)	Variance	
			Amount	(%)
Net cash provided by (used in)operating activities	△ 9,982	△ 327	9,655	—
Net cash provided by (used in)investing activities	△ 1,247	△ 197	1,050	—
Free cash flow	△ 11,229	△ 524	10,705	—
Net cash provided by (used in)financing activities	△ 339	△ 1,745	△ 1,406	—
Cash and cash equivalents at end of period	15,543	24,136	8,593	—

<Consolidated financial forecasts for the fiscal year ending May 31, 2017>

	For the year ended/ending			
	May 31, 2016	May 31, 2017	Variance	
			Amount	(%)
Net sales	138,379	158,800	20,421	14.8
Total accumulated other comprehensive income (loss)	1,803	3,200	1,397	77.5
Ordinary income	1,016	2,400	1,384	136.2
Net income (loss)	△ 446	500	946	—
Income (loss) per share of common stock (Yen)	△ 14.84	16.64	31.48	—
Cash dividends per share of common stock applicable to the year	10.0	15.0	5.0	—
Interim dividend(Yen)	0	0.0	0	—
Year-end dividend(Yen)	10.0	15.0	5.0	—
Annual dividend(Yen)	10.0	15.0	5.0	—

1. Qualitative Information on First Half Financial Performance

(1) Results of Operations

In the first half of the current fiscal year, there were concerns about the economic downturn in China and other emerging Asian countries along with political changes in numerous countries. Although the outlook is uncertain, the Japanese economy slowly recovered as jobs and personal income grew and consumer spending remained firm due to the benefits of government economic measures.

In Japan's housing industry, consistently low interest rates for housing loans and government measures to encourage people to buy homes are creating a favorable business climate. As a result, the number of housing starts is climbing and there are other signs that the recovery in the housing sector is continuing.

The TamaHome Group is taking many actions based on the Tama Step 2018 medium-term plan that started in the previous fiscal year. The central objective of this plan is to grow by transitioning from model house network expansion to the expansion of our businesses, products and customer segments a geographic expansion to a customer segment expansion. Our goal is to build a new foundation for growth by supplying many types of products and services in order to serve a broader range of customer segments.

In the previous fiscal year, reportable segments included the Restaurant segment and Energy segment from the standpoint of reflecting the volume of business activities. Beginning with the first quarter of this fiscal year, the only reportable segment included from the standpoint of business volume is the Energy segment. Prior-year comparisons in the following sections are based on current year segments that have been restated in accordance with this revision.

Housing

Two sales offices were opened in association with office relocations and there were model house and showroom renovations at 36 locations. More emphasis was placed on supplying homes that closely incorporate regional characteristics. The order backlog at the end of the first half was higher than one year earlier because of a large volume of new orders. The basic line of homes in the low price range and homes offered for only a limited time were mainly responsible for the growth in orders. The number of home sales that were completed during the first half was also higher than one year ago.

The Dai-Anshin-no-le line of homes is the core component of our lineup of houses. During the first half, we added a new model to our Kireina-le line of homes by introducing a net zero energy house. In November 2016, the number of completed home sales since we started operations exceeded 100,000. We plan to use marketing campaigns and other activities to attract more people to our model houses and showrooms in order to continue increasing orders received.

Our home remodeling business has also performed well. We are conducting extensive sales activities to capture remodeling orders for home warranty extension work and other projects. Sales activities target mainly people who have lived in a TamaHome house or condominium for at least 10 years.

First half sales in this segment increased 9.7% from one year ago to 54,020 million yen and there was an operating loss of 1,522 million yen compared with a 2,996 million yen loss one year ago.

Real Estate

Tama Smart Town Ibaraki is a major housing development in this business segment. All homes in the second stage of this development have been sold as planned, resulting in the sale of 330 of the total of 583 homes to be sold at this community. In addition, about 5 to 10 other home sites were sold. Overall, first half orders received and completed sales for detached housing in this segment were higher than one year ago.

In the condominium sector, sales of all 22 units in the Anshia Ichikawa The Residence building were completed in July 2016. Three condominium projects are currently under way and all are performing as planned. The profit margin in the condominium business decreased mainly due to adjustments of selling prices.

First half sales in this segment increased 4.8% to 6,149 million yen and operating income was down 49.3% to 139 million yen.

Finance

Sales were down in this segment mainly due to a drop in the average insurance policy premium resulting from the termination of sales of property insurance policies with coverage of more than 10 years. To offset this decline, we worked on increasing the percentage of homes we sold that are covered by fire insurance we sell and on increasing commission rates. Furthermore, we placed emphasis on selling Flat 35 fixed-rate mortgages, which generate commission income. Another initiative in this segment is the use of financial planners to strengthen life insurance sales activities.

First half sales in this segment were down 31.0% to 448 million yen and operating income fell 62.3% to 133 million yen.

Energy

The mega-solar project in the city of Omuta in Fukuoka prefecture performed well because of consistently favorable weather. As a result, segment sales increased 1.9% to 460 million yen and operating income increased 6.4% to 195 million yen.

Others

Sales of business activities associated with houses increased along with growth in the number of home sales completed in the Housing segment. The operating loss decreased as TamaHome Group companies made progress with holding down selling, general and administrative expenses. As a result, segment sales increased 22.3% to 2,415 million yen and the operating loss decreased from 430 million yen one year ago to 306 million yen.

First half consolidated sales increased 9.2% to 63,494 million yen. The operating loss decreased from 2,599 million yen one year ago to 1,346 million yen, the ordinary loss decreased from 2,814 million yen to 1,494 million yen, and loss attributable to owners of parent decreased from 2,365 million yen to 1,547 million yen.

3. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of Yen)

	The end of period		The end of the 2nd quarter		Variance		The end of the 2nd quarter	
	May 31, 2016		November 30, 2016				November 30, 2015	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Assets								
Current assets								
Cash and deposits	26,566		24,136		△ 2,430		15,543	
Notes receivable, accounts receivable from completed construction	1,466		1,211		△ 255		901	
Operating loans	2,142		3,975		1,833		3,372	
Real estate for sale	3,825		6,309		2,484		6,637	
Cost on uncompleted construction contracts	5,397		10,767		5,370		9,208	
Real estate for sale in process	9,377		9,129		△ 248		9,591	
Other inventories	453		446		△ 7		432	
Deferred tax assets	780		1,042		262		1,941	
Other	2,643		2,607		△ 36		2,742	
Allowance for doubtful accounts	△ 12		△ 12		0		△ 12	
Total current assets	52,640	62.8	59,614	65.9	6,974	13.2	50,357	61.5
Noncurrent assets								
Property, plant and equipment	25,432		25,090		△ 342		25,565	
Intangible assets	418		396		△ 22		472	
Investments and other assets	5,373		5,297		△ 76		5,497	
Total noncurrent assets	31,225	37.2	30,784	34.1	△ 441	△ 1.4	31,535	38.5
Total assets	83,866	100.0	90,398	100.0	6,532	7.8	81,892	100.0

(Millions of Yen)

	The end of period		The end of the 2nd quarter		Variance		The end of the 2nd quarter	
	May 31, 2016		November 30, 2016				November 30, 2015	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Liabilities								
Current liabilities								
Notes payable, accounts payable for construction contracts and other	19,149		20,485		1,336		16,728	
Short-term loans payable	6,398		7,011		613		7,778	
Current portion of bonds	200		200		0		200	
Current portion of long-term loans payable	6,479		4,888		△ 1,591		4,167	
Income taxes payable	541		307		△ 234		241	
Advances received on uncompleted construction contracts	12,649		21,904		9,255		17,733	
Provision for warranties for completed construction	1,061		1,103		42		1,224	
Provision for bonuses	245		198		△ 47		245	
Other	5,186		4,732		△ 454		4,921	
Total current liabilities	51,912	61.9	60,832	67.3	8,920	17.2	53,240	65.0
Long-term liabilities								
Bonds payable	300		200		△ 100		400	
Long-term loans payable	15,546		15,254		△ 292		14,023	
Deferred tax liabilities	—		28		28		—	
Asset retirement obligations	1,287		1,573		286		1,295	
Other	1,288		1,224		△ 64		1,081	
Total long-term liabilities	18,422	22.0	18,280	20.2	△ 142	△ 0.8	16,800	20.5
Total liabilities	70,334	83.9	79,113	87.5	8,779	12.5	70,041	85.5
Net assets								
Shareholders' equity								
Capital stock	4,310		4,310		0		4,310	
Capital surplus	4,361		4,361		0		4,361	
Retained earnings	4,296		2,449		△ 1,847		2,377	
Total shareholders' equity	12,968	15.5	11,121	12.3	△ 1,847	△ 14.2	11,049	13.5
Accumulated other comprehensive income(loss)								
Unrealized gain(loss) on available-for-sale securities	6		△ 3		△ 9		△ 1	
Deferred gain(loss) on derivatives under hedge accounting	△ 7		5		12		3	
Foreign currency translation adjustments	345		△ 47		△ 392		415	
Total accumulated other comprehensive income (loss)	344	0.4	△ 44	—	△ 388	—	417	0.5
Non-controlling interests	217	0.3	208	0.2	△ 9	△ 4.1	384	0.5
Total net assets	13,531	16.1	11,285	12.5	△ 2,246	△ 16.6	11,851	14.5
Total liabilities and net assets	83,866	100.0	90,398	100.0	6,532	7.8	81,892	100.0

(2) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Consolidated cumulative quarter				Variance		For the year ended	
	November 30, 2015(2Q)		November 30, 2016(2Q)				May 31, 2016	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Net sales	58,169	100.0	63,494	100.0	5,325	9.2	138,379	100.0
Cost of sales	43,329	74.5	46,697	73.5	3,368	7.8	102,776	74.3
Gross profit	14,840	25.5	16,797	26.5	1,957	13.2	35,602	25.7
Selling, general and administrative expenses	17,439	30.0	18,143	28.6	704	4.0	33,799	24.4
Operating income(loss)	△ 2,599	—	△ 1,346	—	1,253	—	1,803	1.3
Other income								
Interest income	46		58		12		69	
Dividends income	0		0		0		2	
Foreign exchange gains	—		88		88		—	
Penalty income	26		31		5		59	
Consumption tax difference	—		—		—		43	
Other	130		61		△ 69		158	
Total other income	203	0.3	241	0.4	38	18.7	333	0.2
Other expenses								
Interest expenses	172		190		18		375	
Commission for syndicate loan	—		—		—		127	
Arrangement fees	66		36		△ 30		66	
Foreign exchange losses	74		—		△ 74		267	
Other	105		163		58		284	
Total other expenses	418	0.7	389	0.6	△ 29	△ 6.9	1,120	0.8
Ordinary income(loss)	△ 2,814	—	△ 1,494	—	1,320	—	1,016	0.7
Extraordinary income								
Gain on sales of noncurrent assets	28		—		△ 28		28	
Total extraordinary income	28	0.0	—	—	△ 28	—	28	0.0
Extraordinary loss								
Loss on retirement of noncurrent assets	171		44		△ 127		179	
Loss on valuation of investment securities	—		—		—		16	
Loss on cancellation of lease contracts	12		9		△ 3		12	
Impairment loss	—		—		—		233	
Total extraordinary loss	183	0.3	53	0.1	△ 130	△ 71.0	443	0.3
Income (loss) before income taxes	△ 2,969	—	△ 1,548	—	1,421	—	602	0.4
Income taxes—current	189		210		21		626	
Income taxes—deferred	△ 793		△ 209		584		368	
Total income taxes	△ 604	—	0	0.0	604	—	994	0.7
Net income (loss) attributable to non-controlling interests	△ 0	—	△ 1	—	△ 1	—	53	0.0
Net income (loss) attributable to owners of parent	△ 2,365	—	△ 1,547	—	818	—	△ 446	—

(3) Consolidated Statement of Cash Flows

(Millions of Yen)

	Consolidated cumulative Second quarter		Variance	For the year ended
	November 30, 2015	November 30, 2016		May 31, 2016
	Amount	Amount	Amount	Amount
Operating activities				
Income before income taxes and minority interests	△ 2,969	△ 1,548	1,421	602
Depreciation and amortization	1,017	1,144	127	2,059
Impairment loss	—	—	—	233
Loss on cancellation of leasehold contracts	—	—	—	—
Amortization of goodwill	11	11	0	23
Increase (decrease) in allowance for doubtful accounts	10	△0	△10	29
Interest and dividends income	△ 46	△ 59	△ 13	△ 71
Interest expenses	172	190	18	375
Decrease (increase) in trade accounts receivable	△ 955	△ 1,568	△ 613	△ 316
Decrease (increase) in inventories	△ 5,469	△ 7,601	△ 2,132	1,340
Increase (decrease) in trade accounts payable	△ 4,916	1,336	6,252	△ 2,657
Increase (decrease) in provision for loss on construction contracts	—	—	—	—
Loss on retirement of noncurrent assets	171	44	△ 127	179
Loss on cancellation of lease contracts	12	9	△ 3	12
Increase (decrease) in provision for warranties for completed constructions	84	42	△ 42	△ 79
Increase (decrease) in advances received on uncompleted construction contract	5,344	9,255	3,911	261
Other	△ 1,102	△ 932	170	△ 211
Sub total	△ 8,636	323	8,959	1,781
Interest and dividends received	46	59	13	71
Interest expenses paid	△ 148	△ 220	△ 72	△ 385
Income taxes—paid	△ 1,234	△ 483	751	△ 1,424
Payments for loss on cancellation of lease contracts	△ 12	△ 9	3	△ 12
Other	2	3	1	6
Net cash provided by (used in) operating activities	△ 9,982	△ 327	9,655	36
Investing activities				
Purchase of property, plant and equipment	△ 1,254	△ 368	886	△ 2,132
Proceeds from sales of property, plant and equipment	115	0	△115	115
Purchase of investment securities	—	△ 195	195	△ 85
Proceeds from sales of investment securities	20	20	0	20
Payments of loans receivable	△ 3	—	3	△ 19
Collection of loans receivable	4	486	482	43
Other	△ 129	△ 141	△ 12	△ 161
Net cash provided by (used in) investing activities	△ 1,247	△ 197	1,050	△ 2,220
Financing activities				
Increase (decrease) in short-term loans payable	507	612	105	△ 872
Proceeds from long-term loans payable	2,016	2,538	522	8,002
Repayment of long-term loans payable	△ 2,313	△ 4,421	△ 2,108	△ 4,464
Redemption of bonds	△ 100	△ 100	0	△ 200
Dividends paid	△ 299	△ 299	0	△ 300
Proceeds from non-controlling interests for additional shares	77	13	△ 64	141
Cash dividends paid to non-controlling interests	—	—	—	△ 209
Repayments of installment payables	△ 30	△ 31	△ 1	△ 61
Other	△ 197	△ 57	140	△ 353
Net cash provided by (used in) financing activities	△ 339	△ 1,745	△ 1,406	1,681
Effect of exchange rate change on cash and cash equivalents	△ 6	△ 160	△ 154	△ 50
Net increase (decrease) in cash and cash equivalents	△ 11,576	△ 2,430	9,146	△ 552
Cash and cash equivalents, at the beginning of the term	27,119	26,566	△ 553	27,119
Cash and cash equivalents, at the end of the term	15,543	24,136	8,593	26,566

(4) Segment Information

<Overview of major products and services of reportable segments>

The reportable segments are constituent units of the Group for which separate financial information is obtained and examined on a regular basis by the Board of Directors, the chief operation decision maker, to determine the allocation of management resources and evaluate the business performance.

The TamaHome Group develops and provides products and services that enrich the daily lives of our customers based on the core theme of housing construction.

In accordance with the medium-term management plan, the Group has categorized “Housing” and “Non-housing” as its business domains.

To achieve sustainable growth in corporate value in these business domains, the Group has been making decisions on the allocation of management resources and monitoring the operating results.

As a result, the Group consists of three reportable business segments : the Housing business, the Real estate business and the Financial business, which are consistent with the above business domains.

Major products and services of the housing business is the construction contractor for “custom-built homes”, “multi-unit homes”, and contractor for “home renovation and other work”.

Major products and services of the real estate business is the development and sale of “residential lots and detached homes” and “condominiums”, “Subleasing of office buildings”, and “real estate investment”.

Major products and services of the financial business is “the Insurance agency services for fire, life, earthquake, as well as additional policies and agency services”, and “the bridge loans for customers purchasing custombuilt homes”.

Major products and services of “the energy business” is the administration of mega solar generation facilities, management.

The main products and services for each “reportable segment” described above are as follows:

Reportable Segment	Major Products and Services
Housing	<ul style="list-style-type: none"> ●Construction contractor for custom-built homes ●Construction contractor for multi-unit homes ●Contractor for home renovation and other work ●Referrals for ancillary services and construction such as landscaping work
Real estate	<ul style="list-style-type: none"> ●Sale of residential lots and detached homes ●Planning, development and sale of condominiums ●Subleasing of office buildings
Financial	<ul style="list-style-type: none"> ●Insurance agency services for fire, earthquake, as well as additional policies and agency services ●Bridge loans for customers purchasing custombuilt homes
Energy	<ul style="list-style-type: none"> ●Administration of mega solar generation facilities, management

1. Segment revenues and results

(Millions of Yen)

	Consolidated cumulative third quarter : November 30, 2015								
	Segment					Other	Total	Adjustments	All operations
	Housing	Real estate	Financial	Energy	Sub total				
Revenue									
Revenue from external customers	49,225	5,866	650	451	56,193	1,976	58,169	—	58,169
Inter-segment	87	—	—	—	87	3,322	3,410	△ 3,410	—
Total	49,312	5,866	650	451	56,281	5,298	61,579	△ 3,410	58,169
Segment profit before tax	△ 2,996	275	353	183	△ 2,183	△ 430	△ 2,614	15	△ 2,599
Segment profit before tax ratio	—	4.7%	54.3%	40.6%	—	—	—	—	—

	Consolidated cumulative third quarter : November 30, 2016								
	Segment					Other	Total	Adjustments	All operations
	Housing	Real estate	Financial	Energy	Sub total				
Revenue									
Revenue from external customers	54,020	6,149	448	460	61,079	2,415	63,494	—	63,494
Inter-segment	97	65	—	—	163	3,316	3,479	△ 3,479	—
Total	54,117	6,215	448	460	61,242	5,732	66,974	△ 3,479	63,494
Segment profit before tax	△ 1,522	139	133	195	△ 1,054	△ 306	△ 1,360	14	△ 1,346
Segment profit before tax ratio	—	2.2%	29.7%	42.4%	—	—	—	—	—

Ref : Difference between the results of the quarter under review and the same period the previous year is as follows:

	Variance								
	Segment					Other	Total	Adjustments	All operations
	Housing	Real estate	Financial	Energy	Sub total				
Variance									
Revenue from external customers	4,795	283	△ 202	9	4,886	439	5,325	—	5,325
Inter-segment	10	65	—	—	76	△ 6	69	△ 69	—
Total	4,805	349	△ 202	9	4,961	434	5,395	△ 69	5,325
Segment profit or loss	1,474	△ 136	△ 220	12	1,129	124	1,254	△ 1	1,253
Variance of segment profit before tax ratio	—	△ 2.5%	△ 24.6%	1.8%	—	—	—	—	—

2. Revenue from major products and services

(Millions of Yen)

	Consolidated cumulative quarter				Variance	For the year ended		
	November 30, 2015(2Q)		November 30, 2016(2Q)			May. 31, 2016		
	Amount	(%)	Amount	(%)		Amount	(%)	
Revenue from all operations								
Housing	49,312	84.8	54,117	85.2	4,805	9.7	117,005	84.6
Custom-built homes	48,559		51,171		2,611		114,484	
Rental homes	34		—		△ 34		34	
Home renovation	147		2,423		2,275		1,376	
Other	571		523		△ 47		1,109	
non housing	12,267	21.1	12,857	20.2	589	4.8	27,759	20.1
Real estate	5,866		6,215		348		13,789	
Financial	650		448		△ 201		1,143	
Energy	451		460		8		850	
Other	5,298		5,732		433		11,976	
Adjustments	△ 3,410	—	△ 3,479	—	△ 69	—	△ 6,385	△ 4.6
Total revenue from all operations	58,169	100.0	63,494	100.0	5,325	9.2	138,379	100.0