Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

First Quarter of Fiscal Year Ending March 2016
Consolidated Earnings Results Update

August 2015

First quarter of Fiscal Year Ending March 2016 Consolidated Earnings Announcement

August 7, 2015

Company Name: Kyoritsu Maintenance Co., Ltd. Tokyo Stock Exchange
Stock Code: 9616, URL: http://www.kyoritsugroup.co.jp/
Director: Mitsutaka Sato, President
Contact: Takumi Ueda, Vice President; Tel: +81-3-5295-7778
Quarterly Earnings Announcement Report Filing Date (Anticipated): August 14, 2015
Dividend Payment Date (Anticipated): —
Quarterly Earnings Presentation Document (Anticipated): None
Quarterly Earnings Presentation Meeting (Anticipated): None

(All figures of less than one million yen are rounded down to the nearest digit)

1. First Quarter of Fiscal Year Ending March 2016 Consolidated Earnings (April 1, 2015 to June 30, 2015)

(1) Consolidated Earnings (Aggregated) (% figures show year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY3/16	28,744	12.7	1,854	68.2	1,630	78.4	944	71.1
1Q FY3/15	25,513	3.1	1,102	2.2	914	11.4	551	31.4

(Note) Comprehensive income: ¥1,001 million (59.0% YoY) in 1Q FY3/16; ¥629 million (41.5% YoY) in 1Q FY3/15

	EPS	Fully Diluted EPS
	Yen	Yen
1Q FY3/16	52.10	48.41
1Q FY3/15	35.28	28.27

(Note) The Company carried out a stock split on April 1, 2015 at a ratio of 1.2 shares per one common share. Accordingly, EPS and fully diluted EPS have been calculated presuming that this stock split was carried out at the start of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
	Millions of yen	Millions of yen	%	Yen
1Q FY3/16	140,625	52,295	37.2	2,769.61
FY3/15	139,750	46,913	33.6	2,658.90

(Note) Capital: ¥52,295 million in 1Q FY3/16; ¥46,913 million in FY3/15
(Note) The Company carried out a stock split on April 1, 2015 at a ratio of 1.2 shares per one common share. Accordingly, book value per share has been calculated presuming that this stock split was carried out at the start of the previous consolidated fiscal year.

2. Dividend Conditions

	Dividend Per Share				
	1Q-End	2Q-End	3Q-End	4Q-End	Total
	Yen	Yen	Yen	Yen	Yen
FY3/15	—	24.00	—	26.00	50.00
FY3/16	—				
FY3/16 (Projected)		25.00	—	25.00	50.00

(Note) Recent changes in dividend projections: None
(Note) The Company carried out a stock split on April 1, 2015 at a ratio of 1.2 shares per one common share. The actual dividend amount prior to the stock split is noted here for the fiscal years ended in March 2015.

3. Fiscal Year Ending March 2016 Consolidated Earnings Estimates (April 1, 2015 to March 31, 2016)

(% figures show year-on-year change for the full year and quarter)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		EPS
	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Yen
First Half	60,800	13.5	4,750	5.1	4,240	0.4	2,740	0.5	145.11
Full Year	121,700	10.4	8,700	5.9	7,850	2.4	4,500	2.6	238.33

(Note) Recent changes in earnings estimates: None

Notes

(1) Important changes in our subsidiaries, including changes to the scope of our consolidation: None

(2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements: Applicable

(Note) Please refer to "2. Summary Information (Notes), (2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements" on page 7 for more details.

(3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates:

1. Changes accompanying revisions in accounting standards: Applicable
2. Other changes: None
3. Changes in accounting estimates: None
4. Redisplay of revisions: None

(Note) Please refer to "2. Summary Information (Notes), (3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates" on page 7 for more details.

(4) Shares Issued (Common Stocks)

1. Shares issued as of term-end (including treasury shares)	1Q FY3/16	18,983,154	FY3/15	18,150,698
2. Treasury stock as of term-end	1Q FY3/16	101,394	FY3/15	506,662
3. Average during the term (first three months)	1Q FY3/16	18,127,057	1QFY3/15	15,644,874

(Note) The Company carried out a stock split on April 1, 2015 at a ratio of 1.2 shares per one common share. Accordingly, shares issued (common stocks) have been calculated presuming that this stock split was carried out at the start of the previous consolidated fiscal year.

* Information Regarding Quarterly Review Practices:
The practices for review of quarterly consolidated earnings statements pursuant to the "Financial Instruments and Exchange Act" of Japan have not been conducted for the disclosure of this document.

* Notes and explanations regarding the appropriate use of our earnings projections:
All projections provided within this document are based on the most accurate information available at the time of this writing. However our actual results may differ from our projections due to various unforeseen reasons.
With regards to qualitative information regarding our quarterly earnings, please refer to the segment of this document "(3) Explanation of Our Earnings Estimates and Future Forecasts."

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1. Qualitative Information about Quarterly Earnings

(1) Explanation of business performance

During the first quarter of the current fiscal year, the Japanese economy held to a moderate upward path amid factors such as increasing corporate earnings and signs of recovery in personal consumption underpinned by ongoing fiscal and monetary policy moves by the Japanese government and the Bank of Japan. However, prevailing uncertainties were also at hand with negative factors such as surging raw material prices brought about by the weakening yen and a slowdown in the global economy.

Against this backdrop, our dormitory business got off to a solid start with occupancy rates rising by 0.1 percentage point year on year to 97.3% at the start of the fiscal year. In the hotel business segment, both the Dormy Inn business hotels and the resort hotel sub-segments maintained high occupancy rates brought about by continuing tailwinds provided by Japanese domestic travelers and growing demand for inbound tourism.

As a result, during the first quarter of the current fiscal year both revenues and earnings increased significantly, with sales up 12.7% year on year to ¥28,744 million, operating income up 68.2% to ¥1,854 million, ordinary income up 78.4% to ¥1,630 million, and profit attributable to owners of parent up 71.1% to ¥944 million.

We provide details of our earnings by business segment as follows.

Dormitory business

Our dormitory business got off to a solid start with the occupancy rate at the beginning of the fiscal term having gained by 0.1 percentage point year on year to 97.3%, and the total number of contracted residents rising by 1,559 year on year to 33,345 residents as of the end of June. In addition, student dormitories trended favorably during the first quarter of the current fiscal year, while corporate dormitories achieved substantial gains in numbers of contracts due to factors that included a greater numbers of new company employees and more companies now opting to offer employee dormitories.

Consequently, sales rose by 4.1% year on year to ¥11,221 million, while operating income increased 16.1% to ¥1,489 million due to ongoing implementation of stringent cost controls on a facility-by-facility basis.

Hotel business

With respect to our Dormy Inn business hotels, whereas in South Korea the “Dormy Inn PREMIUM SEOUL Garosugil” facility that opened in March was somewhat adversely affected by the MERS outbreak, domestically in Japan the “Natural Springs Kinko no Yu Dormy Inn PREMIUM Nagoya Sakae” and the “Kachi no Yu Dormy Inn Ueno Okachimachi” facilities yielded favorable results. Existing facilities also maintained high occupancy rates resulting from substantial use by inbound tourists and many other customers.

In the resort hotel sub-segment, despite concerns regarding an increased volcanic alert level for Mount Hakone, overall occupancy remained high and above previous year figures. We also implemented cost controls geared toward changes in rates of occupancy, such as by ensuring flexibility in making staff assignments in line with facility utilization.

Consequently, sales and operating income rose by 11.0% and 92.6% year on year to ¥11,724 million and ¥934 million, respectively. Whereas the significant year-on-year increase in operating income is partially due to higher costs in the same quarter of the previous fiscal year incurred for refurbishing some of our facilities, earnings still trended substantially higher even excluding those prior-year costs. Meanwhile, we plan to refurbish some facilities during the second quarter of the fiscal year under review.

Contracted services business

In the contracted services business, we generated increases in both sales and income due to rental properties acquired in the previous fiscal term along with more business taken on by the building management sector. As a result, sales increased 6.7% to ¥2,706 million and operating income increased by ¥23 million over the first quarter of the previous fiscal year to ¥21 million.

Food service business

The food service business generated higher sales amid recovery in personal consumption, but lower operating income due to an adverse impact from expenses for new store openings and other such costs. Consequently, while sales increased by 2.2% to ¥1,301 million, operating loss increased by ¥10 million in comparison with the same quarter of the previous fiscal year to ¥21 million.

Construction business

Despite development costs remaining at high levels, the construction business generated increases in sales and income as a result of bringing in greater numbers of orders for hotel development. Consequently, sales and operating income rose by

263.5% and ¥78 million year on year to ¥2,948 million and ¥58 million, respectively.

Other business

Our other business segment is comprised of the Wellness Life business (Management of senior citizen housing), the Public Kyoritsu Partnership business (PKP: Consigned services business, which regional government bodies consign to us and we provide the services to residents), single life support business and insurance agency business, comprehensive human resource services business, and financing and administrative outsourcing services. Sales of this business rose by 30.7% year on-year to ¥2,867 million, but an operating loss of ¥23 million was incurred (improved by ¥74 million yen from the first quarter of the previous fiscal year). The increases in sales and income were largely attributable to improvements in profitability associated with expansion of the PKP business and operational streamlining.

(2) Explanation of financial position

(Assets)

Total consolidated assets grew by ¥875 million from the end of the previous fiscal year to ¥140,625 million at the end of the first quarter. Main factors behind this increase were rises in real estate for sale in process, and buildings and structures, etc.

(Liabilities)

Total consolidated liabilities declined by ¥4,506 million from the end of the previous fiscal year to ¥88,330 million at the end of the first quarter, due primarily to a decline in convertible bond-type bonds with subscription rights to shares.

(Net assets)

Net assets grew by ¥5,381 million from the end of the previous fiscal year to ¥52,295 million at the end of the first quarter, due mainly to rises in capital stock and capital surplus.
Consequently, equity ratio rose by 3.6% from the end of the previous fiscal year to 37.2% at the end of the first quarter.

(3) Explanation of future forecasts including consolidated earnings estimates

Our consolidated earnings estimates for the first six months and the full fiscal year ending March 31, 2016, as provided in the “Fiscal Year Ending March 2015 Consolidated Earnings Announcement” dated May 15, 2015, remain unchanged at this point in time.

2. Summary Information (Notes)

(1) Changes in important consolidated subsidiaries during the quarter
Not applicable

(2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements
(Calculation of tax expense)
With regards to taxes, a rational estimate of the effective tax rate has been used to calculate the tax effect accounting for net income before taxes during the first quarter, and this rate has been applied to net income before taxes. However, in the event that the estimate for the effective tax rate appears to lack logical rationale, then the legally determined effective tax rate will be employed.

(3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates
Changes in accounting policies
(Application of accounting standards for business combinations)

Effective from the first quarter of the current fiscal year, the Company has applied the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and other accounting standards. As a result, the method of recording differences caused by changes in the Company’s ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which such amounts are recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which such amounts are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the first quarter of the current fiscal year, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the quarterly consolidated financial statements for the fiscal quarter in which the business combination occurs. In addition, changes have also been made in the presentation of quarterly net income, etc. and also in nomenclature from “minority interests” to “non-controlling interests.” The consolidated financial statements for the first quarter of the previous fiscal year and those for the entire previous fiscal year have been reclassified to reflect these changes in presentation.

The Accounting Standard for Business Combinations, etc. is applied in accordance with the transitional treatment set forth in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures, and will be applied from the beginning of the first quarter of the current fiscal year and on into the future.

This will not have an effect on the Company’s profit and loss.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/15 (March 31, 2015)	1Q FY3/16 (June 30, 2015)
Assets		
Current assets		
Cash and deposits	16,115	15,560
Notes and accounts receivable–trade	6,841	5,391
Real estate for sale	1,007	1,055
Real estate for sale in process	706	1,839
Costs on uncompleted construction contracts	514	463
Others	6,295	6,395
Allowance for loan losses	(24)	(24)
Total current assets	31,457	30,682
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	32,999	33,970
Land	28,704	29,073
Construction in progress	8,943	9,588
Other, net	1,618	1,808
Total property, plant and equipment	72,265	74,440
Intangible assets	1,818	1,824
Investments and other assets		
Investment securities	6,142	5,209
Guarantee deposits	11,874	11,805
Lease deposits	9,240	9,268
Other	7,038	7,485
Allowance for doubtful accounts	(189)	(190)
Total investments and other assets	34,105	33,578
Total non-current assets	108,190	109,843
Deferred assets	103	99
Total assets	139,750	140,625

(Unit: Millions of yen)

	FY3/15 (March 31, 2015)	1Q FY3/16 (June 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	5,238	3,527
Short-term loans payable	15,760	22,660
Current portion of bonds	1,350	1,350
Income taxes payable	1,648	708
Advances received	12,031	10,208
Provision for bonuses	1,270	370
Provision for directors' bonuses	327	92
Provision for warranties for completed construction	8	8
Provision for point card certificates	9	9
Other	9,946	11,485
Total current liabilities	47,590	50,421
Non-current liabilities		
Bonds payable	6,950	6,625
Convertible bond-type bonds with subscription rights to shares	7,253	2,423
Long-term loans payable	25,512	23,271
Director retirement benefit reserve	307	291
Provision for point card certificates	24	28
Net defined benefit liability	1,042	1,046
Other	4,155	4,222
Total non-current liabilities	45,246	37,909
Total liabilities	92,836	88,330
Net assets		
Shareholders' equity		
Capital stock	5,136	6,747
Capital surplus	9,313	11,601
Retained earnings	32,670	33,230
Treasury shares	(1,109)	(243)
Total shareholders' equity	46,011	51,335
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	747	826
Foreign currency translation adjustment	120	104
Remeasurements of defined benefit plans	34	28
Total accumulated other comprehensive income	902	959
Total net assets	46,913	52,295
Total liabilities and net assets	139,750	140,625

(2) Quarterly consolidated income statement and comprehensive income statement
(Quarterly consolidated income statement)
(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/15 (April 1, 2014 to June 30, 2014)	1Q FY3/16 (April 1, 2015 to June 30, 2015)
Net sales	25,513	28,744
Cost of sales	20,737	22,789
Gross profit	4,775	5,955
Selling, general and administrative expenses	3,673	4,100
Operating income	1,102	1,854
Non-operating income		
Interest income	18	58
Dividend income	21	21
Other	112	39
Total non-operating income	152	119
Non-operating expense		
Interest payment	228	200
Other	112	142
Total non-operating expenses	340	342
Ordinary income	914	1,630
Extraordinary losses		
Loss on sales of non-current assets	17	-
Total extraordinary losses	17	-
Net income before taxes and other adjustments	897	1,630
Income taxes	345	686
Net income	551	944
Profit attributable to owners of parent	551	944

Quarterly consolidated comprehensive income statements

Consolidated first quarter

(Unit: Millions of yen)

	1Q FY3/15 (April 1, 2014 to June 30, 2014)	1Q FY3/16 (April 1, 2015 to June 30, 2015)
Net income	551	944
Other comprehensive income		
Valuation difference on available-for-sale securities	67	79
Foreign currency translation adjustment	15	(16)
Remeasurements of defined benefit plans	(4)	(5)
Total other comprehensive income	77	56
Comprehensive income	629	1,001
(Details)		
Comprehensive income attributable to owners of parent	629	1,001

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

During the first quarter under review, capital and capital reserves increased by ¥1,610 million and ¥2,288 million, respectively, and treasury stock decreased by ¥930 million, as a result of having exercised stock options of convertible bonds with stock options. Consequently, capital was ¥6,747 million, capital reserves were ¥11,601 million, and treasury stock was ¥243 million as of the end of the first quarter.

(Segment information)

Segment information

I. First quarter of fiscal year ended March 2015 (From April 1 to June 30, 2014)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales External sales	10,717	10,536	1,390	376	405	23,427	2,086	25,513	-	25,513
Inter-segment sales and transfers	59	23	1,147	896	405	2,531	108	2,639	(2,639)	-
Total	10,776	10,560	2,537	1,272	811	25,959	2,194	28,153	(2,639)	25,513
Segment profit/loss	1,282	485	(2)	(10)	(19)	1,734	(97)	1,636	(534)	1,102

(Notes)
1. Others is not considered as a reporting business segment and is comprised of the wellness life (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing and advertising agency services.
2. Adjustment for segment profit and loss of ¥534 million includes ¥10 million for inter-segment transaction eliminations, and ¥523 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the finance and accounting, and management divisions.
3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statement.

2. Impairment accounting losses and goodwill amortization of fixed assets by reporting segments

None

II. First quarter of fiscal year ended March 2016 (From April 1 to June 30, 2015)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales External sales	11,166	11,706	1,594	415	1,111	25,993	2,750	28,744	-	28,744
Inter-segment sales and transfers	55	17	1,112	886	1,837	3,909	117	4,026	(4,026)	-
Total	11,221	11,724	2,706	1,301	2,948	29,902	2,867	32,770	(4,026)	28,744
Segment profit/loss	1,489	934	21	(21)	58	2,481	(23)	2,457	(603)	1,854

(Notes)
1. Others is not considered as a reporting business segment and is comprised of the wellness life (management of senior citizen housing), PKP business (Consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing services and other related services
2. Adjustment for segment profit and loss of ¥603 million includes ¥23 million for inter-segment transaction eliminations, and ¥580 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the finance and accounting, and management divisions.
3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statements.

2. Impairment accounting losses and goodwill amortization of fixed assets by reporting segments

None