Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

First Quarter of Fiscal Year Ending March 2017 Consolidated Earnings Results Update

August 2016

First quarter of Fiscal Year Ending March 2017 Consolidated Earnings Announcement

August 9, 2016

Company Name: Kyoritsu Maintenance Co., Ltd. Tokyo Stock Exchange
Stock Code: 9616, URL: http://www.kyoritsugroup.co.jp/
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Quarterly Earnings Announcement Report Filing Date (Anticipated): August 10, 2016
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 2017 Consolidated Earnings (April 1, 2016 to June 30, 2016)

(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 FY3/17	32,442	12.9	2,472	33.3	2,275	39.5	1,204	27.5
1Q FY3/16	28,744	12.7	1,854	68.2	1,630	78.4	944	71.1

(Note) Comprehensive income: ¥766 million (-23.5% YoY) in 1Q FY3/17; ¥1,001 million (59.0% YoY) in 1Q FY3/16

	EPS	Fully Diluted EPS
	Yen	Yen
1Q FY3/17	62.26	56.93
1Q FY3/16	52.10	48.41

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
	Millions of yen	Millions of yen	%	Yen
1Q FY3/17	154,881	58,229	37.6	3,009.73
FY3/16	161,402	57,974	35.9	2,997.10

(Note) Capital: ¥58,229 million in 1Q FY3/17; ¥57,974 million in FY3/16

2. Dividend Conditions

	Dividend Per Share				
	1Q-End	2Q-End	3Q-End	4Q-End	Total
	Yen	Yen	Yen	Yen	Yen
FY3/16	—	25.00	—	27.00	52.00
FY3/17	—				
FY3/17 (Projected)		26.00	—	26.00	52.00

(Note) Recent changes in dividend projections: None

3. Fiscal Year Ending March 2017 Consolidated Earnings Estimates (April 1, 2016 to March 31, 2017)

(% 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	69,800	4.4	7,100	15.4	6,700	16.2	4,200	10.5	217.13
Full Year	138,000	2.2	11,500	12.3	11,000	12.5	6,900	15.6	356.71

(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 FY3/17	19,456,046	FY3/16	19,452,173
2. Treasury stock as of term-end	1Q FY3/17	109,115	FY3/16	108,573
3. Average during the term (first three months)	1Q FY3/17	19,345,336	1QFY3/16	18,127,057

* 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 earnings estimates and forward-looking statements in this document are based on the best information available and rational decisions of management at the time of its creation, and actual earnings may diverge largely from those estimates and forward-looking statements put forward in this document due to various unforeseen factors. Moreover, for information regarding earnings estimates and the assumptions upon which they are based, and the usages of these earnings estimates, please refer to the section, "1. Qualitative Information about Quarterly Earnings, (3) Explanation of future forecasts including consolidated earnings estimates" on page 6.

Index

1. Qualitative Information about Quarterly Earnings

(1) Explanation of business performance

During the first quarter of the consolidated fiscal year ending March 31, 2017, the Japanese economy continued to experience a modest recovery trend, with improvements in employment environment and the income , but growth in personal consumption remained slow and the outlook remained uncertain in many respects, as indicated by a slowdown in the overseas economy and fluctuations in exchange markets.
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 98.3% at the start of the fiscal year. In the hotel business segment, both the Dormy Inn business hotel business and the resort hotel business benefited from strong demand from domestic travelers as well as ongoing year-on-year growth in inbound demand. As a result, occupancy rates and Average Daily Rate were high.
As a result, during the first quarter of the current fiscal year, both revenues and earnings increased significantly, with sales up 12.9% year on year to ¥32,442 million, operating income up 33.3% to ¥2,472 million, ordinary income up 39.5% to ¥2,275 million, and profit attributable to owners of parent up 27.5% to ¥1,204 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 1.0 percentage point year on year to 98.3%, and the total number of contracted residents rising by 1,223 year on year to 34,568 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 the number of contracts due to factors that included a greater number of new company employees and more companies now opting to offer employee dormitories. The impact of the Kumamoto Earthquake in April was minimal.
Consequently, sales rose by 2.9% year on year to ¥11,546 million, while operating income increased 31.9% to ¥1,963 million due to ongoing implementation of stringent cost controls on a facility-by-facility basis. Business commencement expenses were concentrated in the first quarter of the previous fiscal year, which was a major factor behind the sharp increase in operating income year on year, but operating income was up significantly even when excluding this impact.

Hotel business

In the Dormy Inn business, the “Natural Springs Rokka no Yu Dormy Inn Kumamoto” closed temporarily as a result of the Kumamoto Earthquake in April, while the “Natural Springs Tento no Yu Dormy Inn Abashiri” opened in June and got off to a good start. Occupancy rates and Average Daily Rate exceeded levels in the previous year at existing hotels due to solid demand from repeat customers in Japan and the ongoing increase in inbound demand.
In the resort hotel business, the occupancy rate was high, exceeding overall levels in the previous year, thanks in part to the recovery in the occupancy rate at hotels in the Hakone region to levels on par with typical years. In addition, cost management was thorough due to flexible personnel assignments tailored to occupancy conditions.
As a result, sales rose 14.1% year over year to ¥13,379 million and operating income climbed 26.7% to ¥1,184 million.

Contracted services business

In the contracted services business, we generated increases in both revenue and earnings due to more business taken on by the building management sector. As a result, sales increased 22.3% year on year to ¥3,309 million and operating income increased by 162.9% year on year to ¥55 million.

Food service business

The food service business recorded higher sales due to an increase in the number of contracted hotel restaurants.
Consequently, sales increased by 17.5% to ¥1,529 million and operating loss was ¥16 million in comparison with an operating loss of ¥21 million in the same quarter of the previous fiscal year.

Construction business

The construction business generated increases in revenue and earnings as a result of bringing in greater numbers of orders for hotel development. Consequently, sales and operating income rose by 71.0% and 302.4% year on year to ¥5,042 million and ¥233 million, respectively.

Other business

Our other business segments are the Senior Life (former Wellness Life) business (management of senior citizen housing), the Public Kyoritsu Partnership business (PKP: consigned services business provided to regional government bodies), single life support business and insurance agency business, comprehensive human resource services business, and financing and administrative outsourcing services. The other business segments posted total net sales of ¥2,808 million, a decrease of 2.1% year on year, and incurred an operating loss of ¥87 million, in comparison with an operating loss of ¥23 million in the same period of the previous fiscal year.

(2) Explanation of financial position

(Assets)

Total consolidated assets declined by ¥6,520 million from the end of the previous fiscal year to ¥154,881 million at the end of the first quarter. The main factor behind this decrease was a decrease in cash and deposits, etc.

(Liabilities)

Total consolidated liabilities declined by ¥6,775 million from the end of the previous fiscal year to ¥96,652 million at the end of the first quarter, due primarily to declines in short-term loans payable and long-term loans payable.

(Net assets)

Net assets grew by ¥254 million from the end of the previous fiscal year to ¥58,229 million at the end of the first quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio rose by 1.7p.p. from the end of the previous fiscal year to 37.6% 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, 2017, as provided in the "Fiscal Year Ending March 2017 Consolidated Earnings Announcement" dated May 13, 2016, 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)

The Company applies the method that reasonably estimates an effective tax rate to be assessed on income before income taxes for the year ending March 31, 2017, including this three months ended June 30, 2016, after accounting for the tax effects, and multiplies income before income taxes during the three months ended June 30, 2016 by this estimated effective tax rate. However, in the event that the estimate for the effective tax rate appears to lack logical rationale, then the legally determined effective tax rate is employed.

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

Changes in accounting policies

(Application of Practical Solution on a Change in Depreciation Method due to Fiscal 2016 Tax Reforms)

Due to revisions in the Corporation Tax Act, the Company has adopted the "Practical Solution on a Change in Depreciation Method due to Fiscal 2016 Tax Reforms" (ASBJ Practical Issue Task Force No. 32, issued on June 17, 2016) from the first quarter of the current fiscal year, and changed the method for the depreciation of some facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on the Company's operating income, ordinary income and income before income taxes for the first quarter is insignificant.

(4) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the first quarter of the current fiscal year.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/16 (March 31, 2016)	1Q FY3/17 (June 30, 2016)
Assets		
Current assets		
Cash and deposits	25,960	16,008
Notes and accounts receivable–trade	9,763	8,433
Real estate for sale	2,827	1,907
Real estate for sale in process	–	46
Costs on uncompleted construction contracts	331	706
Other	6,368	7,386
Allowance for loan losses	(19)	(28)
Total current assets	45,231	34,460
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,337	36,508
Land	33,807	33,683
Construction in progress	6,906	10,153
Other, net	2,190	2,274
Total property, plant and equipment	79,240	82,619
Intangible assets	1,710	1,697
Investments and other assets		
Investment securities	5,034	4,917
Guarantee deposits	12,199	12,680
Lease deposits	10,103	10,455
Other	7,978	8,150
Allowance for doubtful accounts	(212)	(210)
Total investments and other assets	35,103	35,993
Total non-current assets	116,054	120,310
Deferred assets	116	110
Total assets	161,402	154,881

(Unit: Millions of yen)

	FY3/16 (March 31, 2016)	1Q FY3/17 (June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,966	6,571
Short-term loans payable	21,471	19,741
Current portion of bonds	1,350	1,350
Income taxes payable	2,765	868
Advances received	11,079	9,771
Provision for bonuses	1,700	467
Provision for directors’ bonuses	426	117
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	17
Provision for loss on disaster	–	236
Other	7,861	10,081
Total current liabilities	53,648	49,231
Non-current liabilities		
Bonds payable	5,600	5,275
Convertible bond-type bonds with subscription rights to shares	20,608	20,593
Long-term loans payable	17,940	15,859
Director retirement benefit reserve	287	288
Provision for point card certificates	25	30
Net defined benefit liability	1,072	1,083
Other	4,244	4,292
Total non-current liabilities	49,779	47,421
Total liabilities	103,428	96,652
Net assets		
Shareholders’ equity		
Capital stock	7,654	7,662
Capital surplus	12,509	12,517
Retained earnings	37,778	38,460
Treasury shares	(305)	(309)
Total shareholders’ equity	57,637	58,330
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	736	674
Foreign currency translation adjustment	(393)	(772)
Remeasurements of defined benefit plans	(5)	(2)
Total accumulated other comprehensive income	336	(101)
Total net assets	57,974	58,229
Total liabilities and net assets	161,402	154,881

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/16 (April 1, 2015 to June 30, 2015)	1Q FY3/17 (April 1, 2016 to June 30, 2016)
Net sales	28,744	32,442
Cost of sales	22,789	25,520
Gross profit	5,955	6,922
Selling, general and administrative expenses	4,100	4,449
Operating income	1,854	2,472
Non-operating income		
Interest income	58	18
Dividend income	21	23
Other	39	46
Total non-operating income	119	87
Non-operating expense		
Interest payment	200	163
Other	142	121
Total non-operating expenses	342	285
Ordinary income	1,630	2,275
Extraordinary losses		
Impairment loss	–	89
Provision for loss on disaster	–	236
Other	–	27
Total extraordinary losses	–	353
Income before income taxes	1,630	1,921
Income taxes	686	717
Profit	944	1,204
Profit attributable to owners of parent	944	1,204

(Quarterly consolidated comprehensive income statements)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/16 (April 1, 2015 to June 30, 2015)	1Q FY3/17 (April 1, 2016 to June 30, 2016)
Profit	944	1,204
Other comprehensive income		
Valuation difference on available-for-sale securities	79	(62)
Foreign currency translation adjustment	(16)	(378)
Remeasurements of defined benefit plans	(5)	3
Total other comprehensive income	56	(438)
Comprehensive income	1,001	766
(Details)		
Comprehensive income attributable to owners of parent	1,001	766

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

Not applicable

(Segment information)

Segment information

I. 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						Other (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. Other 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 ¥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 statement.

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

None

II. First quarter of fiscal year ended March 2017 (From April 1 to June 30, 2016)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales External sales	11,488	13,346	1,755	453	2,709	29,755	2,687	32,442	–	32,442
Inter-segment sales and transfers	57	32	1,553	1,075	2,333	5,051	120	5,172	(5,172)	–
Total	11,546	13,379	3,309	1,529	5,042	34,806	2,808	37,615	(5,172)	32,442
Segment profit/loss	1,963	1,184	55	(16)	233	3,420	(87)	3,332	(860)	2,472

(Notes) 1. Other is not considered as a reporting business segment and is comprised of the Senior Life (former 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 ¥860 million includes ¥216 million for inter-segment transaction eliminations, and ¥643 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the 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

In the building management segment, the Company lowered the book value amount to the recoverable amount for rental properties whose recoverable amount decreased significantly as a result of changes in the range of use. This decrease was recorded as an impairment loss under extraordinary losses.

An impairment loss of ¥89 million was posted in the first quarter of this fiscal year.