Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

First Quarter of the Fiscal Year Ending March 2018 Consolidated Earnings Results Update

August 2017

First Quarter of the Fiscal Year Ending March 2018 Consolidated Earnings Announcement

August 9, 2017

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, 2017
Dividend Payment Date (Anticipated): —
Quarterly Earnings Presentation Document (Anticipated): Yes
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 the Fiscal Year Ending March 2018 Consolidated Earnings (April 1, 2017 to June 30, 2017)

(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 FY3/18	34,314	5.8	2,507	1.4	2,491	9.5	1,531	27.1
1Q FY3/17	32,442	12.9	2,472	33.3	2,275	39.5	1,204	27.5

(Note) Comprehensive income: ¥1,555 million (103.1% YoY) in 1Q FY3/18; ¥766 million (-23.5% YoY) in 1Q FY3/17

	EPS	Fully Diluted EPS
	Yen	Yen
1Q FY3/18	39.49	36.19
1Q FY3/17	31.13	28.46

(Note) The Company carried out a stock split on April 1, 2017, at a ratio of two 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 FY3/18	180,118	65,332	36.3	1,683.26
FY3/17	173,609	64,320	37.0	1,660.61

(Reference) Capital: ¥65,332 million in 1Q FY3/18; ¥64,320 million in FY3/17
(Note) The Company carried out a stock split on April 1, 2017, at a ratio of two 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
FY3/17	—	26.00	—	36.00	62.00
FY3/18	—				
FY3/18 (Projected)		18.00	—	18.00	36.00

(Note) Recent changes in dividend projections: None
(Note) The Company carried out a stock split on April 1, 2017 at a ratio of two shares per one common share. The actual dividend amount prior to the stock split is noted here for the fiscal year ended in March 2017.

3. The Fiscal Year Ending March 2018 Consolidated Earnings Estimates (April 1, 2017 to March 31, 2018)

(% 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	74,000	8.1	6,700	(6.6)	6,400	(6.7)	4,300	0.7	111.02
Full Year	148,200	9.1	12,200	3.3	11,700	1.6	8,000	12.1	206.54

(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. Quarterly Consolidated Financial Statements and Important Notes, (3) Quarterly consolidated financial statement notes (Application of special accounting procedures in the preparation of our quarterly consolidated financial statements)" on page 11 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:	None
2. Other changes:	None
3. Changes in accounting estimates:	None
4. Redisplay of revisions:	None

(4) Shares Issued (Common Stocks)

1. Shares issued as of term-end (including treasury shares)	1Q FY3/18	39,035,599	FY3/17	38,954,452
2. Treasury stock as of term-end	1Q FY3/18	222,700	FY3/17	221,546
3. Average during the term (first three months)	1Q FY3/18	38,772,463	1QFY3/17	38,690,672

(Note) The Company carried out a stock split on April 1, 2017, at a ratio of two shares per one common share. Accordingly, shares issued (common stock) has been calculated presuming that this stock split was carried out at the start of the previous consolidated fiscal year.

* The earnings announcement is exempt from quarterly review practices.

* 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.

(Method for obtaining supplementary explanatory information on financial results)
The Company will post supplementary explanatory information on financial results on its website.

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1. Qualitative Information about Quarterly Earnings

(1) Explanation of business performance

During the first quarter of the consolidated fiscal year ending March 31, 2018, growth in inbound demand, a higher percentage of students going on to higher-level schools, and an increase in the number of foreign students improved the Group's business environment. However, the Group also faced skyrocketing construction costs, a labor shortage, and the entry of other industries into the dormitory business and hotel business, the Group's core businesses. These factors made it all the more essential that we build a solid business foundation as soon as possible to utilize our advantages even more.

In this environment, the Group established the Kyoritsu Jump Up Plan, the five-year medium-term management plan that begins this fiscal year, endeavoring to improve customer satisfaction and pursue advanced developments.

As a result, during the first quarter of the current fiscal year, both revenue and earnings increased. Sales rose 5.8% year on year to ¥34,314 million, and operating income increased 1.4% to ¥2,507 million after absorbing preparation costs for hotel openings through advance development. Ordinary income was up 9.5% to ¥2,491 million. Profit attributable to owners of parent climbed 27.1% over the previous year to ¥1,531 million.

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

Dormitory business

Our dormitory business got off to a solid start with a 98.3% occupancy rate at the beginning of the fiscal term, the same as the previous year, and an increase of 471 year on year in the total number of contracted residents to 35,039 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 an increase in the number of companies now opting to offer employee dormitories.

Consequently, sales rose by 3.6% year on year to ¥11,960 million, while operating income increased a modest 2.0% to ¥2,002 million due to a rise in preparation costs for the opening of new dormitories.

Hotel business

In the Dormy Inn (business hotel) business, the "Myojin no Yu Dormy Inn Premium Kanda" and the "Natural Springs Hyuga no Yu Dormy Inn Miyazaki" opened in the first quarter. Occupancy rates and Average Daily Rate exceeded levels in the previous year at existing hotels due to a sharp increase in inbound demand and solid demand from repeat customers. In the resort hotel business, the occupancy rate was high, exceeding overall levels in the previous year, and Average Daily Rate trended at high levels. In addition, cost management was thorough due to flexible personnel assignments tailored to occupancy conditions.

As a result, sales rose 15.6% year over year to ¥15,464 million and operating income increased 8.5% to ¥1,284 million, absorbing ¥275 million in preparation costs for the opening of new hotels.

Contracted services business

In the contracted services business, both revenues and earnings decreased year on year due to the impact of major construction work in the same period in the previous year. As a result, sales decreased 9.4% to ¥2,998 million and operating income fell by 24.5% year on year to ¥42 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 1.6% to ¥1,553 million and operating loss was ¥6 million in comparison with an operating loss of ¥16 million in the same quarter of the previous fiscal year.

Construction business

In the construction business, revenue rose but earnings declined due to a drop in the development of built-for-sale condominiums, which have relatively high profitability. Consequently, sales rose by 5.2% to ¥5,304 million and operating income fell 66.0% year on year to ¥79 million.

Other business

Our other business segments are the Senior Life business (management of senior citizen housing), the PKP business (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 ¥2,987 million, an increase of 6.4% year on year, and incurred an operating loss of ¥135 million, in comparison with an operating loss of ¥87 million in the same period of the previous fiscal year.

(2) Explanation of financial position

(Assets)

Total consolidated assets increased by ¥6,508 million from the end of the previous fiscal year to ¥180,118 million at the end of the first quarter. The main factors behind this increase were increases in land and construction in progress, etc.

(Liabilities)

Total consolidated liabilities increased by ¥5,496 million from the end of the previous fiscal year to ¥114,785 million at the end of the first quarter, due primarily to an increase in short-term loans payable.

(Net assets)

Net assets grew by ¥1,011 million from the end of the previous fiscal year to ¥65,332 million at the end of the first quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio fell by 0.7 p.p. from the end of the previous fiscal year to 36.3% 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, 2018, as provided in the "Fiscal Year Ending March 2018 Consolidated Earnings Announcement" dated May 15, 2017, remain unchanged at this point in time.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/17 (March 31, 2017)	1Q FY3/18 (June 30, 2017)
Assets		
Current assets		
Cash and deposits	15,210	13,915
Notes and accounts receivable–trade	8,643	9,417
Real estate for sale	920	797
Costs on uncompleted construction contracts	420	319
Other	7,179	8,161
Allowance for loan losses	(23)	(26)
Total current assets	32,350	32,586
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,251	39,085
Land	37,770	40,517
Construction in progress	17,373	20,729
Other, net	2,698	2,736
Total property, plant and equipment	98,094	103,068
Intangible assets	2,957	3,663
Investments and other assets		
Investment securities	5,032	5,170
Guarantee deposits	14,561	14,552
Lease deposits	11,526	11,845
Other	8,979	9,138
Allowance for doubtful accounts	(206)	(210)
Total investments and other assets	39,892	40,497
Total non-current assets	140,944	147,229
Deferred assets	313	302
Total assets	173,609	180,118

(Unit: Millions of yen)

	FY3/17 (March 31, 2017)	1Q FY3/18 (June 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,230	6,358
Short-term loans payable	17,398	28,160
Current portion of bonds	2,950	2,950
Income taxes payable	2,175	973
Advances received	11,431	9,706
Provision for bonuses	1,829	481
Provision for directors' bonuses	486	97
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	18
Provision for loss on disaster	30	25
Other	9,920	11,857
Total current liabilities	52,477	60,638
Non-current liabilities		
Bonds payable	18,650	17,925
Convertible bond-type bonds with subscription rights to shares	20,511	20,354
Long-term loans payable	11,842	9,855
Director retirement benefit reserve	287	285
Provision for point card certificates	28	33
Net defined benefit liability	1,102	1,116
Other	4,389	4,578
Total non-current liabilities	56,811	54,147
Total liabilities	109,289	114,785
Net assets		
Shareholders' equity		
Capital stock	7,703	7,781
Capital surplus	12,558	12,637
Retained earnings	43,888	44,722
Treasury shares	(321)	(325)
Total shareholders' equity	63,829	64,816
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	834	947
Foreign currency translation adjustment	(356)	(443)
Remeasurements of defined benefit plans	13	11
Total accumulated other comprehensive income	491	516
Total net assets	64,320	65,332
Total liabilities and net assets	173,609	180,118

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/17 (April 1, 2016 to June 30, 2016)	1Q FY3/18 (April 1, 2017 to June 30, 2017)
Net sales	32,442	34,314
Cost of sales	25,520	26,660
Gross profit	6,922	7,654
Selling, general and administrative expenses	4,449	5,147
Operating income	2,472	2,507
Non-operating income		
Interest income	18	14
Dividend income	23	26
Gain on investments in partnership	—	143
Other	46	32
Total non-operating income	87	218
Non-operating expense		
Interest payment	163	133
Sales discounts	48	48
Other	72	52
Total non-operating expenses	285	233
Ordinary income	2,275	2,491
Extraordinary income		
Surrender value of insurance	–	25
Total extraordinary income	–	25
Extraordinary losses		
Impairment loss	89	—
Provision for loss on disaster	236	—
Dismantlement costs	—	115
Other	27	—
Total extraordinary losses	353	115
Income before income taxes	1,921	2,402
Income taxes	717	871
Profit	1,204	1,531
Profit attributable to owners of parent	1,204	1,531

(Quarterly consolidated comprehensive income statements)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/17 (April 1, 2016 to June 30, 2016)	1Q FY3/18 (April 1, 2017 to June 30, 2017)
Profit	1,204	1,531
Other comprehensive income		
Valuation difference on available-for-sale securities	(62)	112
Foreign currency translation adjustment	(378)	(86)
Remeasurements of defined benefit plans	3	(1)
Total other comprehensive income	(438)	24
Comprehensive income	766	1,555
(Details)		
Comprehensive income attributable to owners of parent	766	1,555

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

Not applicable

(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, 2018, including this three months ended June 30, 2017, after accounting for the tax effects, and multiplies income before income taxes during the three months ended June 30, 2017 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.

(Segment information)

Segment information

I. First quarter of the 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 (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, administrative outsourcing 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 statement.

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

In the contracted services 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.

II. First quarter of the fiscal year ended March 2018 (From April 1 to June 30, 2017)

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	11,888	15,419	1,674	447	2,022	31,452	2,862	34,314	–	34,314
Inter-segment sales and transfers	71	44	1,324	1,105	3,282	5,828	125	5,954	(5,954)	–
Total	11,960	15,464	2,998	1,553	5,304	37,281	2,987	40,269	(5,954)	34,314
Segment profit/loss	2,002	1,284	42	(6)	79	3,401	(135)	3,266	(758)	2,507

(Notes) 1. Other is not considered as a reporting business segment and is comprised of the Senior 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, administrative outsourcing services and other related services.

2. Adjustment for segment profit and loss of ¥758 million includes ¥31 million for inter-segment transaction eliminations, and ¥727 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

None