Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

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

November 2017

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

November 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): November 14, 2017
Dividend Payment Date (Anticipated): December 5, 2017
Quarterly Earnings Presentation Document (Anticipated): Yes
Quarterly Earnings Presentation Meeting (Anticipated): Yes (For Institutional Investors)

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

1. First Half of the Fiscal Year Ending March 2018 Consolidated Earnings (April 1, 2017 to September 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	%
1H FY3/18	70,936	3.6	7,215	0.6	7,061	2.9	4,632	8.5
1H FY3/17	68,477	2.4	7,173	16.6	6,861	19.0	4,268	12.3

(Note) Comprehensive income: ¥4,665 million (17.9% YoY) in 1H FY3/18; ¥3,957 million (23.5% YoY) in 1H FY3/17

	EPS	Fully Diluted EPS
	Yen	Yen
1H FY3/18	119.40	109.49
1H FY3/17	110.32	100.89

(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
1H FY3/18	185,526	68,468	36.9	1,763.43
FY3/17	173,609	64,320	37.0	1,660.61

(Note) Capital: ¥68,468 million in 1H 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	—	18.00			
FY3/18 (Projected)			—	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. 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)

	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
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, (4) Quarterly consolidated financial statement notes (Application of special accounting procedures in the preparation of our quarterly consolidated financial statements)" on page 13 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)	1H FY3/18	39,050,067	FY3/17	38,954,452
2. Treasury stock as of term-end	1H FY3/18	222,976	FY3/17	221,546
3. Average during the term (first six months)	1H FY3/18	38,794,398	1H FY3/17	38,696,070

(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 half of the consolidated fiscal year ending March 31, 2018, growth in inbound demand, an upturn in employee hiring among corporations, and an increase in the number of foreign students improved the Group's business environment. However, signs of uncertainty ahead also prevailed given factors that included a labor shortage and new entrants from other industries into the Group's core dormitory and hotel businesses. Geopolitical risk has also been cited as yet another factor affecting the Group's business.

In this environment, the Group established the Kyoritsu Jump Up Plan, a five-year medium-term management plan that begins this fiscal year, under which we steadily promoted the two aims of improving customer satisfaction and pursuing advanced developments, which together constitute the framework for the medium-term management plan.

As a result, during the first half of the current fiscal year, sales rose 3.6% year on year to ¥70,936 million, and operating income increased 0.6% to ¥7,215 million. Ordinary income was up 2.9% to ¥7,061 million. Profit attributable to owners of parent climbed 8.5% over the previous year to ¥4,632 million. During the first half of the consolidated fiscal year ending March 31, 2018, our forecast initially projected operating income and ordinary income below previous year levels due to the emergence of skewed results, largely involving business commencement expenses in the hotel business incurred on the basis of the medium-term management plan. However, the actual earnings results substantially exceeded our initial forecasts due to favorable performance in both the dormitory business and the hotel business, thereby ultimately setting new record highs amid a year-on-year increase in earnings, sufficient to offset the business commencement expenses and other costs.

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 597 year on year in the total number of contracted residents cumulated in 34,305 residents as of the end of September. In addition, student dormitories trended favorably during the first half of the current fiscal year, while corporate dormitories achieved gains in the number of contracts due to factors that included companies actively hiring greater numbers of new employees and more companies now opting to offer employee dormitories. Consequently, sales rose by 3.5% year on year to ¥23,343 million, while operating income increased by 4.3% to ¥3,698 million, largely as a result of having appropriately implemented cost controls.

Hotel business

In the Dormy Inn (business hotel) business we opened five facilities, namely "Myojin no Yu Dormy Inn Premium Kanda," "Natural Springs Hyuga no Yu Dormy Inn Miyazaki," "Natural Springs Kaijin no Yu Dormy Inn EXPRESS Sendai Seaside," "Natural Springs Yakumo no Yu Dormy Inn Izumo," and "Natural Springs Shoun no Yu Dormy Inn Kofu Marunouchi." Moreover, existing hotels generated favorable results amid steady growth, exceeding levels of the same period in the previous fiscal year with respect to both occupancy rates and the Average Daily Rate due to an increase in business involving inbound customers, and solid demand from repeat customers.

In the resort hotel business, we opened two facilities, namely the "Inishie no Yado Keiun," and "Oyado Tsukiyo no Usagi" hotels, both in the vicinity of the Izumo Taisha shrine. In addition, existing hotels achieved year-on-year increases in both occupancy rates and the Average Daily Rate despite the adverse effects of typhoons on business. Moreover, we thoroughly implemented cost controls in part by means of flexible personnel assignments tailored to occupancy conditions

As a result, sales rose 15.6% year over year to ¥34,769 million and operating income increased 1.6% to ¥4,699 million, absorbing preparation costs for the opening of new hotels.

Contracted services business

In the contracted services business, earnings decreased despite an increase in revenues, due to the impact of major construction work in the same period in the previous year. As a result, sales increased 0.2% to ¥6,478 million and operating income fell by 8.5% year on year to ¥138 million.

Food service business

The food service business recorded higher revenues and earnings due to increased business in hotel restaurant outsourcing and also due to closures of unprofitable establishments. Consequently, sales increased by 6.9% to ¥3,380 million and operating income was ¥59 million, in comparison with an operating loss of ¥26 million in the same quarter of the previous fiscal year.

Construction business

In the construction business, although revenue rose largely due to an increase in hotel development projects, earnings declined due to a drop in the development of built-for-sale condominiums. As a result, sales increased 8.2% to ¥10,676 million and operating income fell by 26.4% year on year to ¥395 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 ¥5,952 million, an increase of 5.2% year on year, and incurred an operating loss of ¥131 million, in comparison with an operating loss of ¥108 million in the same period of the previous fiscal year.

(2) Explanation of financial position

1. Conditions of assets, liabilities, and net assets

(Assets)

Total consolidated assets rose by ¥11,916 million from the end of the previous fiscal year to ¥185,526 million at the end of the second quarter. The main factor behind this increase was an increase in buildings and structures, and land.

(Liabilities)

Total consolidated liabilities rose by ¥7,767 million from the end of the previous fiscal year to ¥117,057 million at the end of the second quarter, due primarily to an increase in short-term loans payable.

(Net assets)

Net assets grew by ¥4,148 million from the end of the previous fiscal year to ¥68,468 million at the end of the second quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio declined by 0.1 p.p. from the end of the previous fiscal year to 36.9% at the end of the second quarter.

2. Cash flow conditions

Cash and equivalents increased by ¥1,617 million from the end of the previous fiscal year to ¥16,470 million at the end of the second quarter.

(Cash flow from operating activities)

Net cash provided by operating activities amounted to ¥3,070 million in the current first half, a decrease of ¥298 million compared with the same period of the previous fiscal year due to a decrease in notes and accounts receivable-trade.

(Cash flow from investing activities)

Net cash used by investing activities amounted to ¥13,229 million in the current first half, a decrease of ¥795 million compared with the same period of the previous fiscal year due to proceeds from sales of property, plant and equipment, and payments for lease and guarantee deposits.

(Cash flow from financing activities)

Net cash provided by financing activities amounted to ¥11,803 million in the current first half, an increase of 12,584 million compared with the same period of the previous fiscal year due to a net increase in short-term loans payable and repayments of long-term loans payable.

(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)	1H FY3/18 (September 30, 2017)
Assets		
Current assets		
Cash and deposits	15,210	16,827
Notes and accounts receivable–trade	8,643	7,537
Real estate for sale in process	920	795
Costs on uncompleted construction contracts	420	272
Other	7,179	7,795
Allowance for loan losses	(23)	(24)
Total current assets	32,350	33,203
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,251	44,997
Land	37,770	40,834
Construction in progress	17,373	16,687
Other, net	2,698	3,111
Total property, plant and equipment	98,094	105,630
Intangible assets	2,957	3,743
Investments and other assets		
Investment securities	5,032	5,665
Guarantee deposits	14,561	15,177
Lease deposits	11,526	12,440
Other	8,979	9,588
Allowance for doubtful accounts	(206)	(214)
Total investments and other assets	39,892	42,657
Total non-current assets	140,944	152,031
Deferred assets	313	290
Total assets	173,609	185,526

(Unit: Millions of yen)

	FY3/17 (March 31, 2017)	1H FY3/18 (September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,230	4,557
Short-term loans payable	17,398	35,315
Current portion of bonds	2,950	2,950
Income taxes payable	2,175	2,552
Provision for bonuses	1,829	1,106
Provision for directors' bonuses	486	193
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	17
Provision for loss on construction contracts	30	20
Other	21,351	18,871
Total current liabilities	52,477	65,594
Non-current liabilities		
Bonds payable	18,650	17,175
Convertible bond-type bonds with subscription rights to shares	20,511	20,326
Long-term loans payable	11,842	7,930
Director retirement benefit reserve	287	268
Provision for point card certificates	28	39
Net defined benefit liability	1,102	1,122
Other	4,389	4,600
Total non-current liabilities	56,811	51,462
Total liabilities	109,289	117,057
Net assets		
Shareholders' equity		
Capital stock	7,703	7,795
Capital surplus	12,558	12,651
Retained earnings	43,888	47,823
Treasury shares	(321)	(326)
Total shareholders' equity	63,829	67,944
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	834	930
Foreign currency translation adjustment	(356)	(417)
Remeasurements of defined benefit plans	13	10
Total accumulated other comprehensive income	491	524
Total net assets	64,320	68,468
Total liabilities and net assets	173,609	185,526

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

(Unit: Millions of yen)

	1H FY3/17 (April 1, 2016 to September 30, 2016)	1H FY3/18 (April 1, 2017 to September 30, 2017)
Net sales	68,477	70,936
Cost of sales	52,305	53,520
Gross profit	16,172	17,415
Selling, general and administrative expenses	8,998	10,200
Operating income	7,173	7,215
Non-operating income		
Interest income	35	31
Dividend income	27	31
Gain on investments in partnership	―	149
Other	95	70
Total non-operating income	158	283
Non-operating expense		
Interest payment	313	261
Other	156	175
Total non-operating expenses	470	436
Ordinary income	6,861	7,061
Extraordinary income		
Gain on sales of non-current assets	―	71
Insurance premiums refunded cancellation	―	25
Other	―	1
Total extraordinary income	―	99
Extraordinary losses		
Impairment loss	89	―
Provision for loss on disaster	304	―
Loss on retirement of non-current assets	27	113
Dismantlement costs	―	115
Total extraordinary losses	421	228
Income before income taxes	6,440	6,931
Income taxes	2,171	2,299
Profit	4,268	4,632
Profit attributable to owners of parent	4,268	4,632

(Quarterly consolidated comprehensive income statements)

(Consolidated first half)

(Unit: Millions of yen)

	1H FY3/17 (April 1, 2016 to September 30, 2016)	1H FY3/18 (April 1, 2017 to September 30, 2017)
Profit	4,268	4,632
Other comprehensive income		
Valuation difference on available-for-sale securities	(27)	96
Foreign currency translation adjustment	(290)	(60)
Remeasurements of defined benefit plans	6	(2)
Total other comprehensive income	(310)	33
Comprehensive income	3,957	4,665
(Details)		
Comprehensive income attributable to owners of parent	3,957	4,665

(3) Consolidated cash flow statement

(Unit: Millions of yen)

	Previous Term FY3/17 (April 1, 2016 to September 30, 2016)	Current Term FY3/18 (April 1, 2017 to September 30, 2017)
Cash flow from operating activities		
Income before income taxes and minority interests	6,440	6,931
Depreciation	1,849	2,084
Amortization of long-term prepaid expenses	202	212
Amortization of guarantee deposits	107	125
Increase (decrease) in provision for bonuses	(717)	(722)
Interest and dividend income	(63)	(62)
Interest expenses	313	261
Loss (gain) on investments in partnership	–	(149)
Loss (gain) on sales and retirement of non-current assets	27	42
Surrender value of insurance	–	(25)
Impairment loss	89	–
Loss on disaster	304	–
Dismantlement costs	–	115
Decrease (increase) in notes and accounts receivable - trade	2,709	1,105
Decrease (increase) in accounts receivable - other	357	609
Decrease (increase) in other inventories	1,005	256
Increase (decrease) in notes and accounts payable - trade	(2,591)	(1,672)
Increase (decrease) in accrued expenses	(111)	106
Increase (decrease) in advances received	(3,005)	(2,987)
Increase (decrease) in accrued consumption taxes	320	(345)
Increase (decrease) in deposits received	(604)	(479)
Increase (decrease) in guarantee deposits received	25	138
Other	(357)	(312)
Subtotal	6,302	5,232
Interest and dividend income received	35	33
Interest expenses paid	(313)	(263)
Income taxes refund	1	6
Income taxes (paid) refund	(2,657)	(1,938)
Net cash provided by (used in) operating activities	3,368	3,070
Cash flows from investing activities		
Purchase of securities	(11)	(524)
Proceeds from sales of securities	92	21
Purchase of property, plant and equipment	(10,650)	(11,836)
Proceeds from sales of property, plant and equipment	112	3,122
Purchase of intangible assets	(897)	(811)
Payments of loans receivable	(344)	(856)
Collection of loans receivable	404	136
Payments for lease and guarantee deposits	(2,512)	(1,710)
Proceeds from collection of lease and guarantee deposits	52	16
Purchase of insurance funds	(540)	(563)
Proceeds from cancellation of insurance funds	175	47
Other	96	(273)
Net cash provided by (used in) investing activities	(14,024)	(13,229)

(Unit: Millions of yen)

	Previous Term FY3/17 (April 1, 2016 to September 30, 2016)	Current Term FY3/18 (April 1, 2017 to September 30, 2017)
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	7,350	18,350
Repayments of long-term loans payable	(6,898)	(4,344)
Redemption of bonds	(675)	(1,475)
Purchase of treasury shares	(8)	(5)
Cash dividends paid	(521)	(694)
Other	(27)	(27)
Net cash provided by (used in) financing activities	(780)	11,803
Effect of exchange rate change on cash and cash equivalents	(108)	(27)
Net increase (decrease) in cash and cash equivalents	(11,545)	1,617
Cash and cash equivalents at beginning of period	25,603	14,853
Cash and cash equivalents at end of period	14,057	16,470

(4) 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 half of the fiscal year ended March 2017 (From April 1 to September 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	22,441	30,009	3,523	846	6,229	63,050	5,426	68,477	–	68,477
Inter-segment sales and transfers	114	65	2,943	2,317	3,634	9,075	233	9,308	(9,308)	–
Total	22,555	30,074	6,467	3,163	9,864	72,125	5,660	77,786	(9,308)	68,477
Segment profit/loss	3,546	4,624	151	(26)	537	8,832	(108)	8,723	(1,549)	7,173

(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 ¥1,549 million includes ¥349 million for inter-segment transaction eliminations, and ¥1,200 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

None

II. First half of the fiscal year ending March 2018 (From April 1 to September 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	23,201	34,682	3,650	869	2,828	65,231	5,705	70,936	–	70,936
Inter-segment sales and transfers	142	87	2,827	2,511	7,848	13,417	246	13,664	(13,664)	–
Total	23,343	34,769	6,478	3,380	10,676	78,649	5,952	84,601	(13,664)	70,936
Segment profit/loss	3,698	4,699	138	59	395	8,990	(131)	8,858	(1,643)	7,215

(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 ¥1,643 million includes ¥302 million for inter-segment transaction eliminations, and ¥1,341 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