



Kyoritsu Maintenance Co., Ltd.
(Securities Code: 9616)

**Third Quarter of Fiscal Year Ending March 2017
Consolidated Earnings Results Update**

February 2017



Third Quarter of Fiscal Year Ending March 2017 Consolidated Earnings Announcement

February 9, 2017
Tokyo Stock Exchange

Company Name: Kyoritsu Maintenance Co., Ltd.

Stock Code: 9616, URL: <http://www.kyoritsugroup.co.jp/>

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Quarterly Earnings Announcement Report Filing Date (Anticipated): February 10, 2017

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. Third Quarter of Fiscal Year Ending March 2017 Consolidated Earnings (April 1, 2016 to December 31, 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	%
3Q FY3/17	101,112	1.4	9,685	12.8	9,334	15.6	5,847	11.3
3Q FY3/16	99,702	23.7	8,586	31.8	8,073	29.8	5,256	31.4

(Note) Comprehensive income: ¥5,887 million (18.4% YoY) in 3Q FY3/17; ¥4,973 million (4.3% YoY) in 3Q FY3/16

	Profit attributable to owners of parent per share	Profit attributable to owners of parent per share (Diluted)
	Yen	Yen
3Q FY3/17	302.21	276.42
3Q FY3/16	278.60	269.45

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
	Millions of yen	Millions of yen	%	Yen
3Q FY3/17	163,949	62,905	38.4	3,248.79
FY3/16	161,402	57,974	35.9	2,997.10

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	—	26.00	—		
FY3/17 (Projected)				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)

	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	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: Yes
 (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 further 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: | Yes |
| 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 further details.

- (4) Shares issued (common stocks)

1. Shares issued as of term-end (including treasury shares)
2. Treasury stock as of term-end
3. Average during the term (first nine months)

3Q FY3/17	19,472,837	FY3/16	19,452,173
3Q FY3/17	110,147	FY3/16	108,573
3Q FY3/17	19,350,288	3Q FY3/16	18,866,190

* 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:

(Notes on forecast results)

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.

Concerning qualitative information regarding our quarterly earnings, please refer to the segment of this document “1. Qualitative Information about Quarterly Earnings, (3) Explanation of future forecasts including consolidated earnings estimates.”

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1. Qualitative Information about Quarterly Earnings

(1) Explanation of business performance

During the first three quarters of the current fiscal year, personal spending seemed weak, but there were signs of improvement in the employment environment, including an increase in the effective opening-to-applications ratio. As such, the Japanese economy continued to gradually recover. At the same time, the yen weakened and stocks strengthened after the US presidential election, but the unreliability of these trends means that the outlook remains uncertain.

In this environment, the Group's dormitory business saw growing needs, such as a rise in the university entrance rate, an increase in study-abroad students from overseas, and more companies introducing dormitory programs. The hotel business segment benefited from several positive factors, such as an increase in the number of domestic travelers and a record-high number of foreign travelers in Japan.

In this environment, the Group accelerated development investment and reinforced profitability to achieve the Kyoritsu Full Acceleration Plan, the medium-term management plan announced in May 2015. In addition, the Group endeavored to enhance its corporate brand image by co-sponsoring the university relay race in Hakone (Hakone Ekiden) and entering various IR events.

As a result, during the third quarter of the current fiscal year, both revenues and earnings increased, with sales up 1.4% year on year to ¥101,112 million, operating income up 12.8% to ¥9,685 million, ordinary income up 15.6% to ¥9,334 million, and profit attributable to owners of parent up 11.3% to ¥5,847 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 863 year on year to 32,515 residents as of the end of December. In addition, in the first three quarters, the student dormitories segment performed well due to an increase in the number of affiliated universities and a growing number of students from overseas, while corporate dormitories achieved substantial gains in the number of contracts due to an increase in new hires by companies and more companies now opting to offer employee dormitories. The impact of the Kumamoto Earthquake in April was minimal, and revenue and earnings were up in the Kyushu area.

Consequently, sales and operating income rose significantly by 3.2% and 19.2% year on year to ¥33,251 million and ¥5,051 million, respectively.

Hotel business

With respect to the Dormy Inn business hotels, this fiscal year we have opened six establishments: Natural Springs Tendo no Yu Dormy Inn Abashiri, global cabin Gotanda, Natural Springs Toyama Tsurugi no Yu Onyado Nono, Natural Springs Zenkou no Yu Dormy Inn Nagano, Denma no Yu Dormy Inn PREMIUM Tokyo Kodenmachi, and Natural Springs Kafu no Yu Onyado Nono Namba. Our existing hotels maintained occupancy rates and average daily rates exceeding levels in the previous year due to solid demand from repeat customers and the ongoing increase in inbound demand. Moreover, occupancy rates at Natural Springs Rokka no Yu Dormy Inn Kumamoto, which reopened in August, were even stronger than levels prior to the Kumamoto Earthquake.

In the resort hotel business, we opened the Naruko Onsen Yumoto Kissho. Hotels in the Hakone region, which were affected by an increase in the level of the volcano threat alert in the previous fiscal period, restored their occupancy rates to levels in line with typical years. Moreover, the overall occupancy rate at the end of the year was particularly strong. As a result, both the occupancy rate and average daily rates exceeded levels in the previous year. In addition, cost management was thorough due to flexible personnel assignments tailored to individual occupancy conditions.

As a result, sales and operating income both increased significantly, up 13.1% year on year to ¥45,634 million and up 10.5% year on year to ¥6,301 million, respectively, succeeding in absorbing opening costs and repair costs.

Contracted services business

In the contracted services business, both revenues and earnings increased due to an increase in building management and building construction work. Consequently, sales and operating income rose by 10.6% and 4.6% year on year to ¥11,243 million and ¥267 million, respectively.

Food service business

Both revenues and earnings increased in the food service business as the number of contracted hotel restaurants rose. Consequently, sales and operating income rose by 15.3% and 7.0% year on year to ¥4,862 million and ¥18 million, respectively.

Construction business

The construction business generated significant 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 60.8% and 91.5% year on year to ¥15,960 million and ¥708 million, respectively.

Other business

Our other business segments are the Senior 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 ¥8,390 million, a decrease of 4.4% year on year, and incurred an operating loss of ¥251 million, in comparison with an operating loss of ¥98 million in the same period of the previous fiscal year.

(2) Explanation of financial position

(Assets)

Total consolidated assets increased by ¥2,546 million from the end of the previous fiscal year to ¥163,949 million at the end of the third quarter. The main factor behind this increase was an increase in construction in progress, etc.

(Liabilities)

Total consolidated liabilities declined by ¥2,383 million from the end of the previous fiscal year to ¥101,044 million at the end of the third quarter, due primarily to a decline in long-term loans payable.

(Net assets)

Net assets grew by ¥4,930 million from the end of the previous fiscal year to ¥62,905 million at the end of the third quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio rose by 2.5 p.p. from the end of the previous fiscal year to 38.4% at the end of the third quarter.

(3) Explanation of future forecasts including consolidated earnings estimates

Our consolidated earnings estimates for 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

None

(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 the nine months ended December 31, 2016, after accounting for the tax effects, and multiplies income before income taxes during the nine months ended December 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 used.

(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 third quarter is insignificant.

(4) Additional information

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

The Company 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.

Kyoritsu Maintenance (9616), 3Q FYE March 2017 Earnings Announcement

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/16 (March 31, 2016)	3Q FY3/17 (December 31, 2016)
Assets		
Current assets		
Cash and deposits	25,960	12,763
Notes and accounts receivable - trade	9,763	8,367
Real estate for sale	2,827	1,581
Costs on uncompleted construction contracts	331	205
Other	6,368	6,682
Allowance for doubtful accounts	(19)	(26)
Total current assets	45,231	29,574
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,337	38,739
Land	33,807	37,508
Construction in progress	6,906	13,891
Other, net	2,190	2,468
Total property, plant and equipment	79,240	92,608
Intangible assets	1,710	2,913
Investments and other assets		
Investment securities	5,034	5,106
Guarantee deposits	12,199	13,773
Lease deposits	10,103	11,206
Other	7,978	8,779
Allowance for doubtful accounts	(212)	(212)
Total investments and other assets	35,103	38,654
Total non-current assets	116,054	134,176
Deferred assets	116	198
Total assets	161,402	163,949

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	(Unit: Millions of yen)	
	FY3/16 (March 31, 2016)	3Q FY3/17 (December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,966	5,688
Short-term loans payable	21,471	20,977
Current portion of bonds	1,350	2,150
Income taxes payable	2,765	1,380
Provision for bonuses	1,700	1,026
Provision for directors' bonuses	426	294
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	18
Other	18,941	19,667
Total current liabilities	53,648	51,212
Non-current liabilities		
Bonds payable	5,600	11,800
Convertible bond-type bonds with subscription rights to shares	20,608	20,528
Long-term loans payable	17,940	11,704
Director retirement benefit reserve	287	287
Provision for point card certificates	25	22
Net defined benefit liability	1,072	1,140
Other	4,244	4,349
Total non-current liabilities	49,779	49,832
Total liabilities	103,428	101,044
Net assets		
Shareholders' equity		
Capital stock	7,654	7,694
Capital surplus	12,509	12,550
Retained earnings	37,778	42,600
Treasury shares	(305)	(317)
Total shareholders' equity	57,637	62,528
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	736	848
Foreign currency translation adjustment	(393)	(475)
Remeasurements of defined benefit plans	(5)	3
Total accumulated other comprehensive income	336	376
Total net assets	57,974	62,905
Total liabilities and net assets	161,402	163,949

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(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated third quarter)

	(Unit: Millions of yen)	
	3Q FY3/16 (April 1, 2015 to December 31, 2015)	3Q FY3/17 (April 1, 2016 to December 31, 2016)
Net sales	99,702	101,112
Cost of sales	78,860	77,873
Gross profit	20,842	23,239
Selling, general and administrative expenses	12,255	13,553
Operating income	8,586	9,685
Non-operating income		
Interest income	98	52
Dividend income	42	43
Deposit redemption income	66	75
Other	95	135
Total non-operating income	301	307
Non-operating expenses		
Interest payment	602	453
Other	212	204
Total non-operating expenses	815	657
Ordinary income	8,073	9,334
Extraordinary income		
Gain on cancellation of leasehold contracts	432	—
Total extraordinary income	432	—
Extraordinary losses		
Impairment loss	—	89
Loss on disaster	—	309
Settlement funds	175	—
Other	26	27
Total extraordinary losses	201	427
Income before income taxes	8,303	8,907
Income taxes	3,047	3,059
Profit	5,256	5,847
Profit attributable to owners of parent	5,256	5,847

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Quarterly consolidated comprehensive income statement
 Consolidated third quarter

	(Unit: Millions of yen)	
	3Q FY3/16 (April 1, 2015 to December 31, 2015)	3Q FY3/17 (April 1, 2016 to December 31, 2016)
Profit	5,256	5,847
Other comprehensive income		
Valuation difference on available-for-sale securities	36	111
Foreign currency translation adjustment	(302)	(81)
Remeasurements of defined benefit plans	(17)	9
Total other comprehensive income	(283)	39
Comprehensive income	4,973	5,887
(Details)		
Comprehensive income attributable to owners of parent	4,973	5,887

Kyoritsu Maintenance (9616), 3Q FYE March 2017 Earnings Announcement

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

None

(Significant changes in shareholders' equity notes)

None

(Segment information)

Segment information

I. Third quarter of fiscal year ended March 2016 (From April 1 to December 31, 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	32,054	40,281	5,537	1,242	12,130	91,247	8,455	99,702	—	99,702
Inter-segment sales and transfers	171	77	4,629	2,975	(2,204)	5,650	320	5,970	(5,970)	—
Total	32,226	40,359	10,167	4,218	9,926	96,897	8,775	105,673	(5,970)	99,702
Segment profit/loss	4,237	5,700	255	16	370	10,580	(98)	10,482	(1,896)	8,586

(Notes)

1. Other is not considered as a reporting business segment and is comprised of the Senior Life business (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 ¥1,896 million includes ¥152 million for inter-segment transaction eliminations, and ¥1,743 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. Third quarter of fiscal year ending March 2017 (From April 1 to December 31, 2016)

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	33,074	45,535	5,523	1,300	7,619	93,055	8,057	101,112	—	101,112
Inter-segment sales and transfers	176	98	5,720	3,561	8,340	17,898	333	18,231	(18,231)	—
Total	33,251	45,634	11,243	4,862	15,960	110,953	8,390	119,344	(18,231)	101,112
Segment profit/loss	5,051	6,301	267	18	708	12,347	(251)	12,095	(2,410)	9,685

- (Notes)
1. Other is not considered as a reporting business segment and is comprised of the Senior Life business (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 ¥2,410 million includes ¥580 million for inter-segment transaction eliminations, and ¥1,829 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