Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

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

February 2018

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

February 9, 2018

Company Name: Kyoritsu Maintenance Co., Ltd. Tokyo Stock Exchange
Stock Code: 9616, URL: http://www.kyoritsugroup.co.jp/
Director: Takumi Ueda, President
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Quarterly Earnings Announcement Report Filing Date (Anticipated): February 13, 2018
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. Third Quarter of the Fiscal Year Ending March 2018 Consolidated Earnings (April 1, 2017 to December 31, 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	%
3Q FY3/18	108,726	7.5	10,214	5.5	9,985	7.0	6,661	13.9
3Q FY3/17	101,112	1.4	9,685	12.8	9,334	15.6	5,847	11.3

(Note) Comprehensive income: ¥7,124 million (21.0% YoY) in 3Q FY3/18; ¥5,887 million (18.4% YoY) in 3Q FY3/17

	EPS	Fully Diluted EPS
	Yen	Yen
3Q FY3/18	171.56	157.47
3Q FY3/17	151.10	138.21

(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
3Q FY3/18	188,086	70,480	37.5	1,809.13
FY3/17	173,609	64,320	37.0	1,660.61

(Note) Capital: ¥70,480 million in 3Q 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	151,000	11.2	12,600	6.6	12,300	6.8	8,200	14.9	210.48

(Note) Recent changes in earnings estimates: Yes

Please refer to the press release issued on February 9, 2018, entitled “Notification of Revisions to Earnings Forecasts” for information on revisions to consolidated earnings forecasts.

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)	3Q FY3/18	39,182,362	FY3/17	38,954,452
2. Treasury stock as of term-end	3Q FY3/18	224,215	FY3/17	221,546
3. Average during the term (first nine months)	3Q FY3/18	38,832,276	3Q FY3/17	38,700,577

(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) have 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:
(Notes on forecast results)
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 three quarters 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, we also noted factors such as labor shortages 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 began 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 three quarters of the current fiscal year, sales rose 7.5% year on year to ¥108,726 million, and operating income increased 5.5% to ¥10,214 million. Ordinary income was up 7.0% to ¥9,985 million. Profit attributable to owners of parent climbed 13.9% over the previous year to ¥6,661 million, reaching a record high. Our consolidated earnings forecasts initially projected that ordinary income would increase 1.6% over the previous year in the full year due to ¥1,270 million in business commencement expenses in the hotel business incurred in line with the medium-term management plan. However, progress with real estate liquidation has contributed, in addition to steady increases in hotel occupancy rates and average daily rates, effectively absorbing the business commencement expenses, and thus we have revised our growth forecast upward to 6.8% year-on-year growth.

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, while an increase of 628 year on year in the total number of contracted residents cumulated in 33,143 residents as of the end of December. In addition, the number of contracts for corporate dormitories increased in the first three quarters of the current fiscal year due to factors such as companies actively hiring greater numbers of new employees and more companies now opting to offer employee dormitories. Consequently, sales rose by 3.4% year on year to ¥34,378 million, while operating income increased by 2.3% to ¥5,168 million.

Hotel business

In the Dormy Inn (business hotel) business, we opened seven facilities, namely "Myojin no Yu Dormy Inn Premium Kanda," "Natural Springs Hyuga no Yu Dormy Inn Miyazaki," "Natural Springs Yakumo no Yu Dormy Inn Izumo," "Natural Springs Kaijin no Yu Dormy Inn EXPRESS Sendai Seaside," "Natural Springs Shoun no Yu Dormy Inn Kofu Marunouchi," "Natural Springs Yoshino-zakura no Yu Onyado Nono Nara," and "Global Cabin Tokyo Suidobashi." Moreover, existing hotels generated favorable results, exceeding levels of the same period in the previous fiscal year with respect to both occupancy rates and the average daily rate due to a significant increase in business involving inbound customers and solid growth in use by domestic customers.
In the resort hotel business, we opened two facilities first in the Chugoku / Shikoku area, namely the "Inishie no Yado Keiun," and "Oyado Tsukiyo no Usagi" hotels, both in the vicinity of the Izumo Taisha shrine. We also opened "Le Chien Kyu-Karuizawa," Kyoritsu Resort's first resort to welcome pets, and the high-grade "Gora Onsen Setsugetsuka Bettei Suiun," our fourth resort in the Hakone region. 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 16.2% year on year to ¥53,029 million and operating income increased 6.5% to ¥6,714 million, absorbing the ¥1,070 million in preparation costs for the opening of new hotels in the first three quarters of this fiscal year.

Contracted services business

In the contracted services business, earnings decreased due to the impact of major construction work in the same period in the previous year. As a result, sales and operating income fell by 8.5% and 16.0% year on year to ¥10,289 million and ¥224 million, respectively.

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 and operating income rose by 4.8% and 552.4% year on year to ¥5,095 million and ¥117 million, respectively.

Construction business

In the construction business, sales and income declined due to a decrease in the development of built-for-sale condominiums, in addition to delays with some hotel development projects. As a result, sales and operating income fell by 5.4% and 13.9% year on year to ¥15,100 million and ¥610 million, respectively.

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 ¥8,855 million, an increase of 5.5% year on year, and incurred an operating loss of ¥226 million, in comparison with an operating loss of ¥251 million in the same period of the previous fiscal year.

(2) Explanation of financial position

(Assets)

Total consolidated assets rose by ¥14,477 million from the end of the previous fiscal year to ¥188,086 million at the end of the third quarter. The main factor behind this increase was an increase in real estate for sale in process, and buildings and structures.

(Liabilities)

Total consolidated liabilities rose by ¥8,317 million from the end of the previous fiscal year to ¥117,606 million at the end of the third quarter, due primarily to an increase in short-term loans payable.

(Net assets)

Net assets grew by ¥6,159 million from the end of the previous fiscal year to ¥70,480 million at the end of the second quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio declined by 0.5 p.p. from the end of the previous fiscal year to 37.5% at the end of the third quarter.

(3) Explanation of future forecasts including consolidated earnings estimates

Our consolidated earnings forecasts initially projected that ordinary income would increase 1.6% over the previous year in the full year due to ¥1,270 million in business commencement expenses in the hotel business, incurred in line with the medium-term management plan. However, progress with real estate liquidation has contributed, in addition to steady increases in hotel occupancy rates and average daily rates, effectively absorbing the business commencement expenses, and thus we have revised our growth forecast upward to 6.8% year-on-year growth.

Please refer to the press release issued on February 9, 2018, entitled “Notification of Revisions to Earnings Forecasts,” for information on revisions to consolidated earnings forecasts.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/17 (March 31, 2017)	3Q FY3/18 (December 31, 2017)
Assets		
Current assets		
Cash and deposits	15,210	16,708
Notes and accounts receivable–trade	8,643	7,883
Real estate for sale	920	735
Costs on uncompleted construction contracts	420	376
Real estate for sale in process	―	4,035
Other	7,179	8,279
Allowance for loan losses	(23)	(23)
Total current assets	32,350	37,994
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,251	43,451
Land	37,770	39,950
Construction in progress	17,373	16,172
Other, net	2,698	3,145
Total property, plant and equipment	98,094	102,719
Intangible assets	2,957	3,909
Investments and other assets		
Investment securities	5,032	5,318
Guarantee deposits	14,561	15,839
Lease deposits	11,526	13,005
Other	8,979	9,238
Allowance for doubtful accounts	(206)	(218)
Total investments and other assets	39,892	43,183
Total non-current assets	140,944	149,812
Deferred assets	313	279
Total assets	173,609	188,086

(Unit: Millions of yen)

	FY3/17 (March 31, 2017)	3Q FY3/18 (December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	6,230	5,943
Short-term loans payable	17,398	36,892
Current portion of bonds	2,950	3,020
Income taxes payable	2,175	1,621
Provision for bonuses	1,829	1,111
Provision for directors' bonuses	486	291
Provision for warranties for completed construction	8	8
Provision for point card certificates	18	20
Provision for loss on construction contracts	30	13
Other	21,351	18,434
Total current liabilities	52,477	67,356
Non-current liabilities		
Bonds payable	18,650	16,450
Convertible bond-type bonds with subscription rights to shares	20,511	20,000
Long-term loans payable	11,842	7,833
Director retirement benefit reserve	287	269
Provision for point card certificates	28	22
Net defined benefit liability	1,102	1,143
Other	4,389	4,530
Total non-current liabilities	56,811	50,249
Total liabilities	109,289	117,606
Net assets		
Shareholders' equity		
Capital stock	7,703	7,923
Capital surplus	12,558	12,779
Retained earnings	43,888	49,154
Treasury shares	(321)	(331)
Total shareholders' equity	63,829	69,526
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	834	1,123
Foreign currency translation adjustment	(356)	(179)
Remeasurements of defined benefit plans	13	9
Total accumulated other comprehensive income	491	953
Total net assets	64,320	70,480
Total liabilities and net assets	173,609	188,086

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated third quarter)

(Unit: Millions of yen)

	3Q FY3/17 (April 1, 2016 to December 31, 2016)	3Q FY3/18 (April 1, 2017 to December 31, 2017)
Net sales	101,112	108,726
Cost of sales	77,873	83,317
Gross profit	23,239	25,408
Selling, general and administrative expenses	13,553	15,194
Operating income	9,685	10,214
Non-operating income		
Interest income	52	55
Dividend income	43	49
Gain on investments in partnership	57	149
Other	152	117
Total non-operating income	307	371
Non-operating expense		
Interest payment	453	384
Other	204	216
Total non-operating expenses	657	600
Ordinary income	9,334	9,985
Extraordinary income		
Gain on sales of non-current assets	—	196
Other	—	27
Total extraordinary income	—	224
Extraordinary losses		
Impairment loss	89	—
Provision for loss on disaster	309	—
Loss on retirement of non-current assets	27	113
Dismantlement costs	—	115
Other	—	2
Total extraordinary losses	427	231
Income before income taxes	8,907	9,978
Income taxes	3,059	3,316
Profit	5,847	6,661
Profit attributable to owners of parent	5,847	6,661

(Quarterly consolidated comprehensive income statements)
(Consolidated third quarter)

(Unit: Millions of yen)

	3Q FY3/17 (April 1, 2016 to December 31, 2016)	3Q FY3/18 (April 1, 2017 to December 31, 2017)
Profit	5,847	6,661
Other comprehensive income		
Valuation difference on available-for-sale securities	111	288
Foreign currency translation adjustment	(81)	176
Remeasurements of defined benefit plans	9	(3)
Total other comprehensive income	39	462
Comprehensive income	5,887	7,124
(Details)		
Comprehensive income attributable to owners of parent	5,887	7,124

(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 the nine months ended December 31, 2017, after accounting for the tax effects, and multiplies income before income taxes during the nine months ended December 31, 2017, by this estimated effective tax rate. However, in cases in which calculating tax expenses using the estimated effective rate yields a result that is markedly irrational, then the legally determined effective tax rate is used.

(Segment information)

Segment information

I. Third quarter of the fiscal year ended March 2017 (From April 1 to December 31, 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	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 (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 ¥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 statement.

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

None

II. Third quarter of the fiscal year ending March 2018 (From April 1 to December 31, 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	34,160	52,900	5,665	1,188	6,308	100,224	8,502	108,726	–	108,726
Inter-segment sales and transfers	217	128	4,623	3,907	8,791	17,669	353	18,022	(18,022)	–
Total	34,378	53,029	10,289	5,095	15,100	117,893	8,855	126,749	(18,022)	108,726
Segment profit/loss	5,168	6,714	224	117	610	12,835	(226)	12,608	(2,394)	10,214

(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 ¥2,394 million includes ¥430 million for inter-segment transaction eliminations, and ¥1,963 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