Kyoritsu Maintenance Co., Ltd.

(Securities Code: 9616)

Fiscal Year Ended March 2018
Consolidated Earnings Results Update

May 2018

Fiscal Year Ended March 2018 Consolidated Earnings Announcement

May 15, 2018

Company Name: Kyoritsu Maintenance Co., Ltd. Tokyo Stock Exchange
Stock Code: 9616, URL: http://www.kyoritsugroup.co.jp/
Director: Takumi Ueda, President
Contact: Koji Nakamura, Director, General Manager of Management Planning Department, Tel: +81-3-5295-7778
General Shareholders Meeting (Anticipated): June 27, 2018; Dividend Payment Date (Anticipated): June 29, 2018
Financial Accounts Filing Date (Anticipated): June 27, 2018
Earnings Presentation Document: Available
Earnings Presentation Meeting: Available (for institutional investors and analysts)

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

1. Fiscal Year Ended March 2018 Consolidated Earnings (April 1, 2017 to March 31, 2018)

(1) Consolidated Earnings (Aggregated)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY3/18	152,021	11.9	13,087	10.8	12,928	12.3	8,778	23.0
FY3/17	135,828	0.6	11,815	15.3	11,514	17.8	7,135	19.5

(Note) Comprehensive income: ¥8,436 million (15.7% YoY) in FY3/18; ¥7,290 million (34.9% YoY) in FY3/17

	EPS	Fully Diluted EPS	ROE	Ordinary Income to Total Asset Ratio	Operating Margin
	Yen	Yen	%	%	%
FY3/18	225.86	207.50	12.9	7.1	8.6
FY3/17	184.35	168.66	11.7	6.9	8.7

(Reference) Equity accounting method profit: ¥0 in FY3/18; ¥0 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, 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
	Million yen	Million yen	%	Yen
FY3/18	190,996	71,839	37.6	1,842.79
FY3/17	173,609	64,320	37.0	1,660.61

(Reference) Capital: ¥71,839 million in 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.

(3) Consolidated Cash Flow Conditions

	Operating Cash Flow	Investing Cash Flow	Financing Cash Flow	Cash and Equivalents at Term End
	Million yen	Million yen	Million yen	Million yen
FY3/18	13,029	(16,676)	5,804	16,972
FY3/17	14,412	(28,263)	3,139	14,853

2. Dividend Conditions

	Dividend Per Share					Total Dividend Payment (Annual)	Dividend Payout Ratio (Consolidated)	Dividend to Net Asset Ratio (Consolidated)
	1Q-End	2Q-End	3Q-End	4Q-End	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY3/17	-	26.00	-	36.00	62.00	1,200	16.8	2.0
FY3/18	-	18.00	-	22.00	40.00	1,556	17.7	2.3
FY3/19 (Forecast)	-	20.00	-	23.00	43.00		18.0	

(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 years ended in March 2016 and March 2017.

3. Fiscal Year Ending March 2019 Consolidated Earnings Estimates (April 1, 2018 to March 31, 2019)

(% figures show year-on-year change for the full year)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First Half	78,500	10.7	7,500	3.9	7,200	2.0	4,800	3.6	123.13
Full Year	164,600	8.3	14,000	7.0	13,600	5.2	9,300	5.9	238.56

Notes

(1) Important changes in our subsidiaries, including changes to the scope of our consolidation: None

(2) 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

(3) Shares Issued (Common Stocks)

1. Shares issued as of term-end (including treasury shares)	FY3/18	39,209,238	FY3/17	38,954,452
2. Treasury Shares as of term-end	FY3/18	225,193	FY3/17	221,546
3. Average during the term	FY3/18	38,866,440	FY3/17	38,707,607

(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.

(Reference) Outline of non-consolidated business results

1. Fiscal Year Ended March 2018 Parent Earnings (From April 1, 2017 to March 31, 2018)

(1) Parent Earnings (% figures show year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
For the fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2018	124,588	11.2	12,077	4.5	12,365	5.4	5,669	(28.0)
March 31, 2017	112,078	6.8	11,559	19.6	11,735	22.4	7,875	25.4

	Book Value Per Share	Net Income Per Share–Diluted
For the fiscal year ended	Yen	Yen
March 31, 2018	145.87	134.01
March 31, 2017	203.46	186.13

(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" and "Net Income Per Share–Diluted" have been calculated presuming that this stock split was carried out at the start of the previous consolidated fiscal year.

(2) Parent Financial Position

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2018	171,945	68,262	39.7	1,751.03
As of March 31, 2017	161,600	63,828	39.5	1,647.92

(Reference) Shareholders' equity: As of March 31, 2018: ¥68,262 million
As of March 31, 2017: ¥63,828 million

(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. Fiscal Year Ending March 2019 Parent Earnings Estimates (April 1, 2018 to March 31, 2019)

(% figures show year-on-year change for the full year)

	Net Sales		Operating Income		Ordinary Income		EPS
	Million yen	%	Million yen	%	Million yen	%	Yen
First Half	67,500	10.5	7,200	1.4	5,000	2.7	128.26
Full Year	139,400	11.9	13,300	7.6	9,200	62.3	235.99

*The earnings announcement is exempt from audit by certified public accountants and auditors.

*Notes and explanation of appropriate usage of earnings estimates:

(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. For information regarding earnings estimates and the assumptions upon which they are based, and the usages of these earnings estimates, please refer to "(4) Forecasts" under "1. Overview of Operating Results" on page 9.

(Method for obtaining supplementary explanatory information on financial results and the briefing on financial results)

The Company will post supplementary explanatory information on financial results on its website.

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1. Overview of Operating Results

(1) Overview of Operating Results in the Fiscal Period under Review

1. Overview of Overall Earnings in Current Term

(Consolidated Earnings) (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Net Sales	135,828	152,021	11.9
Operating Income	11,815	13,087	10.8
Ordinary Income	11,514	12,928	12.3
Profit attributable to owners of parent	7,135	8,778	23.0

During the fiscal year ended March 31, 2018, Japan's income environment recovered, but growth in personal spending was limited and geopolitical risks also had an impact. However, there were some positive factors, such as an increase in the number of domestic travelers and a record-high number of foreign inbound travelers.

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. We also updated our corporate slogan as a way of communicating our new branding message, and devised a corporate symbol. In addition, the Group constantly endeavored to enhance its corporate brand image by co-sponsoring the university relay race in Hakone (Hakone Ekiden), which improved recognition of our business, and by participating in various IR events.

In this fiscal year, income steadily increased in the dormitory business, and although opening costs for the 13 newly opened hotels amounted to about ¥1.8 billion in the hotel business, the occupancy rate and the average daily rate significantly exceeded levels in the previous year. As a result, the opening costs were easily absorbed and income increased.

As a result, sales rose 11.9% year on year to ¥152,021 million, operating income increased 10.8% to ¥13,087 million, and ordinary income was up 12.3% to ¥12,928 million. Profit attributable to owners of parent climbed 23.0% over the previous year to ¥8,778 million. These results exceeded the consolidated forecasts for the full fiscal year announced on February 9. Moreover, ordinary income rose for the eighth fiscal year in a row, and set a record high for the sixth year in a row, making for a successful start to the medium-term management plan. Kyoritsu Maintenance Korea Co., Ltd., our subsidiary in South Korea, succeeded in raising name recognition for the Dormy Inn brand in South Korea while also steadily improving revenue, despite geopolitical risks. However, in terms of the need to ensure financial soundness, the Group absorbed a ¥448 million impairment loss on asset holdings.

2. Our Main Business Segment Performance

Dormitory Business (Student, Corporate, Domeal, Consigned Dormitories)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Contracted Residents	36,474	37,391	2.5
Sales (million yen)	45,644	47,052	3.1
Operating Income (million yen)	7,243	7,579	4.6

The 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 917 year on year in the total number of contracted residents cumulated in 37,391 residents as of the end of March. In addition, cost optimization has been successful, resulting in a substantial increase in earnings.

The student dormitory business continued to benefit from a high need for dormitories due to the rise in university attendance rates and an increase in students from abroad attending universities in Japan. In this fiscal year, we succeeded in forming new 6 alliances. On the other hand, the decrease in the number of preparatory school students throughout Japan did have an effect. As a result, the number of contracted residents in the student dormitories fell by 221 year on year to 20,199 residents, and sales fell by 0.0% year on year to ¥25,272 million. In the next fiscal year, we expect the number of contracts for student dormitories to increase over the previous year and return to the customary upward trend.

The corporate dormitory business achieved substantial gains in the number of contracts mainly due to continuous improvement of the employment environment and the rise in the number of corporations introducing employee dormitories. As a result, the number of contracted residents rose by 1,066 year on year at the end of the fiscal year to 11,899, and sales rose by 8.2% year on year to ¥13,100 million.

In our Domeal business, we received support from client schools and companies through their introductions of new residents seeking dormitories and also met demand from people looking to move out of dormitories providing meals by providing studio-type dormitory facilities. Consequently, the number of contracted residents rose by 72 year on year to 5,293, and sales grew by 0.8% year on year to ¥4,465 million.

In our consigned dormitory business, we manage corporate and school dormitory facilities on a consigned basis, and we endeavor to differentiate our services by promoting our status as “Japan’s best dormitory operator.” Sales rose by 10.2% year on year to ¥4,214 million.

As a result, the number of dormitory facilities increased by 8 over the previous year to 473 (excluding consigned facilities), contracted residents grew by 1,085 to 38,125, and sales and operating income rose 3.1% and 4.6% year on year to ¥47,052 million and ¥7,579 million, respectively.

Hotel Business (Dormy Inn, Resort Hotels) (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Sales	60,408	70,160	16.1
Operating Income	6,931	7,155	3.2

In the hotel business, domestic travelers and inbound demand continued to increase. In addition, our efforts to ensure that customers were put first resulted in high occupancy rates and average daily rates exceeding levels in the previous year, thanks to repeat customers. As a result, hotel opening costs were absorbed and both sales and income increased.

With respect to the Dormy Inn business hotels, this fiscal year we have opened nine establishments: “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,” “Natural Springs Ishite no Yu Dormy Inn Matsuyama,” “Natural Springs Kompeki no Yu Dormy Inn Kochi,”

At the same time, in part because the percentage of inbound customers in the Dormy Inn business increased 6.6% over the previous year to 27.1%, occupancy rates and average daily rates exceeded initial forecasts. As a result, sales rose 23.0% over the previous year to ¥39,741 million.

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. As a result, sales were up 8.3 % year on year to ¥30,418 million. Moreover, we thoroughly implemented cost controls in part by means of flexible personnel assignments tailored to occupancy conditions.

Due to these factors, the total number of facilities in operation rose to 98 (up by 12 from the previous year) and the number of rooms to 14,144 (up 1,428 from the previous fiscal year) in the hotel business overall. Sales rose 16.1% to ¥70,160 million year on year, and operating income rose 3.2% year on year to ¥7,155 million, affected by about ¥1.8 billion in costs for the opening of 13 new hotels.

Contracted Services Business (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Sales	15,953	14,877	(6.7)
Operating Income	518	504	(2.7)

Income and sales fell in the contracted business in comparison to the previous fiscal year, when large-scale construction work was posted. As a result, sales fell 6.7% over the previous year to ¥14,877 million and operating income declined 2.7% to ¥504 million.

Food Services Business (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Sales	6,498	6,732	3.6
Operating Income	53	158	196.3

In the food service business, sales and income both increased due to growth in the management of contracted hotel restaurants and the closure of unprofitable stores in the restaurant business. As a result, sales rose 3.6% to ¥6,732 million and operating income climbed 196.3% to ¥158 million.

Construction Business (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Sales	23,007	22,450	(2.4)
Operating Income	946	1,117	18.0

In the construction business, sales declined due to a reduction in built-for-sale condominium development, and income increased as a result of real estate liquidation. As a result, sales decreased by 2.4% to ¥22,450 million and operating income rose 18.0% over the previous year to ¥1,117 million.

Other Business (Unit: million yen)

	Previous Term FY3/17	Current Term FY3/18	% YoY Change
Sales	11,172	11,845	6.0
Operating Income	(404)	(290)	—

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 ¥11,845 million, an increase of 6.0% year on year, and incurred an operating loss of ¥290 million, in comparison with an operating loss of ¥404 million in the previous fiscal year

(2) Overview of Financial Position in the Fiscal Period under Review

(Assets)

During the current fiscal year, total consolidated assets increased by ¥17,387 million from the end of the previous fiscal year to ¥190,996 million. The main factors behind this increase included rises in land and real estate for sale in process.

(Liabilities)

Over the same period, total liabilities increased by ¥9,868 million to ¥119,157 million, due primarily to an increase in bonds and a decrease in loans.

(Net Assets)

Net assets increased by ¥7,518 million to ¥71,839 million over the same period due primarily to an increase in retained earnings.

Consequently, equity ratio rose by 0.6 points from the end of the previous fiscal year to 37.6%.

(3) Overview of Cash Flows in the Fiscal Period under Review

Consolidated cash and equivalents increased by ¥2,118 million from the end of the previous term to ¥16,972 million at the end of the current term.

(Cash Flow from Operating Activities)

The net cash inflow from operating activities decreased by ¥1,382 million from the previous term to ¥13,029 million in the current term, due to an increase in notes and accounts receivable – trade and inventories.

(Cash Flow from Investing Activities)

The purchase of property, plant and equipment, and proceeds from sales of property, plant and equipment led to a ¥11,587 million decrease in the net cash outflow year on year to ¥16,676 million in investing activities.

(Cash Flow from Financing Activities)

A net cash inflow in financing activities increased by ¥2,664 million from the previous term to ¥5,804 million reflecting proceeds from the repayment of long-term loans payable and proceeds from the issuance of bonds.

(Reference) Trends in Our Cash Flow Indicators

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18
Equity Ratio (%)	26.2	33.6	35.9	37.0	37.6
Equity Ratio, Market Capital-Based (%)	34.4	72.6	116.4	74.0	103.9
Cash Flow to Interest-Bearing Liability Ratio (%)	8.8	7.5	8.2	5.0	6.1
Interest Coverage Ratio (x)	7.3	8.9	10.2	24.9	26.1

Equity Ratio: Capital / Total Assets

Equity Ratio, Market Capital-Based: Market Capitalization / Total Assets

Cash Flow to Interest-Bearing Liability Ratio: Interest-Bearing Liabilities / Operating Cash Flow

Interest Coverage Ratio: Operating Cash Flow / Interest Payments

(Note) 1. Each indicator is based on consolidated financial data.

2. Market capitalization excludes treasury stock.

3. Cash flow is based on our operating cash flow.

4. Interest-bearing debt includes all of the liabilities that bear interest payments on our consolidated balance sheet.

5. We use interest payments from our consolidated cash flow statements.

(4) Forecasts

(Consolidated) (Unit: million yen)

	Current Term FY3/18	Coming Term FY3/19	% YoY Change
Net Sales	152,021	164,600	8.3
Operating Income	13,087	14,000	7.0
Ordinary Income	12,928	13,600	5.2
Profit Attributable to Owners of Parent	8,778	9,300	5.9

(Parent Earnings) (Unit: million yen)

	Current Term FY3/18	Coming Term FY3/19	% YoY Change
Net Sales	124,588	139,400	11.9
Ordinary Income	12,365	13,300	7.6
Net Income	5,669	9,200	62.3

With regard to the future outlook, although the moderate economic recovery in the Japanese economy is expected to continue, uncertainties such as political risk in the US and Europe, and the slowdown of the Chinese and Asian economies are forecast to continue. Furthermore, in the medium term, reflecting the increase in visitors in conjunction with the Tokyo 2020 Olympic and Paralympic Games, it is forecast that there will be significant environmental changes, including soaring construction costs and personnel shortages, etc.

In the dormitory business, the occupancy rate declined slightly to 97.7% in April, down 0.6% over the previous year, but this was due to temporary vacancies following the completion of new student dormitories and this rate should recover early in the next fiscal year. Overall, occupancy is stable, with the number of contracted student residents increasing, and we expect solid numbers going forward. We plan to respond flexibly to the greater diversification of residents and their needs, while maintaining a stable revenue structure by optimizing costs.

In the Dormy Inn (business hotel) business, we plan to open a total of 11 facilities: the “Dormy Inn Honhachinohe,” “Dormy Inn Osaka Tanimachi Yonchome,” “Dormy Inn Ohita,” “Dormy Inn Korakuen,” “Global cabin Hamamatsu,” “Global cabin Yokohama China town,” “Dormy Inn Takamatsu Chuo-koen,” “Dormy Inn PREMIUM Namba ANNEX,” “Dormy Inn PREMIUM Osaka Kitahama,” “Dormy Inn Maebashi,” and “Dormy Inn Fukui” (tentative names). In the resort hotel business, we plan to open a total of three facilities, namely “La Vista Kirishima Hills,” “Shirakawago Onyado Yui no Sho” and “Echigoyuzawa Onsen Yukemuri Yuki no Hana” (tentative names). We intend to accelerate this development to achieve the medium-term management plan.

In the contracted services business, Kyoritsu will implement measures to increase our credibility with customers through improvements in our specialized technologies and product lineup. These measures will also allow us to aggressively provide customers with high-quality building maintenance and other services that are highly competitive within the market with our new enhanced organization.

In the food services business, Kyoritsu will develop products and services with high levels of customer satisfaction, and implement strict management of variable costs as part of its earnings reform strategy.

In our construction business, we will continue to support the Kyoritsu Group development and new facility opening plans, in addition to cultivating external clients and strictly managing costs.

In our other business segment, we will focus on quickly establishing a business model to make the Senior Life business and the Public Kyoritsu Partnership (PKP) next-generation businesses and realize higher levels of profitability.

As a consequence of the above, in the next fiscal year, net sales are expected to increase 8.3% to ¥164,600 million, operating income to rise 7.0% to ¥14,000 million, ordinary income to grow 5.2% to ¥13,600 million and profit attributable owners of parent to increase 5.9% to ¥9,300 million on a consolidated basis. The forecast income growth rate is more modest compared to this fiscal year because we expect opening costs of about ¥1.9 billion resulting from advance development, as in this fiscal year, as well as about ¥800 million in large-scale renovations to raise customer satisfaction. On a parent basis, we forecast an 11.9% increase in net sales to ¥139,400 million, a 7.6% increase in ordinary income to ¥13,300 million and a 62.3% increase in net income to ¥9,200 million. We expect net income to increase significantly over the fiscal year under review because ¥3,465 million in subsidiary stock valuation losses for stock in Kyoritsu Maintenance Korea, the Group’s subsidiary in South Korea, were posted as an extraordinary loss in this fiscal year, but this extraordinary loss had no impact on consolidated earnings since it was eliminated in consolidation. For details on this extraordinary loss, please refer to the press release issued today entitled “Notice of Differences between Non-consolidated Forecasts for the Fiscal Year Ended March 31, 2018 and Actual Results and the Posting of an Extraordinary Loss.”

It should be noted that the forecasts above were created based on the information that could be obtained as of the publication date of this document, and actual results may differ from the forecast values due to various factors in the future.

(5) Our Basic Policy Regarding the Distribution of Profits in the Current and Next Terms

We consider the capital contributed by shareholders to be invaluable, and place a high priority on the distribution of profits to our shareholders in line with our earnings performance. One of our goals is to maintain a stable level of dividends over the long term and we have established a target dividend payout ratio of 20%. In the fiscal year under review, we will pay ¥22 in year-end dividends for a total of ¥40 in annual dividends, and since we carried out a stock split at a ratio of one to two on April 1, 2017, this is effectually a 29% increase for the full fiscal year. In the next fiscal year, we expect to increase dividends by ¥3 to ¥43. We aim to reach a target dividend payout ratio of 20% during the period of our medium-term management plan. In the future, we will endeavor to maintain a stable level of dividends while also responding flexibly to reflect changes in our earnings. At the same time, we also seek to retain a level of earnings that will give our management the flexibility to make necessary capital investments in response to changes in the market and to develop new businesses whenever appropriate.

2. Basic Approach to Selecting Accounting Standards

The Group prepares its consolidated financial statements using Japanese standards, in consideration of the ability to compare periods in consolidated financial statements and make comparisons between companies.

The Group will respond appropriately to the adoption of IFRS in light of conditions in Japan and overseas.

3. Consolidated Financial Statements and Important Notes

(1) Consolidated Balance Sheets

(Unit: million yen)

	Previous Term (March 31, 2017)	Current Term (March 31, 2018)
Assets		
Current assets		
Cash and deposits	15,210	17,298
Notes and accounts receivable – trade	8,643	10,603
Real estate for sale	920	217
Real estate for sale in process	–	2,652
Costs on uncompleted construction contracts	420	360
Deferred tax assets	954	1,088
Other	6,224	7,247
Allowance for loan losses	(23)	(26)
Total current assets	32,350	39,442
Non-current assets		
Property, plant and equipment		
Buildings and structures	65,795	69,763
Accumulated depreciation	(25,543)	(27,069)
Buildings and structures, net	40,251	42,694
Land	37,770	40,846
Construction in progress	17,373	16,335
Other	10,935	12,179
Accumulated depreciation	(8,236)	(9,091)
Other, net	2,698	3,087
Total property, plant and equipment	98,094	102,964
Intangible assets	2,957	4,012
Investments and other assets		
Investment securities	5,032	5,093
Long-term loans receivable	413	346
Guarantee deposits	14,561	16,054
Lease deposits	11,526	13,516
Net defined benefit asset	7	–
Deferred tax assets	1,314	1,434
Other	7,243	7,773
Allowance for doubtful accounts	(206)	(203)
Total investments and other assets	39,892	44,015
Total non-current assets	140,944	150,992
Deferred assets		
Bond issuance cost	313	562
Total deferred assets	313	562
Total assets	173,609	190,996

(Unit: million yen)

	Previous Term (March 31, 2017)	Current Term (March 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	6,230	7,998
Short-term loans payable	17,398	12,915
Current portion of bonds	2,950	4,638
Income taxes payable	2,175	2,597
Advances received	11,431	11,191
Provision for bonuses	1,829	2,071
Provision for directors' bonuses	486	388
Provision for warranties for completed construction	8	9
Provision for point card certificates	18	3
Provision for loss on construction contracts	30	2
Other	9,920	10,470
Total current liabilities	52,477	52,287
Non-current liabilities		
Bonds payable	18,650	32,230
Convertible bond-type bonds with subscription rights to shares	20,511	20,000
Long-term loans payable	11,842	8,662
Long-term guarantee deposited	3,104	3,354
Deferred tax liabilities	448	435
Net defined benefit liability	1,102	1,089
Director retirement benefit reserve	287	269
Provision for point card certificates	28	5
Asset retirement obligations	399	400
Other	437	421
Total non-current liabilities	56,811	66,869
Total liabilities	109,289	119,157
Net assets		
Shareholders' equity		
Capital stock	7,703	7,949
Capital surplus	12,558	12,805
Retained earnings	43,888	51,270
Treasury shares	(321)	(336)
Total shareholders' equity	63,829	71,690
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	834	515
Foreign currency translation adjustment	(356)	(378)
Remeasurements of defined benefit plans	13	12
Total accumulated other comprehensive income	491	149
Total net assets	64,320	71,839
Total liabilities and net assets	173,609	190,996

(2) Consolidated Income Statement and Comprehensive Income Statement
(Consolidated Income Statement)

(Unit: million yen)

	Previous Term (April 1, 2016 to March 31, 2017)	Current Term (April 1, 2017 to March 31, 2018)
Net sales	135,828	152,021
Cost of sales	105,255	118,214
Gross profit	30,573	33,806
Selling, general and administrative expenses		
Salaries, allowances and bonuses	4,400	4,693
Welfare expenses	907	946
Provision for bonuses	532	635
Provision for directors' bonuses	486	388
Retirement benefit expenses	92	77
Director retirement reserve provisions	1	1
Promotion expenses	2,011	1,912
Commission fee	5,980	7,222
Provision of allowance for doubtful accounts	9	7
Provision for point card certificates	6	(32)
Business consignment expenses	1,346	1,448
Rent expenses	431	585
Depreciation	196	215
Other	2,353	2,616
Total selling, general and administrative expense	18,757	20,719
Operating income	11,815	13,087
Non-operating income		
Interest income	67	107
Dividend income	127	100
Gain on investments in partnership	59	148
Deposit redemption income	115	120
Other	189	144
Total non-operating income	559	621
Non-operating expenses		
Interest expenses	587	495
Commission fee	103	98
Other	168	187
Total non-operating expenses	859	781
Ordinary income	11,514	12,928

(Unit: million yen)

	Previous Term (April 1, 2016 to March 31, 2017)	Current Term (April 1, 2017 to March 31, 2018)
Extraordinary income		
Gain on sales of non-current assets	—	198
Gain on sales of investment securities	—	698
Other	—	25
Total extraordinary income	—	923
Extraordinary losses		
Impairment loss	198	477
Loss on retirement of non-current assets	27	113
Dismantlement costs	—	115
Loss on disaster	309	—
Other	2	71
Total extraordinary losses	539	777
Income before income taxes	10,975	13,073
Income taxes – current	3,984	4,421
Income taxes – deferred	(144)	(126)
Total income taxes	3,839	4,295
Profit	7,135	8,778
Profit attributable to owners of parent	7,135	8,778

(Consolidated Comprehensive Income Statements)

(Unit: million yen)

	Previous Term (April 1, 2016 to March 31, 2017)	Current Term (April 1, 2017 to March 31, 2018)
Profit	7,135	8,778
Other comprehensive income		
Valuation difference on available-for-sale securities	97	(318)
Foreign currency translation adjustment	37	(22)
Remeasurements of defined benefit plans	18	(0)
Total other comprehensive income	154	(342)
Comprehensive income	7,290	8,436
(Details)		
Comprehensive income attributable to owners of parent	7,290	8,436

(3) Consolidated Shareholders' Equity Statements
Consolidated Figures for Fiscal Year Ended March 2017 (April 1, 2016 to March 31, 2017)

(Unit: million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	7,654	12,509	37,778	(305)	57,637
Increase (decrease) due to change					
Issuance of new shares (exercise of subscription rights to shares)	48	48			97
Dividends from surplus			(1,025)		(1,025)
Profit attributable to owners of parent			7,135		7,135
Acquisition of treasury stock				(17)	(17)
Sales of treasury stock		0		0	1
Items other than changes in shareholders' equity, due to change (net)					
Total change during fiscal year	48	49	6,110	(16)	6,191
Balance as of end of current fiscal year	7,703	12,558	43,888	(321)	63,829

	Accumulated other comprehensive income				Total net assets
	Net unrealized gains on other securities	Translation adjustments	Retirement benefit-related adjustments	Total accumulated other comprehensive income	
Balance as of start of current fiscal year	736	(393)	(5)	336	57,974
Increase (decrease) due to change					
Issuance of new shares (exercise of subscription rights to shares)					97
Dividends from surplus					(1,025)
Profit attributable to owners of parent					7,135
Acquisition of treasury stock					(17)
Sales of treasury stock					1
Items other than changes in shareholders' equity, due to change (net)	97	37	18	154	154
Total change during fiscal year	97	37	18	154	6,345
Balance as of end of current fiscal year	834	(356)	13	491	64,320

Consolidated Figures for Fiscal Year Ended March 2018 (April 1, 2017 to March 31, 2018)

(Unit: million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	7,703	12,558	43,888	(321)	63,829
Cumulative impact of changes in the accounting policy					
Issuance of new shares (exercise of subscription rights to shares)	246	246			493
Dividends from surplus			(1,396)		(1,396)
Profit attributable to owners of parent			8,778		8,778
Acquisition of treasury stock				(14)	(14)
Sales of treasury stock		0		0	0
Items other than changes in shareholders' equity, due to change (net)					
Total change during fiscal year	246	246	7,382	(14)	7,861
Balance as of end of current fiscal year	7,949	12,805	51,270	(336)	71,690

	Accumulated other comprehensive income				Total net assets
	Net unrealized gains on other securities	Translation adjustments	Retirement benefit-related adjustments	Total accumulated other comprehensive income	
Balance as of start of current fiscal year	834	(356)	13	491	64,320
Increase (decrease) due to change					
Issuance of new shares (exercise of subscription rights to shares)					493
Dividends from surplus					(1,396)
Profit attributable to owners of parent					8,778
Acquisition of treasury stock					(14)
Sales of treasury stock					0
Items other than changes in shareholders' equity, due to change (net)	(318)	(22)	(0)	(342)	(342)
Total change during fiscal year	(318)	(22)	(0)	(342)	7,518
Balance as of end of current fiscal year	515	(378)	12	149	71,839

(4) Consolidated Cash Flow Statements

(Unit: million yen)

	Previous Term FY3/17 (April 1, 2016 to March 31, 2017)	Current Term FY3/18 (April 1, 2017 to March 31, 2018)
Cash flow from operating activities		
Income before income taxes	10,975	13,073
Depreciation	3,945	4,429
Amortization of long-term prepaid expenses	441	414
Amortization of guarantee deposits	225	250
Increase (decrease) in provision for bonuses	128	242
Interest and dividend income	(194)	(208)
Interest expenses	587	495
Loss (gain) on investments in partnership	(59)	(148)
Loss (gain) on sales of property, plant and equipment	27	(84)
Impairment loss	198	477
Loss on disaster	309	—
Dismantlement costs	—	115
Loss (gain) on sales of investment securities	—	(698)
Decrease (increase) in notes and accounts receivable – trade	1,122	(1,960)
Decrease (increase) in inventories	1,750	(446)
Increase (decrease) in notes and accounts payable – trade	(737)	1,768
Increase (decrease) in accrued expenses	62	(293)
Increase (decrease) in advances received	216	(103)
Increase (decrease) in accounts payable – other	156	(164)
Increase (decrease) in accrued consumption taxes	333	(135)
Increase (decrease) in deposits received	109	195
Increase (decrease) in guarantee deposits received	39	285
Other	(209)	(195)
Subtotal	19,431	17,307
Interest and dividend income received	274	146
Interest expenses paid	(579)	(499)
Income taxes refund	1	6
Income taxes paid	(4,715)	(3,932)
Cash flow from operating activities	14,412	13,029
Cash flow from investing activities		
Purchase of securities	(11)	(1,382)
Proceeds from sales of securities	352	1,501
Purchase of property, plant and equipment	(22,442)	(19,711)
Proceeds from sales of property, plant and equipment	112	8,847
Purchase of intangible assets	(1,401)	(1,192)
Purchase of long-term prepaid expenses	(449)	(242)
Proceeds from sales of long-term prepaid expenses	0	505
Payments of loans receivable	(509)	(1,383)
Collection of loans receivable	672	1,323
Payments for lease and guarantee deposits	(4,380)	(4,028)
Proceeds from collection of lease and guarantee deposits	203	224
Purchase of insurance funds	(1,001)	(1,023)
Proceeds from cancellation of insurance funds	331	52
Other	260	(165)
Cash flow from investing activities	(28,263)	(16,676)

(Unit: million yen)

	Previous Term FY3/17 (April 1, 2016 to March 31, 2017)	Current Term FY3/18 (April 1, 2017 to March 31, 2018)
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	(1,400)	(2,550)
Proceeds from long-term loans payable	2,600	3,800
Repayments of long-term loans payable	(11,371)	(8,912)
Proceeds from issuance of bonds	15,756	17,879
Redemption of bonds	(1,350)	(2,950)
Purchase of treasury shares	(17)	(14)
Cash dividends paid	(1,023)	(1,394)
Other	(55)	(53)
Cash flow from financing activities	3,139	5,804
Effect of exchange rate change on cash and cash equivalents	(38)	(38)
Net increase (decrease) in cash and cash equivalents	(10,750)	2,118
Cash and cash equivalents at beginning of period	25,603	14,853
Cash and cash equivalents at end of period	14,853	16,972

(5) Consolidated Financial Statement Notes
(Notes Regarding Going Concern Assumptions)
Not applicable

(Important Articles in the Assumption Used to Create Consolidated Financial Statements)
1. Scope of Consolidation
(1) Consolidated subsidiaries: 9 Companies
Kyoritsu Estate Co., Ltd.
Kyoritsu Trust Co., Ltd.
Kyoritsu Insurance Service Co., Ltd.
Kyoritsu Food Service Co., Ltd.
Japan Placement Center Co., Ltd.
Kyoritsu Financial Service Co., Ltd.
Builnet Co., Ltd.
Central BuilWork Co., Ltd.
Kyoritsu Maintenance Korea Co., Ltd.

(2) Non-Consolidated Subsidiaries: 6 Companies
Flat Co., Ltd.
Okinawa Kyoritsu Maintenance Co., Ltd.
Kyoritsu Assist Co., Ltd.
Ecofoods Co., Ltd.
Ryokan Okunobo
Kyoritsu Maintenance Taiwan Co.,Ltd
Kyoritsu Maintenance (Thailand) Co., Ltd.
KTDL HOSPITALITY CO., LTD.
(Reason for the exclusion from scope of consolidated accounts)
The assets, sales and net income of these non-consolidated companies only amount to a marginal amount of the total consolidated accounts and are not considered to be important enough to be included in consolidated accounts.

(Segment Information)
1) Overview of Reported Segments
Financial information related to the individual divisions of our business segments is readily available, and our management considers the validity of these segments on a regular basis during their board of directors' meetings in assessing segment earnings and the allocation of business resources in accordance with these segments.
Our divisions and subsidiaries responsible for the various services within our Group are also responsible for developing both strategies and business activities for their respective businesses.
Therefore, our segments are defined by the basic services provided by each of the divisions and subsidiaries and are divided into five main segments including "dormitories," "hotels," "contracted services," "food services," and "construction."

We provide an overview of our reported business segments as follows:
Dormitories: Dormitories provided to students and corporate employees, Domeal, management of outsourced dormitories
Hotels: Dormy Inn business hotels, resort hotels
Contracted Services: Office building and residential property management services
Food Services: Restaurant business, management of outsourced cafeterias, hotel restaurants and other facilities
Construction: Planning, design and construction, real estate brokerage business, condominiums for sale, real estate liquidation, and other related services

2) Method of calculation for sales, income and losses, assets and other items of reported segments
Profits in the reported business segments are operating income.
Intersegment earnings and transfers are based on actual market pricing.

3) Sales, profits, assets and other information regarding reporting segments
Consolidated Figures for Fiscal Year Ended March 2017 (April 1, 2016 to March 31, 2017)

(Unit: million yen)

	Reporting Segments						Other (Note 1)	Total	Adjustments (Note 2)	Values Used in Consolidated Financial Statements (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Net sales										
External sales	45,404	60,274	8,219	1,707	9,505	125,111	10,716	135,828	―	135,828
Intersegment sales and transfers	239	134	7,733	4,791	13,501	26,400	455	26,856	(26,856)	―
Total	45,644	60,408	15,953	6,498	23,007	151,512	11,172	162,684	(26,856)	135,828
Operating income	7,243	6,931	518	53	946	15,693	(404)	15,289	(3,474)	11,815
Assets	46,958	89,370	12,235	1,356	11,905	161,827	7,385	169,212	4,397	173,609
Other items										
Depreciation	1,076	2,639	87	64	47	3,915	113	4,029	(83)	3,945
Impairment loss	16	―	89	52	―	158	40	198	―	198
Change in property, plant and equipment and intangible assets	2,994	23,694	77	43	6	26,815	56	26,872	(1,213)	25,659

(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. Details of adjustments are provided below.

(Unit: million yen)

Operating Income	
Intersegment transaction cancellations	(781)
Companywide expenses (Note)	(2,692)
Total	(3,474)

(Note) Companywide expenses represent the expenses associated primarily with finance and accounting, and other operations associated with headquarters.

(Unit: million yen)

Segment Assets	
Intersegment transaction cancellations	(11,029)
Companywide assets (Note)	15,426
Total	4,397

(Note) Companywide assets represent cash and equivalents, investment securities, deferred tax assets and other assets associated with headquarters.

3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statement.

Consolidated Figures for Fiscal Year Ended March 2018 (April 1, 2017 to March 31, 2018)

(Unit: million yen)

	Reporting Segments						Other (Note 1)	Total	Adjustments (Note 2)	Values Used in Consolidated Financial Statements (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales External sales	46,760	69,984	7,846	1,437	14,631	140,659	11,361	152,021	–	152,021
Intersegment sales and transfers	292	175	7,031	5,294	7,819	20,613	483	21,097	(21,097)	–
Total	47,052	70,160	14,877	6,732	22,450	161,273	11,845	173,118	(21,097)	152,021
Operating income	7,579	7,155	504	158	1,117	16,515	(290)	16,224	(3,137)	13,087
Assets	48,415	100,158	12,565	1,427	14,797	177,364	8,468	185,832	5,164	190,996
Other items										
Depreciation	1,104	3,177	67	19	44	4,414	97	4,511	(81)	4,429
Impairment loss	14	448	–	11	–	474	3	477	–	477
Change in property, plant and equipment and intangible assets	1,841	18,550	608	78	0	21,080	59	21,139	244	21,384

(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. Details of adjustments are provided below.

(Unit: million yen)

Operating Income	
Intersegment transaction cancellations	(276)
Companywide expenses (Note)	(2,861)
Total	(3,137)

(Note) Companywide expenses represent the expenses associated primarily with finance and accounting, and other operations associated with the headquarters.

(Unit: million yen)

Segment Assets	
Intersegment transaction cancellations	(9,444)
Companywide expenses (Note)	14,609
Total	5,164

(Note) Companywide assets represent cash and equivalents, investment securities, deferred tax assets and other assets associated with headquarters.

3. Segment operating income is derived from adjustments made to the operating income of the consolidated financial statements.