



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

**First Quarter of the Fiscal Year Ending March 2019
Consolidated Earnings Results Update**

August 2018



First Quarter of the Fiscal Year Ending March 2019 Consolidated Earnings Announcement

August 9, 2018

Company Name: Kyoritsu Maintenance Co., Ltd.

Tokyo Stock Exchange

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

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Quarterly Earnings Announcement Report Filing Date (Anticipated): August 10, 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. First Quarter of the Fiscal Year Ending March 2019 Consolidated Earnings (April 1, 2018 to June 30, 2018)

(1) Consolidated Earnings (Aggregated)

(% figures show year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY3/19	36,880	7.5	2,549	1.7	2,419	(2.9)	1,572	2.7
1Q FY3/18	34,314	5.8	2,507	1.4	2,491	9.5	1,531	27.1

(Note) Comprehensive income: ¥1,591 million (2.3% YoY) in 1Q FY3/19; ¥1,555 million (103.1% YoY) in 1Q FY3/18

	EPS		Fully Diluted EPS	
	Yen		Yen	
1Q FY3/19	40.34		37.17	
1Q FY3/18	39.49		36.19	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Book Value Per Share
	Millions of yen	Millions of yen	%	Yen
1Q FY3/19	193,439	72,556	37.5	1,861.17
FY3/18	190,929	71,839	37.6	1,842.79

(Reference) Capital: ¥72,556 million in 1Q FY3/19; ¥71,839 million in FY3/18

2. Dividend Conditions

	Dividend Per Share				
	1Q-End	2Q-End	3Q-End	4Q-End	Total
	Yen				
FY3/18	—	18.00	—	22.00	40.00
FY3/19	—				
FY3/19 (Projected)		20.00	—	23.00	43.00

(Note) Recent changes in dividend projections: None

3. The 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 and quarter)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		EPS
	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Yen
First Half	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

(Note) Recent changes in earnings estimates: None

Notes

- (1) Important changes in our subsidiaries, including changes to the scope of our consolidation: None
- (2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements: Applicable (Note) Please refer to “2. Quarterly Consolidated Financial Statements and Important Notes, (3) Quarterly consolidated financial statement notes (Application of special accounting procedures in the preparation of our quarterly consolidated financial statements)” on page 11 for more details.
- (3) Changes in the accounting policies, procedures, and changes or revisions in the display of accounting estimates:
- | | |
|--|------|
| 1. Changes accompanying revisions in accounting standards: | None |
| 2. Other changes: | None |
| 3. Changes in accounting estimates: | None |
| 4. Redisplay of revisions: | None |

(4) Shares Issued (Common Stocks)

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

1Q FY3/19	39,210,435	FY3/18	39,209,238
1Q FY3/19	226,161	FY3/18	225,193
1Q FY3/19	38,983,766	1QFY3/18	38,772,463

* Quarterly financial reports are not subject to review by certified public accountants or auditing firms

* 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

The environment in which the Group operated during the first quarter of the consolidated fiscal year under review was represented by increases in the ratio of students going on to higher-level schools and growth in inbound traffic on the one hand, and by labor shortages and the impact of the Residential Accommodation Business Act (the “Minpaku Act”) on the other hand. Under these conditions, the Group worked steadily to implement the two core components of the medium-term management plan, namely improving customer satisfaction, and pursuing advanced developments.

As a result, operating results in the first quarter were characterized by growth in net sales of 7.5% year on year, to ¥36,880 million. This was driven by our success in maintaining the high occupancy ratio that was obtained at the beginning of the fiscal year in the mainstay dormitory business, which, in addition to favorable reactions by customers to the hotel business, resulted in year-on-year increases in RevPAR (the occupancy ratio multiplied by average daily rate) for both the Dormy Inn (business hotel) and resort hotel operations. With regard to profit, we were able to absorb expenses related to preparations for development etc. of ¥520 million, as well as costs of ¥219 million associated with a major program of renewals to improve customer satisfaction, leading to operating income of ¥2,549 million (up 1.7% year on year), ordinary income of ¥2,419 million (down 2.9% year on year), and profit attributable to owners of parent of ¥1,572 million (up 2.7% year on year). In addition, the decline in ordinary income was caused by the ¥143 million in gains on investments in partnership that was recorded in the previous fiscal year.

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

Dormitory business

In the dormitory business, initial occupancy rates were 97.7% (down 0.6 percentage points from the previous fiscal year), but this was caused by the temporary occurrence of empty rooms resulting from the completion of a new dormitory for the exclusive use of schools. In the first quarter, the number of contracts in the student dormitory business rose year on year in a return to the previous trend, in addition to which the corporate dormitory business also saw an increase in the number of contracts as a result of such factors as companies introducing dormitory systems. In terms of costs, the Company recorded ¥133 million in expenses related to preparations for development, etc. as a result of opening new facilities as well as costs of ¥80 million in relation to a major program of renewals for existing facilities.

As a result, net sales reached ¥12,455 million (up 4.1% year on year) and operating income came to ¥1,993 million (down 0.4% year on year).

Hotel business

In the Dormy Inn business, the “Natural Springs Nanbu no Yu Dormy Inn Honhachinohe” was opened. Also, as a result of a significant increase in inbound customers as well as solid growth in domestic customers, occupancy rates and average daily rates at existing facilities were both strong, and exceeded previous-year levels.

In the resort hotel business, we continued to promote the creation of resorts that will be loved by customers and become a familiar part of their lives, under the aegis of the new brand logo unveiled during the period under review. At existing facilities also, occupancy rates exceeded previous-year levels, but through such measures as the flexible assignment of personnel in response to occupancy conditions, we succeeded in keeping tight control of costs.

The outcome was that the Company was able to absorb not only the ¥386 million in expenses related to preparations for development, etc. including the portion arising from new facilities scheduled to be opened in future, but also the ¥138 million related to the major program of renewal implemented for existing facilities. In addition, certain facilities were affected by natural disasters, such as the North Osaka earthquake, but net sales rose by 14.5% year on year to ¥17,704 million, while operating income rose 4.4% year on year to ¥1,341 million.

Contracted services business

In the contracted services business, net sales rose due to an increase in construction projects, but profit fell due to the expiry of certain contracts in the building management division. As a result, sales increased 17.3% to ¥3,516 million and operating income fell by 85.3% year on year to ¥6 million.

Food service business

In the food services business, both sales and profit rose due to growth in the number of contracted hotel restaurants managed. Consequently, sales increased by 3.9% to ¥1,614 million and operating income was ¥8 million in comparison with an operating loss of ¥6 million in the same quarter of the previous fiscal year.

Construction business

In the construction business, net sales fell as a result of the decline in construction projects, but due to an increase in

high-margin design projects, profit increased. Consequently, sales fell by 34.5% to ¥3,476 million and operating income rose 51.7 % year on year to ¥120 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 ¥3,109 million, an increase of 4.1% year on year, and incurred an operating loss of ¥68 million, in comparison with an operating loss of ¥135 million in the same period of the previous fiscal year.

(2) Explanation of financial position

(Assets)

Total consolidated assets increased by ¥2,509 million from the end of the previous fiscal year to ¥193,439 million at the end of the first quarter. The main factors behind this increase were increases in land and construction in progress, etc.

(Liabilities)

Total consolidated liabilities increased by ¥1,792 million from the end of the previous fiscal year to ¥120,882 million at the end of the first quarter, due primarily to an increase in short-term loans payable.

(Net assets)

Net assets grew by ¥717 million from the end of the previous fiscal year to ¥72,556 million at the end of the first quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio fell by 0.1 p.p. from the end of the previous fiscal year to 37.5% at the end of the first quarter.

(3) Explanation of future forecasts including consolidated earnings estimates

Our consolidated earnings estimates for the first six months and the full fiscal year ending March 31, 2019, as provided in the “Fiscal Year Ending March 2019 Consolidated Earnings Announcement” dated May 15, 2018, remain unchanged at this point in time.

Kyoritsu Maintenance (9616), 1Q FYE March 2019 Earnings Announcement

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	FY3/18 (March 31, 2018)	1Q FY3/19 (June 30, 2018)
Assets		
Current assets		
Cash and deposits	17,298	13,960
Notes and accounts receivable–trade	10,603	11,437
Real estate for sale	217	217
Real estate for sale in process	2,652	2,670
Costs on uncompleted construction contracts	360	710
Other	7,247	7,422
Allowance for loan losses	(26)	(30)
Total current assets	38,353	36,388
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,694	43,018
Land	40,846	42,038
Construction in progress	16,335	18,039
Other, net	3,087	3,239
Total property, plant and equipment	102,964	106,336
Intangible assets	4,012	4,035
Investments and other assets		
Investment securities	5,093	5,153
Guarantee deposits	16,054	16,209
Lease deposits	13,516	13,863
Other	10,575	11,114
Allowance for doubtful accounts	(203)	(204)
Total investments and other assets	45,036	46,135
Total non-current assets	152,013	156,507
Deferred assets	562	543
Total assets	190,929	193,439

Kyoritsu Maintenance (9616), 1Q FYE March 2019 Earnings Announcement

(Unit: Millions of yen)

	FY3/18 (March 31, 2018)	1Q FY3/19 (June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	7,998	7,715
Short-term loans payable	12,915	18,013
Current portion of bonds	4,638	4,636
Income taxes payable	2,597	933
Advances received	11,191	10,252
Provision for bonuses	2,071	339
Provision for directors' bonuses	388	23
Provision for warranties for completed construction	9	9
Provision for point card certificates	3	3
Other	10,472	13,193
Total current liabilities	52,287	55,119
Non-current liabilities		
Bonds payable	32,230	31,505
Convertible bond-type bonds with subscription rights to shares	20,000	19,999
Long-term loans payable	8,662	8,227
Director retirement benefit reserve	269	270
Provision for point card certificates	5	6
Net defined benefit liability	1,089	1,128
Other	4,544	4,625
Total non-current liabilities	66,802	65,763
Total liabilities	119,090	120,882
Net assets		
Shareholders' equity		
Capital stock	7,949	7,951
Capital surplus	12,805	12,807
Retained earnings	51,270	51,971
Treasury shares	(336)	(341)
Total shareholders' equity	71,690	72,388
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	515	561
Foreign currency translation adjustment	(378)	(404)
Remeasurements of defined benefit plans	12	11
Total accumulated other comprehensive income	149	167
Total net assets	71,839	72,556
Total liabilities and net assets	190,929	193,439

Kyoritsu Maintenance (9616), 1Q FYE March 2019 Earnings Announcement

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/18 (April 1, 2017 to June 30, 2017)	1Q FY3/19 (April 1, 2018 to June 30, 2018)
Net sales	34,314	36,880
Cost of sales	26,660	28,709
Gross profit	7,654	8,171
Selling, general and administrative expenses	5,147	5,622
Operating income	2,507	2,549
Non-operating income		
Interest income	14	17
Dividend income	26	43
Gain on investments in partnership	143	—
Other	32	24
Total non-operating income	218	84
Non-operating expense		
Interest payment	133	110
Sales discounts	48	46
Other	52	58
Total non-operating expenses	233	214
Ordinary income	2,491	2,419
Extraordinary income		
Surrender value of insurance	25	—
Total extraordinary income	25	—
Extraordinary losses		
Dismantlement costs	115	—
Loss on sales of property, plant and equipment	—	3
Total extraordinary losses	115	3
Income before income taxes	2,402	2,415
Income taxes	871	843
Profit	1,531	1,572
Profit attributable to owners of parent	1,531	1,572

Kyoritsu Maintenance (9616), 1Q FYE March 2019 Earnings Announcement

(Quarterly consolidated comprehensive income statements)

(Consolidated first quarter)

(Unit: Millions of yen)

	1Q FY3/18 (April 1, 2017 to June 30, 2017)	1Q FY3/19 (April 1, 2018 to June 30, 2018)
Profit	1,531	1,572
Other comprehensive income		
Valuation difference on available-for-sale securities	112	45
Foreign currency translation adjustment	(86)	(26)
Remeasurements of defined benefit plans	(1)	(0)
Total other comprehensive income	24	18
Comprehensive income	1,555	1,591
(Details)		
Comprehensive income attributable to owners of parent	1,555	1,591

(3) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

Not applicable

(Application of special accounting procedures in the preparation of our quarterly consolidated financial statements)

(Calculation of tax expense)

The Company applies the method that reasonably estimates an effective tax rate to be assessed on income before income taxes for the year ending March 31, 2018, including this three months ended June 30, 2017, after accounting for the tax effects, and multiplies income before income taxes during the three months ended June 30, 2017 by this estimated effective tax rate. However, in the event that the estimate for the effective tax rate appears to lack logical rationale, then the legally determined effective tax rate is employed.

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" etc.)

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. Deferred tax assets are presented in investments and other assets section, and deferred tax liabilities are presented in the non-current liability section of the balance sheet respectively.

Kyoritsu Maintenance (9616), 1Q FYE March 2019 Earnings Announcement

(Segment information)

Segment information

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

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales										
External sales	11,888	15,419	1,674	447	2,022	31,452	2,862	34,314	—	34,314
Inter-segment sales and transfers	71	44	1,324	1,105	3,282	5,828	125	5,954	(5,954)	—
Total	11,960	15,464	2,998	1,553	5,304	37,281	2,987	40,269	(5,954)	34,314
Segment profit/loss	2,002	1,284	42	(6)	79	3,401	(135)	3,266	(758)	2,507

- (Notes)
1. Other is not considered as a reporting business segment and is comprised of the Senior Life (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing, administrative outsourcing services and other related services.
 2. Adjustment for segment profit and loss of ¥758 million includes ¥31 million for inter-segment transaction eliminations, and ¥727 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the accounting and management divisions.
 3. Segment profits or losses are derived by adjusting the operating income used in the quarterly consolidated income statement.

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

None

II. First quarter of the fiscal year ended March 2019 (From April 1 to June 30, 2018)

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	12,371	17,664	1,729	323	1,818	33,907	2,973	36,880	—	36,880
Inter-segment sales and transfers	84	40	1,787	1,290	1,658	4,860	135	4,996	(4,996)	—
Total	12,455	17,704	3,516	1,614	3,476	38,768	3,109	41,877	(4,996)	36,880
Segment profit/loss	1,993	1,341	6	8	120	3,470	(68)	3,402	(852)	2,549

(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 ¥852 million includes ¥71 million for inter-segment transaction eliminations, and ¥781 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