



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

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

November 2018



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

November 9, 2018

Company Name: Kyoritsu Maintenance Co., Ltd.

Tokyo Stock Exchange

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

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Quarterly Earnings Announcement Report Filing Date (Anticipated): November 13, 2018

Dividend Payment Date (Anticipated): December 5, 2018

Quarterly Earnings Presentation Document (Anticipated): Yes

Quarterly Earnings Presentation Meeting (Anticipated): Yes (For Institutional Investors and Analysts)

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

1. First Half of the Fiscal Year Ending March 2019 Consolidated Earnings (April 1, 2018 to September 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	%
1H FY3/19	79,204	11.7	8,044	11.5	7,839	11.0	5,319	14.8
1H FY3/18	70,936	3.6	7,215	0.6	7,061	2.9	4,632	8.5

(Note) Comprehensive income: ¥5,501 million (17.9% YoY) in 1H FY3/19; ¥4,665 million (17.9% YoY) in 1H FY3/18

	EPS		Fully Diluted EPS	
	Yen		Yen	
1H FY3/19	136.45		125.74	
1H FY3/18	119.40		109.49	

(2) Consolidated Financial Position

	Total Assets		Net Assets		Equity Ratio		Book Value Per Share	
	Millions of yen		Millions of yen		%		Yen	
1H FY3/19	200,487		76,469		38.1		1,961.51	
FY3/18	190,929		71,839		37.6		1,842.79	

(Note) Capital: ¥76,469 million in 1H 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	—	20.00			
FY3/19 (Projected)			—	23.00	43.00

(Note) Recent changes in dividend projections: None

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
	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Millions of yen	% (YoY)	Yen
Full Year	164,600	8.3	14,300	9.3	13,900	7.5	9,500	8.2	243.68

(Note) Recent changes in earnings estimates: Yes

Notes

- (1) Important changes in our subsidiaries, including changes to the scope of our consolidation: None
- (2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements: Applicable
(Note) Please refer to “2. Quarterly Consolidated Financial Statements and Important Notes, (4) Quarterly consolidated financial statement notes (Application of special accounting procedures in the preparation of our quarterly consolidated financial statements)” on page 13 for more details.

(3) Changes in accounting policies, changes in accounting estimates, and restatements:

- 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 six months)

1H FY3/19	39,211,612	FY3/18	39,209,238
1H FY3/19	226,410	FY3/18	225,193
1H FY3/19	38,984,507	1H FY3/18	38,794,398

* 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:

Forward-looking statements concerning financial forecasts contained in these materials are based on information available to the Company when the forecasts were made and certain assumptions judged to be reasonable. However, the Company makes no guarantee that these forecasts will be achieved. Actual results may differ significantly from the forecasts due to a variety of 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 half of the consolidated fiscal year ending March 31, 2019, was represented by increases in the ratio of students going on to higher-level schools and growth in inbound demand, but also by unpredictable natural disasters from June, including the earthquake in the northern region of Osaka, torrential rain in western Japan, the Hokkaido Eastern Iburi earthquake, and a series of major typhoons. Under these conditions, the Group worked steadily to make a swift recover from these natural disasters and 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 half were characterized by growth in net sales of 11.7% year on year, to ¥79,204 million. With regard to profit, we were able to absorb expenses related to preparations for development, etc. of ¥940 million, as well as costs of ¥220 million associated with a major program of renewals to improve customer satisfaction and income from the securitization of real estate, leading to operating income of ¥8,044 million (up 11.5% year on year), ordinary income of ¥7,839 million (up 11.0% year on year), and profit attributable to owners of parent of ¥5,319 million (up 14.8% year on year). The Group achieved record-high levels of profit.

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 half, the number of contracts in the student dormitory business returned 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 ¥130 million in expenses related to preparations for development, etc. as a result of opening a new facility as well as costs of ¥80 million in relation to a major program of renewals for existing facilities.

As a result, net sales reached ¥24,283 million (up 4.0% year on year) and operating income came to ¥3,727 million (up 0.8% year on year).

Hotel business

In the Dormy Inn (business hotel) business, the Company opened the “Natural Springs Nanbu no Yu Dormy Inn Honhachinohe,” “Natural Springs Shiraito no Yu Dormy Inn Oita,” “Natural Springs Naniwa no Yu Dormy Inn Osaka Tanimachi,” “Kasuga no Yu Dormy Inn Korakuen,” and “Dormy Inn global cabin Hamamatsu.” The number of inbound customers increased significantly, exceeding the previous year’s levels in all months. Although the aforementioned natural disasters did have an impact in the second half of the first half of this consolidated fiscal year, use by domestic customers increased, and recovery was made quickly. Revenue per available room (RevPAR, calculated as the product of the occupancy rate for each room and the average room price), an important management indicator, also rose.

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. Occupancy rates fell below previous-year levels in September due to natural disasters, and although it took some time to recover, we succeeded in keeping tight control of costs through such measures as the flexible assignment of personnel in response to occupancy conditions.

As a result, net sales rose by 12.3% year on year to ¥39,043 million. Despite ¥800 million in expenses related to preparations for development, etc. including the portion arising from new facilities scheduled to be opened in the future and ¥140 million in costs for major renovations to existing facilities, as well as the impact of natural disasters, operating income rose a steady 1.8% year on year to ¥4,782 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 14.8% to ¥7,440 million and operating income fell by 77.2% year on year to ¥31 million.

Food service business

In the food services business, sales rose due to growth in the number of contracted hotel restaurants managed, but profit fell due to the costs incurred in preparing for the launch of a restaurant business. Consequently, sales increased by 1.2% to ¥3,420 million and operating income fell by 57.2% year on year to ¥25 million.

Construction business

In the construction business, net sales fell as a result of the decline in construction projects, but profit increased significantly due to real estate liquidation. As a result, sales fell by 8.8% to ¥9,732 million and operating income increased by 164.8% year on year to ¥1,046 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 services, insurance agency business, comprehensive human resource services business, and financing and administrative outsourcing services. The other business segments posted total net sales of ¥6,232 million, an increase of 4.7% year on year, and incurred an operating loss of ¥43 million, in comparison with an operating loss of ¥131 million in the same period of the previous fiscal year.

(2) Explanation of financial position

1. Conditions of assets, liabilities, and net assets

(Assets)

Total consolidated assets rose by ¥9,557 million from the end of the previous fiscal year to ¥200,487 million at the end of the second quarter. The main factor behind this increase was an increase in cash and deposits, and real estate for sale in process.

(Liabilities)

Total consolidated liabilities rose by ¥4,927 million from the end of the previous fiscal year to ¥124,017 million at the end of the second quarter, due primarily to an increase in short-term loans payable.

(Net assets)

Net assets grew by ¥4,630 million from the end of the previous fiscal year to ¥76,469 million at the end of the second quarter, due mainly to a rise in retained earnings.

Consequently, equity ratio increased by 0.5 percentage points from the end of the previous fiscal year to 38.1% at the end of the second quarter.

2. Cash flow conditions

Cash and equivalents increased by ¥2,818 million from the end of the previous fiscal year to ¥19,790 million at the end of the second quarter.

(Cash flow from operating activities)

Net cash provided by operating activities amounted to ¥6,112 million in the current first half, an increase of ¥3,042 million compared with the same period of the previous fiscal year due to a decrease in notes and accounts receivable-trade and increase in notes and accounts payable-trade.

(Cash flow from investing activities)

Net cash used by investing activities amounted to ¥10,906 million in the current first half, a decrease of ¥2,322 million compared with the same period of the previous fiscal year due to proceeds from purchase of property, plant and equipment, and payments for lease and guarantee deposits.

(Cash flow from financing activities)

Net cash provided by financing activities amounted to ¥7,584 million in the current first half, a decrease of ¥4,218 million compared with the same period of the previous fiscal year due to a net increase in short-term loans payable and redemption of bonds.

(3) Explanation of future forecasts including consolidated earnings estimates

Initially, we had expected a 7.0% year-on-year increase in operating income in the fiscal year ending in March 2019, in light of about ¥1.9 billion in expenses related to preparations for advance development based on the medium-term management plan, as well as about ¥800 million in costs for large-scale renovations to improve customer satisfaction. However, the Company was able to overcome the impact of natural disasters and achieve stable growth in the dormitory business and hotel business, its mainstays, and real estate liquidation also made a contribution. As a result, we have revised our estimates upward and now expect a 9.3% year-on-year increase.

Kyoritsu Maintenance (9616), 1H 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)	1H FY3/19 (September 30, 2018)
Assets		
Current assets		
Cash and deposits	17,298	20,371
Notes and accounts receivable–trade	10,603	8,103
Real estate for sale	217	216
Real estate for sale in process	2,652	6,977
Costs on uncompleted construction contracts	360	689
Other	7,247	7,308
Allowance for loan losses	(26)	(29)
Total current assets	38,353	43,637
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,694	43,303
Land	40,846	42,900
Construction in progress	16,335	15,228
Other, net	3,087	3,387
Total property, plant and equipment	102,964	104,820
Intangible assets	4,012	4,059
Investments and other assets		
Investment securities	5,093	5,497
Guarantee deposits	16,054	16,354
Lease deposits	13,516	14,354
Other	10,575	11,443
Allowance for doubtful accounts	(203)	(206)
Total investments and other assets	45,036	47,444
Total non-current assets	152,013	156,324
Deferred assets	562	524
Total assets	190,929	200,487

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

(Unit: Millions of yen)

	FY3/18 (March 31, 2018)	1H FY3/19 (September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	7,998	8,056
Short-term loans payable	12,915	24,713
Current portion of bonds	4,638	4,485
Income taxes payable	2,597	2,728
Provision for bonuses	2,071	1,353
Provision for directors' bonuses	388	219
Provision for warranties for completed construction	9	9
Provision for point card certificates	3	3
Other	21,664	18,601
Total current liabilities	52,287	60,170
Non-current liabilities		
Bonds payable	32,230	29,995
Convertible bond-type bonds with subscription rights to shares	20,000	19,995
Long-term loans payable	8,662	7,756
Director retirement benefit reserve	269	270
Provision for point card certificates	5	8
Net defined benefit liability	1,089	1,138
Other	4,544	4,683
Total non-current liabilities	66,802	63,847
Total liabilities	119,090	124,017
Net assets		
Shareholders' equity		
Capital stock	7,949	7,953
Capital surplus	12,805	12,809
Retained earnings	51,270	55,718
Treasury shares	(336)	(343)
Total shareholders' equity	71,690	76,138
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	515	639
Foreign currency translation adjustment	(378)	(318)
Remeasurements of defined benefit plans	12	10
Total accumulated other comprehensive income	149	331
Total net assets	71,839	76,469
Total liabilities and net assets	190,929	200,487

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

(2) Quarterly consolidated income statement and comprehensive income statement

(Quarterly consolidated income statement)

(Consolidated first half)

(Unit: Millions of yen)

	1H FY3/18 (April 1, 2017 to September 30, 2017)	1H FY3/19 (April 1, 2018 to September 30, 2018)
Net sales	70,936	79,204
Cost of sales	53,520	59,777
Gross profit	17,415	19,427
Selling, general and administrative expenses	10,200	11,383
Operating income	7,215	8,044
Non-operating income		
Interest income	31	35
Dividend income	31	47
Other	220	84
Total non-operating income	283	166
Non-operating expense		
Interest payment	261	215
Other	175	156
Total non-operating expenses	436	372
Ordinary income	7,061	7,839
Extraordinary income		
Gain on sales of investment securities	1	18
Gain on sales of non-current assets	71	—
Surrender value of insurance	25	—
Total extraordinary income	99	18
Extraordinary losses		
Provision for loss on disaster	—	20
Loss on retirement of non-current assets	113	—
Loss on sales of property, plant and equipment	—	3
Dismantlement costs	115	—
Total extraordinary losses	228	24
Income before income taxes	6,931	7,833
Income taxes	2,299	2,514
Profit	4,632	5,319
Profit attributable to owners of parent	4,632	5,319

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

(Quarterly consolidated comprehensive income statements)

(Consolidated first half)

(Unit: Millions of yen)

	1H FY3/18 (April 1, 2017 to September 30, 2017)	1H FY3/19 (April 1, 2018 to September 30, 2018)
Profit	4,632	5,319
Other comprehensive income		
Valuation difference on available-for-sale securities	96	124
Foreign currency translation adjustment	(60)	59
Remeasurements of defined benefit plans	(2)	(1)
Total other comprehensive income	33	181
Comprehensive income	4,665	5,501
(Details)		
Comprehensive income attributable to owners of parent	4,665	5,501

(3) Consolidated cash flow statement

(Unit: Millions of yen)

	1H FY3/18 (April 1, 2017 to September 30, 2017)	1H FY3/19 (April 1, 2018 to September 30, 2018)
Cash flow from operating activities		
Income before income taxes and minority interests	6,931	7,833
Depreciation	2,084	2,266
Amortization of long-term prepaid expenses	212	159
Amortization of guarantee deposits	125	140
Increase (decrease) in provision for bonuses	(722)	(718)
Interest and dividend income	(62)	(82)
Interest expenses	261	215
Loss (gain) on sales and retirement of non-current assets	42	3
Surrender value of insurance	(25)	—
Loss on disaster	—	20
Dismantlement costs	115	—
Loss (gain) on sales of investment securities	(1)	(18)
Decrease (increase) in notes and accounts receivable - trade	1,105	2,500
Decrease (increase) in accounts receivable - other	609	535
Decrease (increase) in other inventories	256	(2,216)
Increase (decrease) in notes and accounts payable - trade	(1,672)	54
Increase (decrease) in advances received	(2,987)	(2,268)
Increase (decrease) in accounts payable – other	68	717
Increase (decrease) in accrued consumption taxes	(345)	203
Increase (decrease) in deposits received	(479)	(402)
Increase (decrease) in guarantee deposits received	138	15
Other	(422)	(236)
Subtotal	5,232	8,721
Interest and dividend income received	33	48
Interest expenses paid	(263)	(215)
Income taxes refund	6	0
Income taxes (paid) refund	(1,938)	(2,442)
Net cash provided by (used in) operating activities	3,070	6,112
Cash flows from investing activities		
Purchase of securities	(524)	(275)
Proceeds from sales of securities	21	46
Purchase of property, plant and equipment	(11,836)	(8,098)
Proceeds from sales of property, plant and equipment	3,122	2
Purchase of intangible assets	(811)	(127)
Payments of loans receivable	(856)	(365)
Collection of loans receivable	136	157
Payments for lease and guarantee deposits	(1,710)	(1,421)
Proceeds from collection of lease and guarantee deposits	16	81
Purchase of insurance funds	(563)	(550)
Proceeds from cancellation of insurance funds	47	—
Other	(273)	(355)
Net cash provided by (used in) investing activities	(13,229)	(10,906)

Kyoritsu Maintenance (9616), 1H FYE March 2019 Earnings Announcement
(Unit: Millions of yen)

	1H FY3/18 (April 1, 2017 to September 30, 2017)	1H FY3/19 (April 1, 2018 to September 30, 2018)
Cash flow from financing activities		
Net increase (decrease) in short-term loans payable	18,350	14,848
Repayments of long-term loans payable	(4,344)	(3,989)
Redemption of bonds	(1,475)	(2,385)
Purchase of treasury shares	(5)	(7)
Cash dividends paid	(694)	(856)
Other	(27)	(24)
Net cash provided by (used in) financing activities	11,803	7,584
Effect of exchange rate change on cash and cash equivalents	(27)	16
Net increase (decrease) in cash and cash equivalents	1,617	2,808
Cash and cash equivalents at beginning of period	14,853	16,972
Increase in cash and cash equivalents resulting from merger	—	9
Cash and cash equivalents at end of period	16,470	19,790

(4) Quarterly consolidated financial statement notes

(Notes regarding going concern assumptions)

Not applicable

(Significant changes in shareholders' equity notes)

Not applicable

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

(Calculation of tax expense)

The Company applies the method that reasonably estimates an effective tax rate to be assessed on income before income taxes for the year ending March 31, 2019, including the six months ended September 30, 2018, after accounting for the tax effects, and multiplies income before income taxes during the six months ended September 30, 2018 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), 1H FYE March 2019 Earnings Announcement

(Segment information)

Segment information

I. First half of the fiscal year ended March 2018 (From April 1 to September 30, 2017)

1. Information pertaining to segment sales, profits and losses

(Unit: Millions of yen)

	Reporting segments						Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Dormitories	Hotels	Contracted Services	Food Services	Construction	Subtotal				
Sales										
External sales	23,201	34,682	3,650	869	2,828	65,231	5,705	70,936	–	70,936
Inter-segment sales and transfers	142	87	2,827	2,511	7,848	13,417	246	13,664	(13,664)	–
Total	23,343	34,769	6,478	3,380	10,676	78,649	5,952	84,601	(13,664)	70,936
Segment profit/loss	3,698	4,699	138	59	395	8,990	(131)	8,858	(1,643)	7,215

- (Notes)
1. Other is not considered as a reporting business segment and is comprised of the Senior Life (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing, administrative outsourcing services, and other related services.
 2. Adjustment for segment profit and loss of ¥1,643 million includes ¥302 million for inter-segment transaction eliminations, and ¥1,341 million in companywide expenses that cannot be allocated to specific reporting segments. Companywide expenses are primarily those expenses arising from the accounting and management divisions.
 3. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

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

None

II. First half of the fiscal year ending March 2019 (From April 1 to September 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	24,115	38,959	3,558	637	5,966	73,237	5,966	79,204	—	79,204
Inter-segment sales and transfers	168	84	3,881	2,783	3,765	10,682	265	10,948	(10,948)	—
Total	24,283	39,043	7,440	3,420	9,732	83,920	6,232	90,153	(10,948)	79,204
Segment profit/loss	3,727	4,782	31	25	1,046	9,613	(43)	9,570	(1,525)	8,044

(Notes) 1. Other is not considered as a reporting business segment and is comprised of the Senior Life (management of senior citizen housing), PKP business (consigned services business provided to regional government bodies), single life support services, insurance agency business, comprehensive human resources, financing, administrative outsourcing services, and other related services.

2. Adjustment for segment profit and loss of ¥1,525 million includes ¥36 million for inter-segment transaction eliminations, and ¥1,562 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 income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

2. Impairment accounting losses and goodwill amortization of fixed assets by reporting segments
None