

# Financial Results for the 2nd Quarter of Fiscal Year Ending March 31, 2017

November 2016



# Index

---

 3 Consolidated Financial Results for 1H FY3/17

 13 Consolidated Financial Forecasts for FY3/17

 16 Strength of Nippon Kanzai and Medium-Term Growth Strategies

# Consolidated Financial Results for 1H FY3/17



# Medium-Term Historic Business Performance



# Consolidated Financial Results Highlights

## Net Sales

¥43,884 million (-0.2% YoY)

- Struggled to win new contracts
- Construction sales including large-scale repair decreased

## Operating Income

¥2,636 million (-2.8% YoY)

- SG&A expenses increased in order to strengthen the organization with a view toward expanding business
- Amount of expenses increased from a tax hike (enterprise tax)
- Operating expenses increased (insurance expenses)

## Ordinary Income

¥2,741 million (-12.0% YoY)

- Share of profit of entities accounted for using equity method decreased
- Foreign exchange losses on overseas investment business from the strong yen included

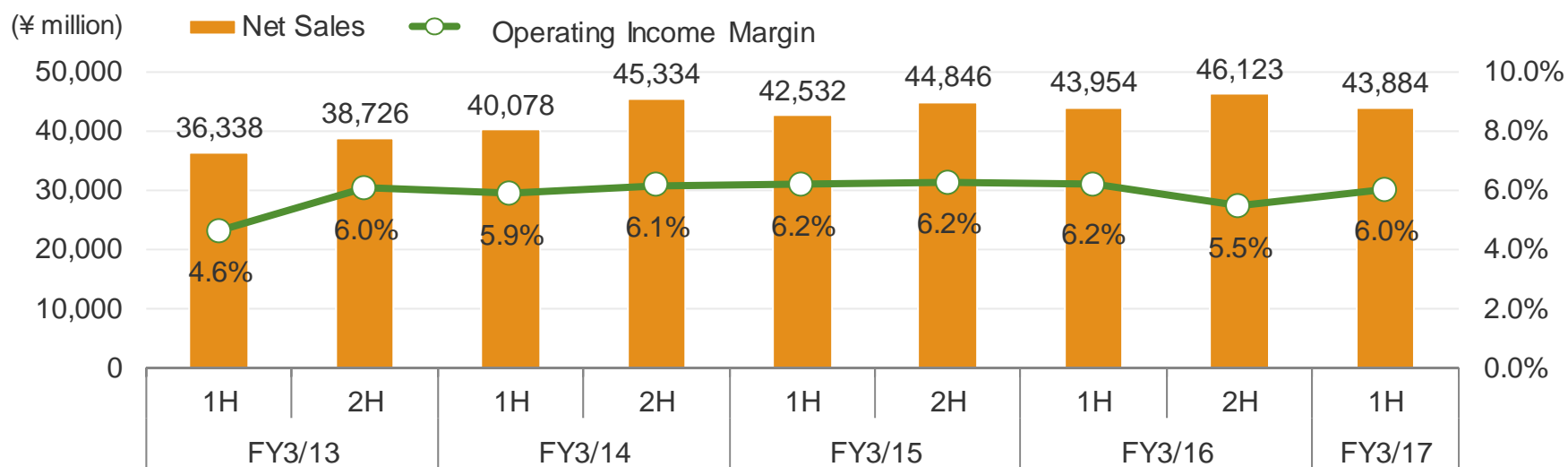
## Profit Attributable to Owners of Parent

¥1,998 million (-11.6% YoY)

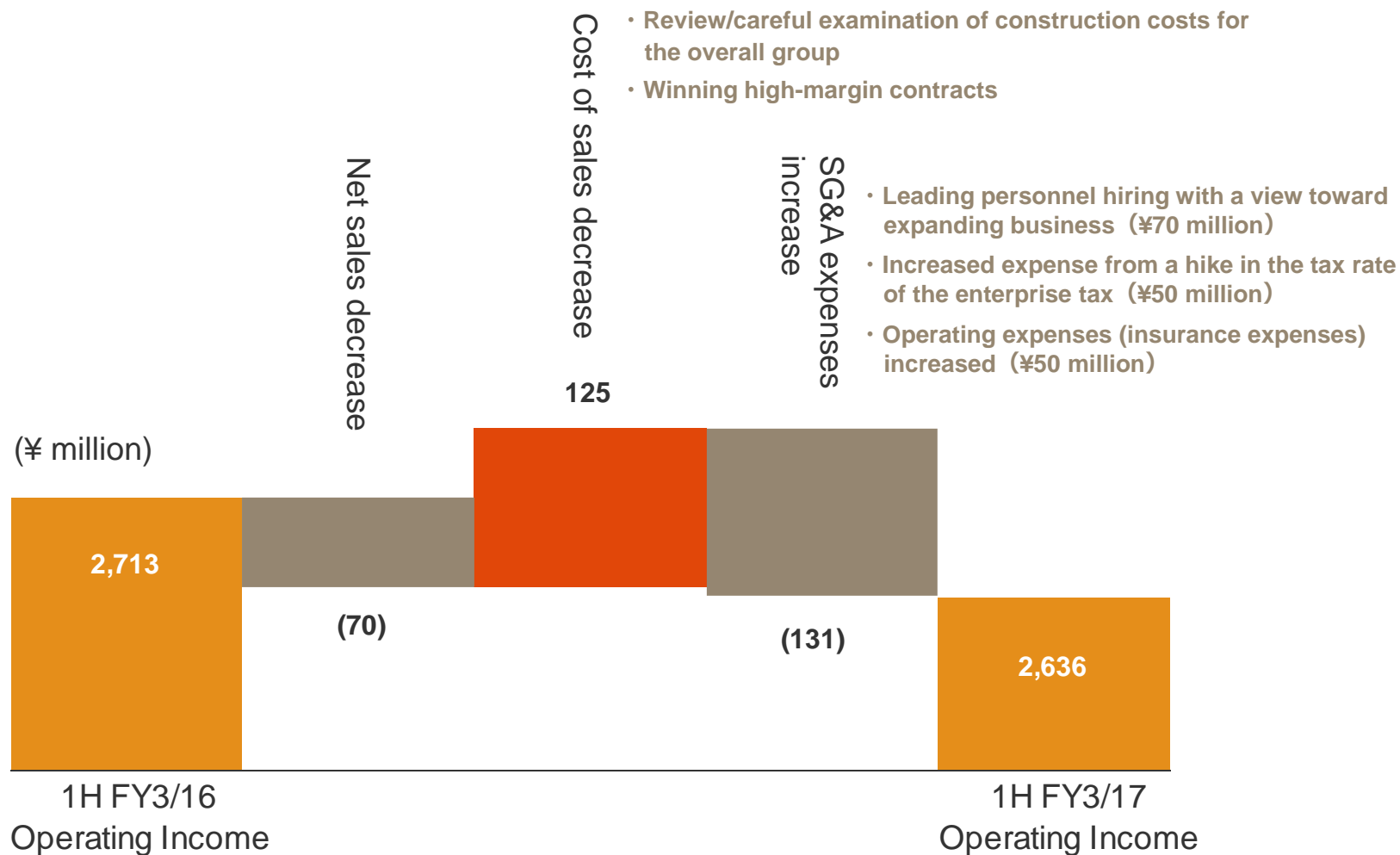
- Extraordinary income of gain on sales of investment securities included

# Consolidated Financial Results Summary

Consolidated (¥ million)	1H FY3/16		1H FY3/17		YoY Changes	
	Actual	Composition Ratio	Actual	Composition Ratio	Amount	Ratio
Net Sales	43,954	100.0%	43,884	100.0%	(70)	-0.2%
Gross Profit	8,910	20.3%	8,965	20.4%	54	0.6%
SG&A Expenses	6,197	14.1%	6,329	14.4%	131	2.1%
Operating Income	2,713	6.2%	2,636	6.0%	(77)	-2.8%
Ordinary Income	3,116	7.1%	2,741	6.2%	(375)	-12.0%
Profit Attributable to Owners of Parent	2,261	5.1%	1,998	4.6%	(262)	-11.6%



# Increases/Decreases in Consolidated Operating Income



# Overview of Consolidated Balance Sheet

Consolidated (¥ million)	FY3/16 End		1H FY3/17 End		YoY Changes	
	Actual	Composition Ratio	Actual	Composition Ratio	Amount	%
Total Assets	58,521	100.0%	57,602	100.0%	(919)	-1.6%
Current assets	35,055	59.9%	32,810	57.0%	(2,245)	-6.4%
Cash and deposits	20,496	35.0%	19,319	33.5%	(1,176)	-5.7%
Notes and accounts receivable – trade	11,636	19.9%	10,901	18.9%	(734)	-6.3%
Non-current assets	23,466	40.1%	24,792	43.0%	1,325	5.6%
Property, plant and equipment	4,395	7.5%	4,676	8.1%	281	6.4%
Intangible assets	2,555	4.4%	2,692	4.7%	137	5.4%
Investments and other assets	16,516	28.2%	17,422	30.2%	906	5.5%
Lease and guarantee deposits	1,452	2.5%	2,702	4.7%	1,250	86.1%
Total liabilities	19,821	33.9%	18,640	32.4%	(1,181)	-6.0%
Current liabilities	13,535	23.1%	11,354	19.7%	(2,181)	-16.1%
Notes and accounts payable – trade	7,026	12.0%	5,658	9.8%	(1,368)	-19.5%
Accrued expenses	2,603	4.4%	2,187	3.8%	(415)	-16.0%
Non-current liabilities	6,285	10.7%	7,285	12.6%	999	15.9%
Long-term loans payable	2,925	5.0%	2,637	4.6%	(287)	-9.8%
Long-term guarantee deposited	351	0.6%	1,617	2.8%	1,266	360.7%
Total net assets	38,699	66.1%	38,961	67.6%	261	0.7%
Shareholders' equity	35,211	60.2%	36,511	63.4%	1,300	3.7%
Capital stock	3,000	5.1%	3,000	5.2%	0	0.0%
Capital surplus	36,763	62.8%	38,005	66.0%	1,242	3.4%
Accumulated other comprehensive income	2,170	3.7%	1,125	2.0%	(1,044)	-48.1%
Non-controlling interests	1,317	2.3%	1,324	2.3%	6	0.5%
Total liabilities and net assets	58,521	100.0%	57,602	100.0%	(919)	-1.6%

## Main Factors for Increase/Decrease

(¥ million)

### Assets

- Decrease in cash and deposits (1,176)

Dividend payments (742)  
 Payments of various taxes (1,107)  
 Sale of investment securities 693

- Increase in lease and guarantee deposits from master lease agreements 1,263

### Liabilities

- Decrease in payments of accounts payable and accrued expenses (1,784)

- Increase in long-term guarantee deposits from master lease agreements 1,266

### Equity Ratio

65.3%

(+1.4pp YoY)



# Overview of Consolidated Statement of Cash Flows

Consolidated (¥ million)	1H FY3/16	1H FY3/17	YoY Changes	
	Actual	Actual	Amount	%
Profit before income taxes	3,480	3,130	(350)	-10.1%
Depreciation	292	298	5	1.9%
Decrease (increase) in notes and accounts receivable – trade	1,050	837	(212)	-20.2%
Increase (decrease) in notes and accounts payable – trade	(833)	(1,800)	(966)	116.0%
Increase (decrease) in accrued consumption taxes	(958)	(55)	902	-94.2%
Other, net	(2,301)	(1,464)	836	-36.4%
<b>Cash flows from operating activities</b>	<b>730</b>	<b>946</b>	<b>215</b>	<b>29.5%</b>
Proceeds from sales of property, plant and equipment and intangible assets	1,166	0	(1,166)	-100.0%
Purchase of investment securities	(143)	(796)	(652)	453.7%
Other, net	662	427	(234)	-35.4%
<b>Cash flows from investing activities</b>	<b>1,684</b>	<b>(368)</b>	<b>(2,053)</b>	<b>-121.9%</b>
Increase (decrease) in loans payable	(375)	(375)	0	0.0%
Cash dividends paid	(481)	(742)	(261)	54.2%
Other, net	(126)	(93)	33	-26.1%
<b>Cash flows from financing activities</b>	<b>(984)</b>	<b>(1,212)</b>	<b>(228)</b>	<b>23.2%</b>
Net increase (decrease) in cash and cash equivalents	1,431	(776)	(2,207)	-154.3%
Cash and cash equivalents at the beginning of current period	16,331	19,801	3,469	21.2%
Cash and cash equivalents at the end of current period	17,763	19,024	1,261	7.1%
<b>Free cash flows</b>	<b>2,415</b>	<b>577</b>	<b>(1,838)</b>	<b>-76.1%</b>

## Main Factors for Increase/Decrease

(¥ million)

### CF from Operating Activities 215

- Decrease in notes and accounts payable - trade (966)
- Increase in accrued consumption taxes 902

### CF from Investing Activities (2,053)

- Decrease in proceeds from sales of property, plant and equipment, and intangible assets (1,166)
- Increase in purchase of investment securities (652)

### CF from Financing Activities (228)

- Increase in cash dividends paid (261)

# Business Segments and Major Group Companies

## Building Management and Operation ¥38,354 mil

### Bldg Maintenance ¥20,989 mil

Nippon Kanzai Service Co., Ltd.  
Japan Property Solutions Co., Ltd.  
Japan Environmental Solutions Co., Ltd.

### Security ¥8,936 mil

Three-S Co., Ltd.

### Condominium Management ¥8,428 mil

NJK Holding Co., Ltd.

## Environmental Facility Management ¥4,490 mil

### Environmental Facility Management

Nippon Kanzai Environment Service Co., Ltd.

## Real Estate Fund Management ¥283 mil

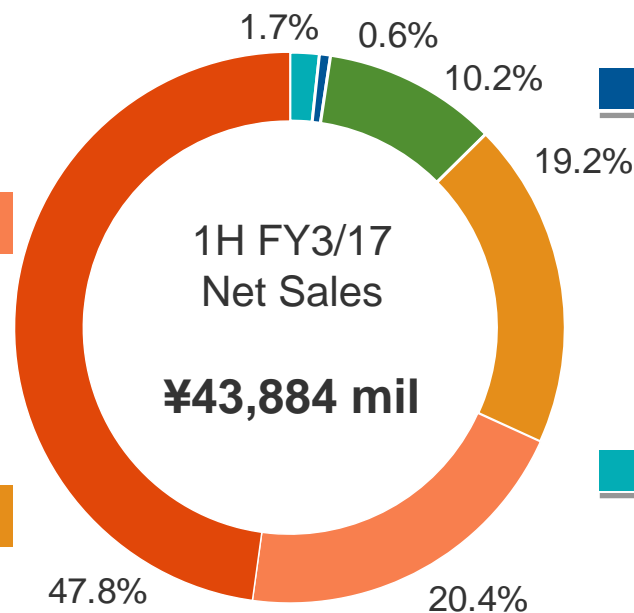
### Asset Management

Tokyo Capital Management Co., Ltd.

## Other ¥754 mil

### Other Business

NS Corporation Co., Ltd.  
(Advertisement, Sales Promotion,  
and Design Supervision)

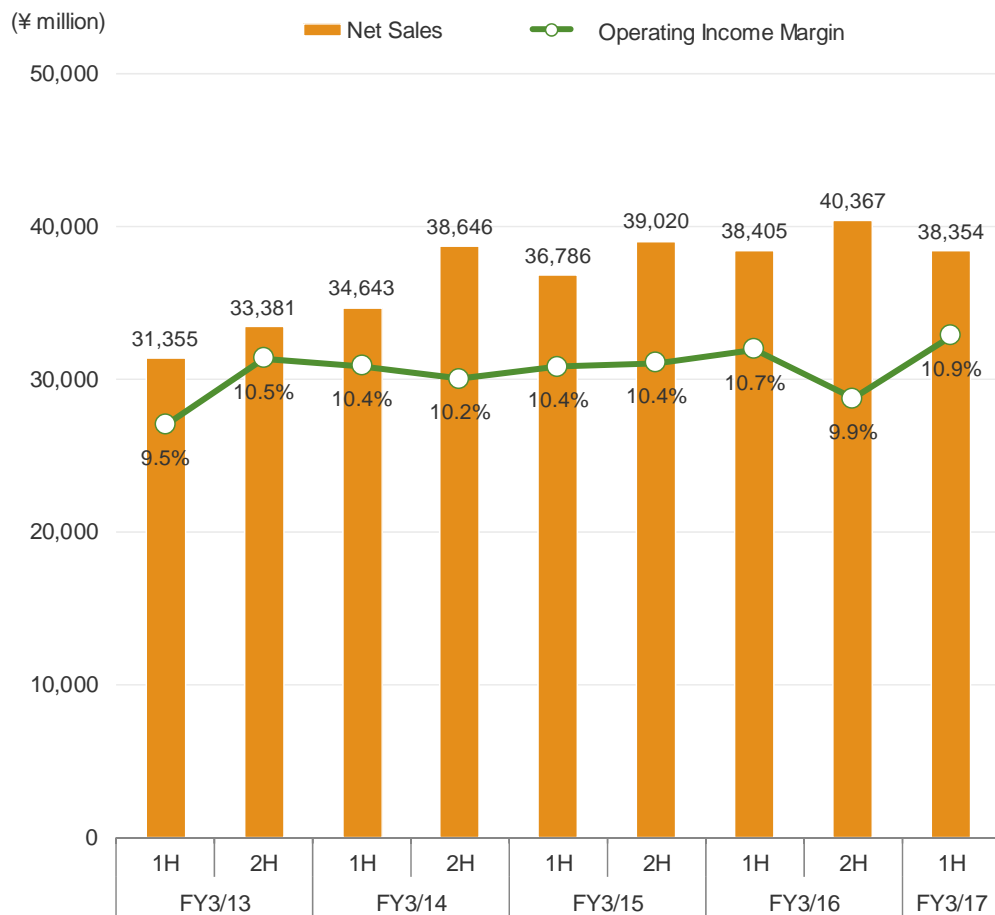


# Financial Results by Business Segment

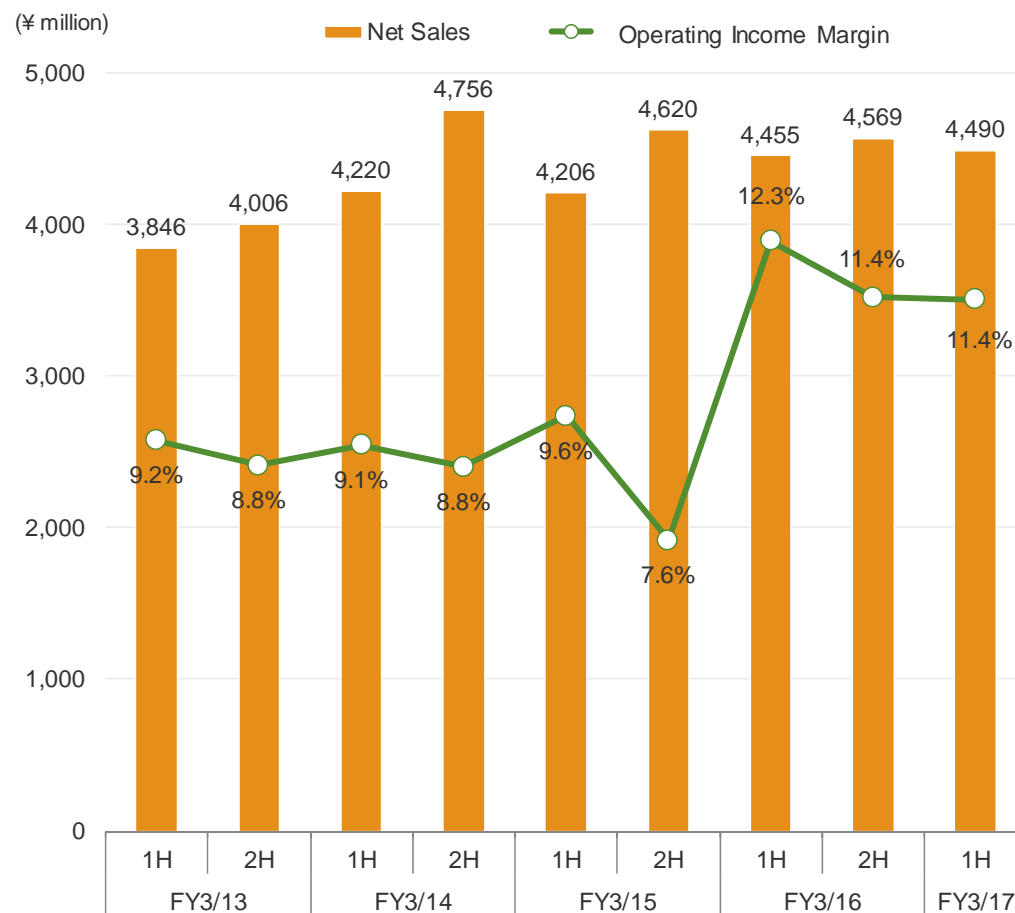
Consolidated (¥ million)	1H FY3/16		1H FY3/17		YoY Changes	
	Actual	Composition Ratio/Margin	Actual	Composition Ratio/Margin	Amount	Ratio
Net Sales	43,954	100.0%	43,884	100.0%	(70)	-0.2%
Building Management and Operation Business	38,405	87.4%	38,354	87.4%	(50)	-0.1%
Building Maintenance	21,091	48.0%	20,989	47.8%	(101)	-0.5%
Condominium Management	8,629	19.6%	8,428	19.2%	(200)	-2.3%
Security Service	8,684	19.8%	8,936	20.4%	252	2.9%
Environmental Facility Management Business	4,455	10.1%	4,490	10.2%	34	0.8%
Real Estate Fund Management Business	400	0.9%	283	0.6%	(116)	-29.0%
Other Businesses	693	1.6%	754	1.7%	60	8.8%
Operating Income	2,713	6.2%	2,636	6.0%	(77)	-2.8%
Building Management and Operation Business	4,093	10.7%	4,170	10.9%	76	1.9%
Building Maintenance	2,387	11.3%	2,484	11.8%	96	4.0%
Condominium Management	758	8.8%	672	8.0%	(85)	-11.3%
Security Service	947	10.9%	1,013	11.3%	66	7.0%
Environmental Facility Management Business	549	12.3%	512	11.4%	(37)	-6.9%
Real Estate Fund Management Business	138	34.5%	61	21.7%	(76)	-55.3%
Other Businesses	4	0.6%	119	15.9%	115	2,785.7%
Adjustments	(2,072)	—	(2,227)	—	(155)	7.5%

# Performance of Major Segments

## Building Management & Operation Business



## Environmental Facility Management Business



# Consolidated Financial Forecasts for FY3/17



# Consolidated Financial Forecasts Summary

## Market Background

- Active large-scale building developments in mainly central Tokyo continue to move forward.
- Development is continuing for logistics distribution centers as a result of growth in the online shopping market in suburban and rural areas.
- Medium to large-scale facilities which are a strength of Nippon Kanzai are expected to continue increasing going forward.
- At the same time, the order environment has not escaped from deflation, price competition is intense, and securing sufficient operations staff and rising personnel expenses are factors for concern.

- Operating income is increasing from the disappearance of one-off cost factors in FY3/16.
- For ordinary income, despite a decline in share of profit of entities accounted for using equity method from a decline in profits of overseas business and slow in income management business for certain PFI properties, as well as booking foreign exchange losses from the rapid advance of the yen, these declines are expected to be offset at the net income level from gain on sales of investment securities.
- No revision has been made on financial forecasts published on April 28, 2016.

Consolidated (¥ million)	Full-Year FY3/16		1H FY3/17		2H FY3/17		Full-Year FY3/17		YoY Changes	
	Actual	Composition Ratio	Actual	Composition Ratio	Forecast	Composition Ratio	Forecast	Composition Ratio	Amount	Ratio
Net Sales	90,078	100.0%	43,884	100.0%	48,115	100.0%	92,000	100.0%	1,921	2.1%
Gross Profit	17,838	19.8%	8,965	20.4%	9,234	19.2%	18,200	19.8%	361	2.0%
SG&A Expenses	12,610	14.0%	6,329	14.4%	6,370	13.2%	12,700	13.8%	89	0.7%
Operating Income	5,227	5.8%	2,636	6.0%	2,863	6.0%	5,500	6.0%	272	5.2%
Ordinary Income	5,806	6.4%	2,741	6.2%	3,658	7.6%	6,400	7.0%	593	10.2%
Profit Attributable to Owners of Parent	3,958	4.4%	1,998	4.6%	2,201	4.6%	4,200	4.6%	241	6.1%

# Financial Forecasts by Business Segment

Consolidated (¥ million)	Full-Year FY3/16		1H FY3/17		2H FY3/17		Full-Year FY3/17		YoY Changes	
	Actual	Composition Ratio/Margin	Actual	Composition Ratio/Margin	Forecast	Composition Ratio/Margin	Forecast	Composition Ratio/Margin	Amount	Ratio
Net Sales	90,078	100.0%	43,884	100.0%	48,115	100.0%	92,000	100.0%	1,921	2.1%
Building Management and Operation Business	78,772	87.4%	38,354	87.4%	42,495	88.3%	80,850	87.9%	2,077	2.6%
Building Maintenance	43,740	48.6%	20,989	47.8%	24,023	49.9%	45,013	48.9%	1,272	2.9%
Condominium Management	17,255	19.2%	8,428	19.2%	9,202	19.1%	17,631	19.2%	375	2.2%
Security Service	17,776	19.7%	8,936	20.4%	9,269	19.3%	18,206	19.8%	429	2.4%
Environmental Facility Management Business	9,025	10.0%	4,490	10.2%	4,559	9.5%	9,050	9.8%	24	0.3%
Real Estate Fund Management Business	599	0.7%	283	0.6%	116	0.2%	400	0.4%	(199)	-33.3%
Other Businesses	1,681	1.9%	754	1.7%	945	2.0%	1,700	1.8%	18	1.1%
Operating Income	5,227	5.8%	2,636	6.0%	2,863	6.0%	5,500	6.0%	272	5.2%
Building Management and Operation Business	8,085	10.3%	4,170	10.9%	4,330	10.2%	8,501	10.5%	415	5.1%
Building Maintenance	4,716	10.8%	2,484	11.8%	2,420	10.1%	4,905	10.9%	188	4.0%
Condominium Management	1,329	7.7%	672	8.0%	791	8.6%	1,464	8.3%	134	10.1%
Security Service	2,040	11.5%	1,013	11.3%	1,118	12.1%	2,132	11.7%	91	4.5%
Environmental Facility Management Business	1,072	11.9%	512	11.4%	574	12.6%	1,087	12.0%	14	1.3%
Real Estate Fund Management Business	139	23.3%	61	21.7%	(27)	-23.9%	34	8.5%	(105)	-75.7%
Other Businesses	104	6.2%	119	15.9%	(9)	-1.0%	110	6.5%	5	5.1%
Adjustments	(4,175)	—	(2,227)	—	(2,004)	—	(4,232)	—	(56)	1.3%

# Strength of Nippon Kanzai and Medium-Term Growth Strategies





# Our Medium-Term Growth Strategies

## Business Opportunities

- 1** Increase in demand for vitalizing existing market
- 2** Increase in demand for expertise of public sector
- 3** Global development of know-how from domestic business  
New M&A both at domestic and overseas

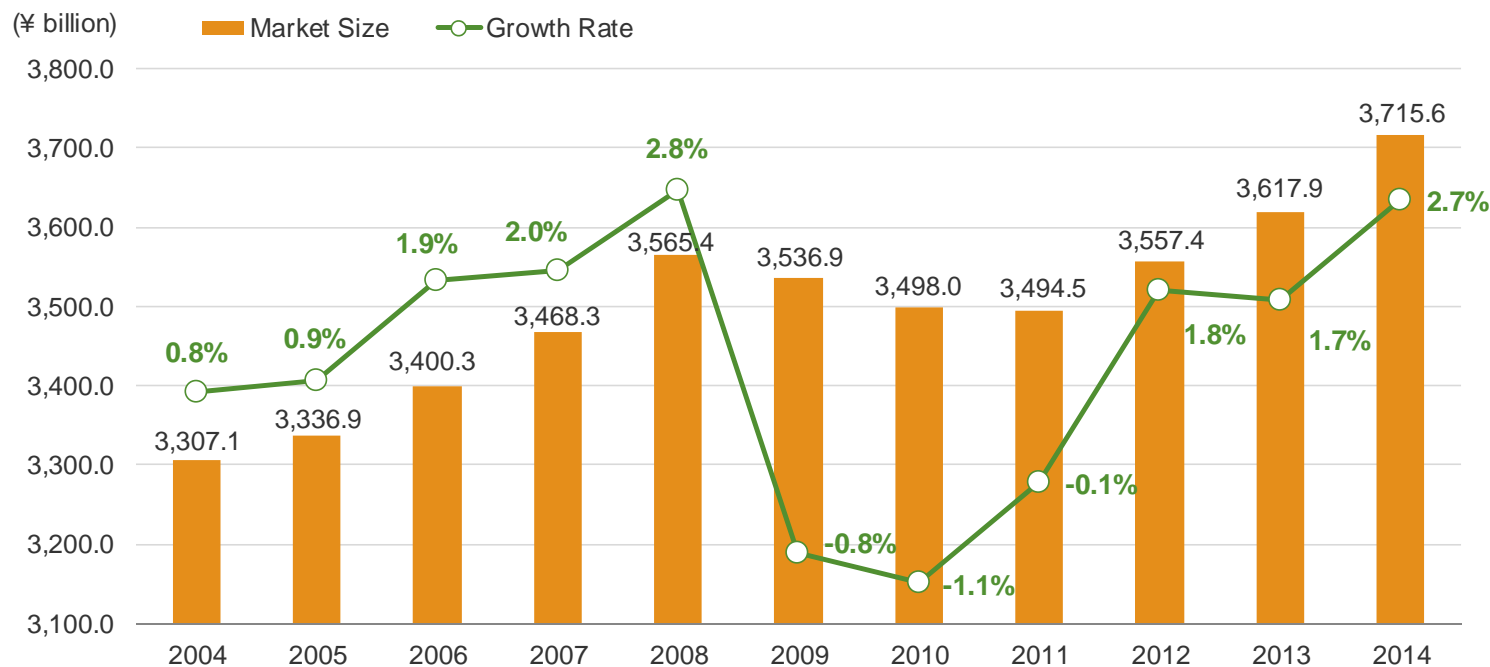
## Growth Strategies

Promotion of CRE strategy through proposal for optimization of building lifecycle costs (P.18~P.22)

Promotion of PRE strategy through strengthening PFI/PPP and designated administrator system (P.23~P.26)

Strengthen the relationship with PICA Pty Ltd. to reinforce the base for global condominium management business (P.27)

# Business Opportunities (1): Market Trend of Building Management



## Other Industries with Similar Market Size in Japan

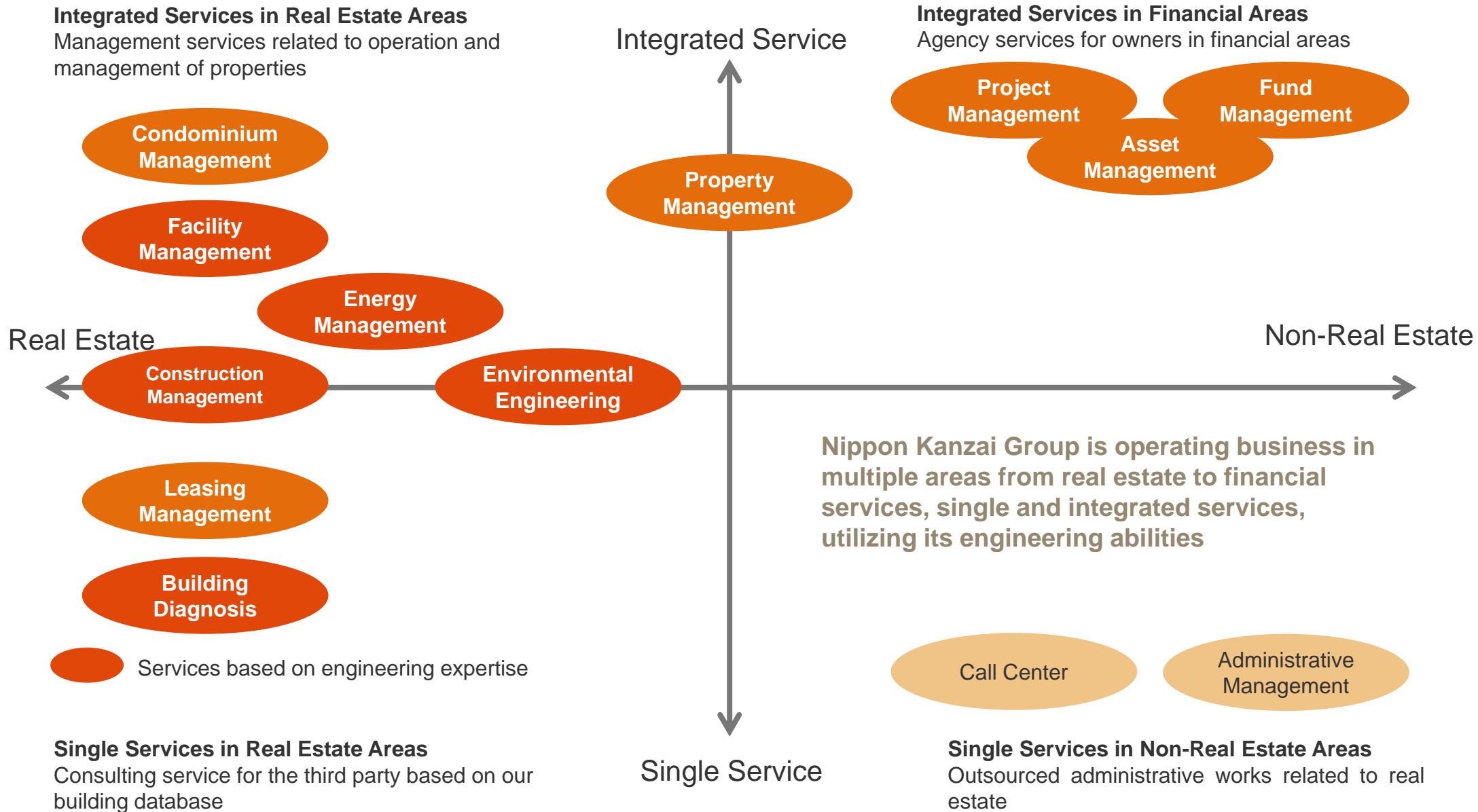
Broadcasting	¥3.9 trillion
Pachinko (Japanese pin-ball gamble)	¥3.6 trillion
Temp staff	¥3.3 trillion
Security service	¥3.3 trillion

Source: Based on "Survey Report" by Japan Building Maintenance Association

- After the market shrank since 2009 due to the Global Financial Crisis, its growth rate improved in 2012 and the growing trend continues after that.
- Growth rate in 10 years (2005 to 2014) was 11.3%.
- Continuous reconstruction of large-scale buildings in central Tokyo through 2020, with the market scale reaching a record level.

**Market size is ¥3.7 trillion.**  
**Growing trend continues.**

# Business Opportunities (1): Business Portfolio



# Business Opportunities (1): Combining Digital and Analog Resources of Building Management

## Digital business base

1. Building management database enhanced with local data via local offices
2. Independently developed lifecycle management system utilizing the database

### BEST system

- Building Diagnosis
- Construction work
- Energy-saving diagnosis
- WAFM® system
- Long-term repair plan
- Design and supervision of facilities management
- LEAD-Web system

- Building data
- Repair data
- Estimated data

Collation of local data through the human and office network, and utilization of operations management business



Headquarters

Registered office

## Analog business base

Specialized expertise and operational capability to handle use of the independently developed database and systems

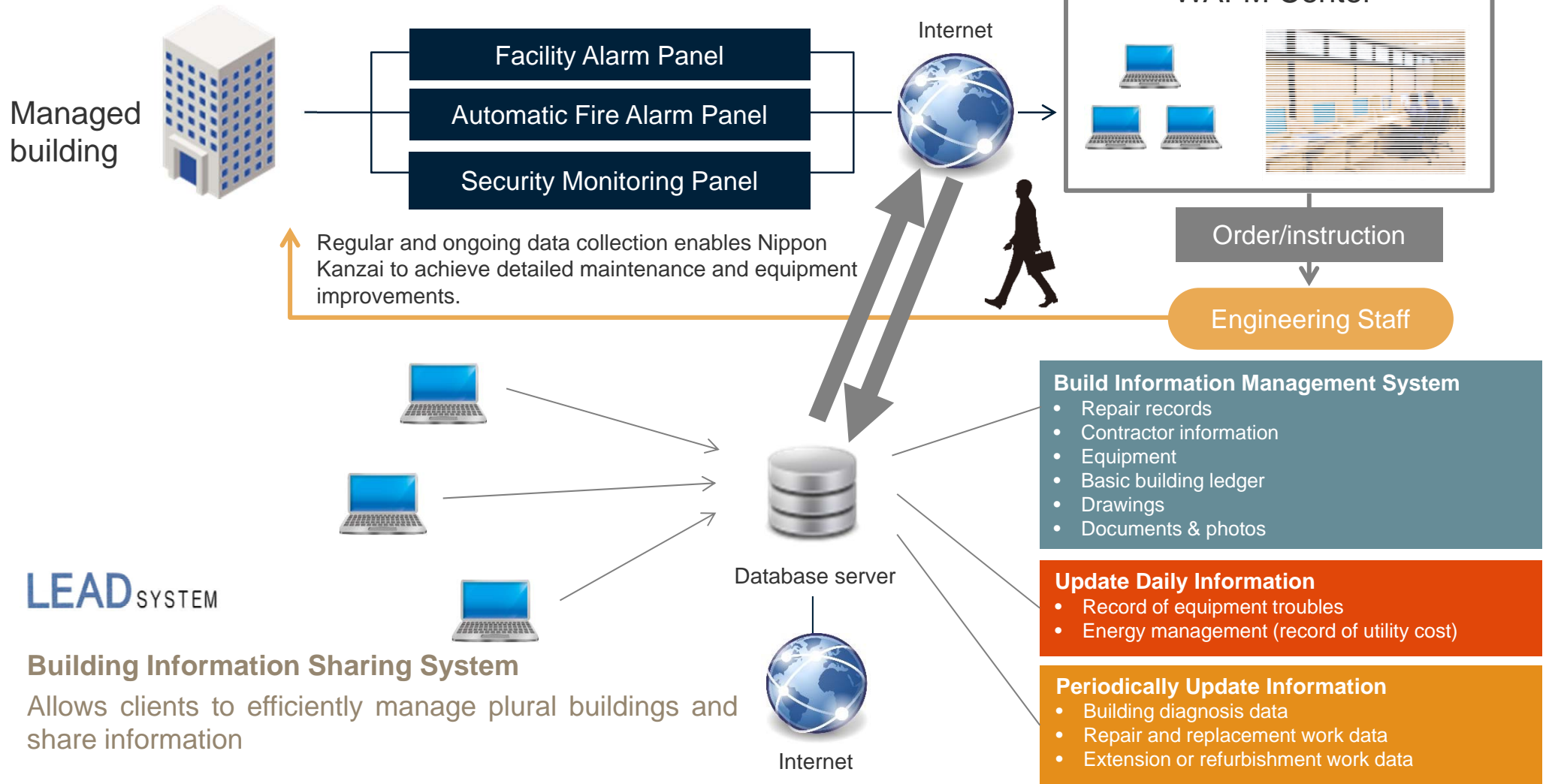


# Business Opportunities (1): Example of Combining Digital and Analog Resources of Building Management

**WAFM<sup>®</sup>** SYSTEM

## Wide Area Facilities Management system

Remotely controls buildings for 24hours a day, every day





# Business Opportunities (1): Application Example of Combining Digital and Analog Resources for Individual Projects

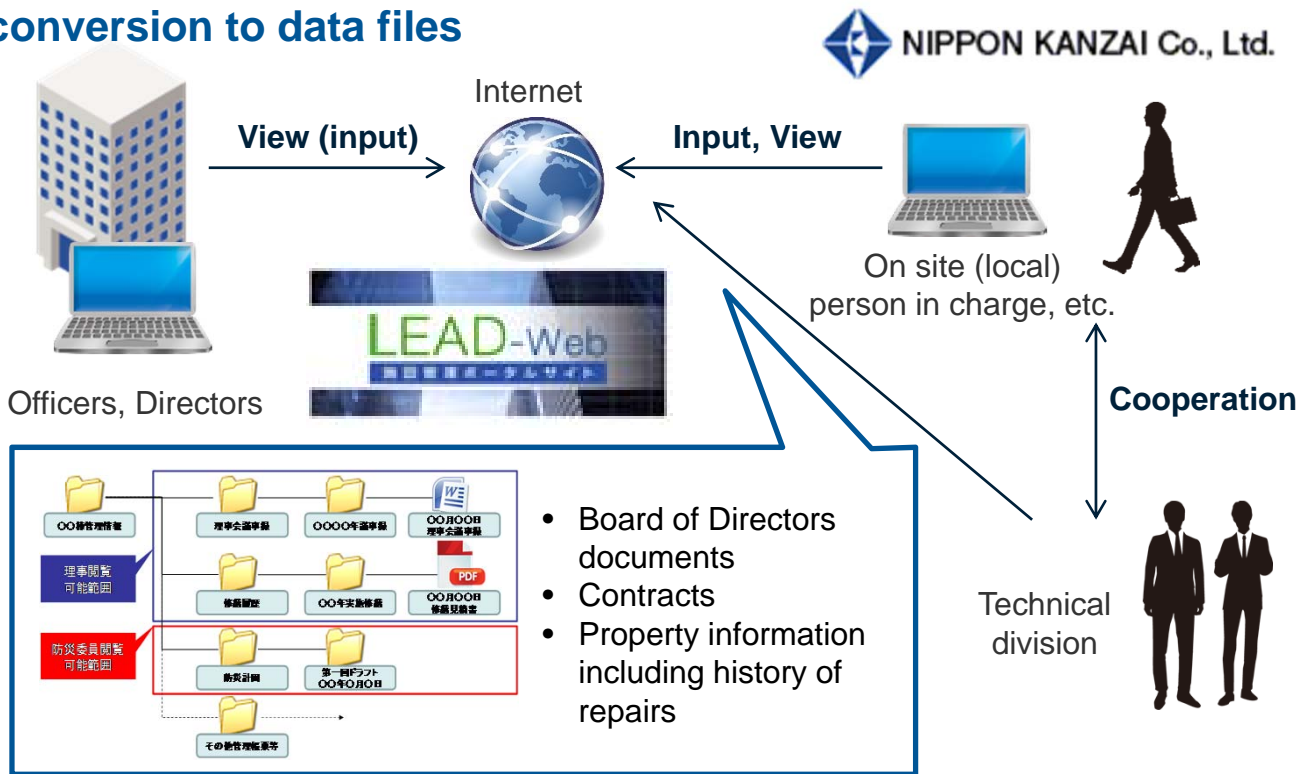
## “New City Higashi Totsuka” 8 block condominium management business

### Property Features

Commenced condominium management business in July 2015 for “New City Higashi Totsuka” in Yokohama which has a total of 9 blocks (2,352 units) supporting the roughly 10,000 residents. **Starting with introduction of its independently developed LEAD-web system, Nippon Kanzai is providing to the fullest its specialized and value-added services, aiming to contribute to raising the quality of life for residents in the area.**



### Visualization of management status, conversion to data files



### All types of building diagnosis

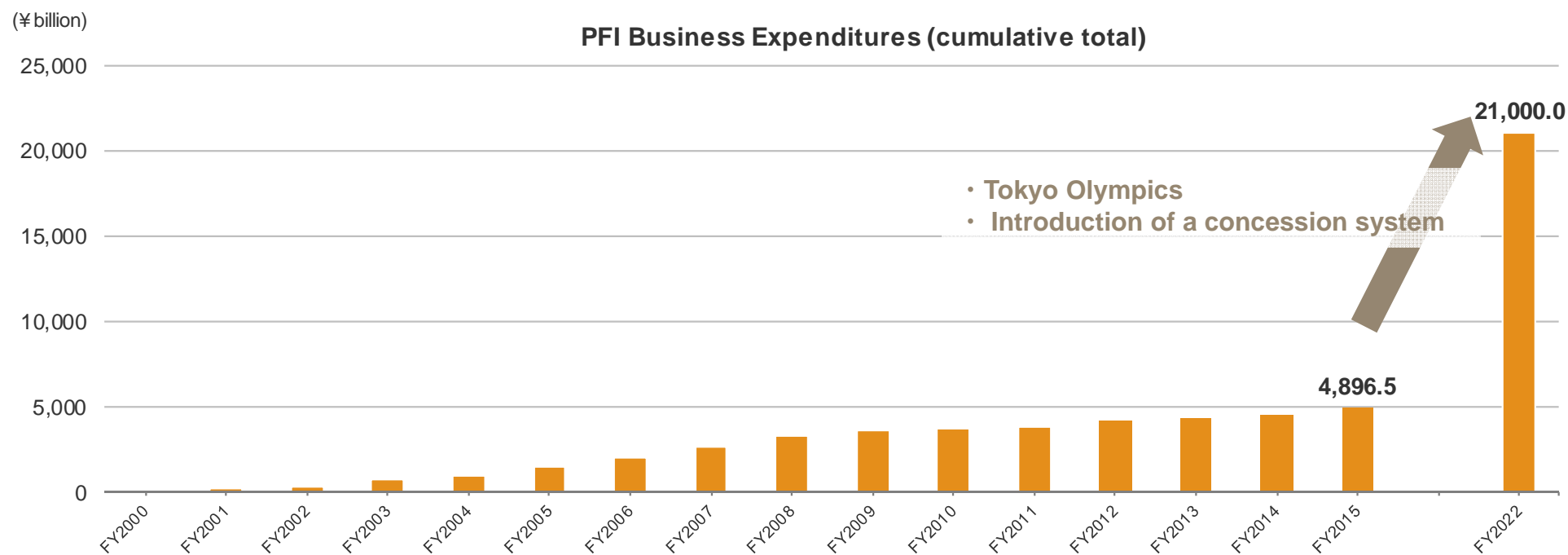
Proposal for raising value

Disaster risk report

## Business Opportunities (2): Private Finance Initiative (PFI) for funding public works with private capital

- PFI business expenditures are estimated to grow from ¥4,896.5 billion in 2015 to as much as ¥21,000.0 billion in 2022.

(“Action Plan for Fundamental Reform of PFI/PPP” meeting resolution by the Cabinet Office PFI Promotion Council)



Source: Actual figures through FY2015 are from the Cabinet Office PFI Promotion Office “Regarding the Current Situation of PFI,” estimated budget through 2022 from “Action Plan for Fundamental Reform of PFI/PPP” meeting resolution by the Cabinet Office PFI Promotion Council.

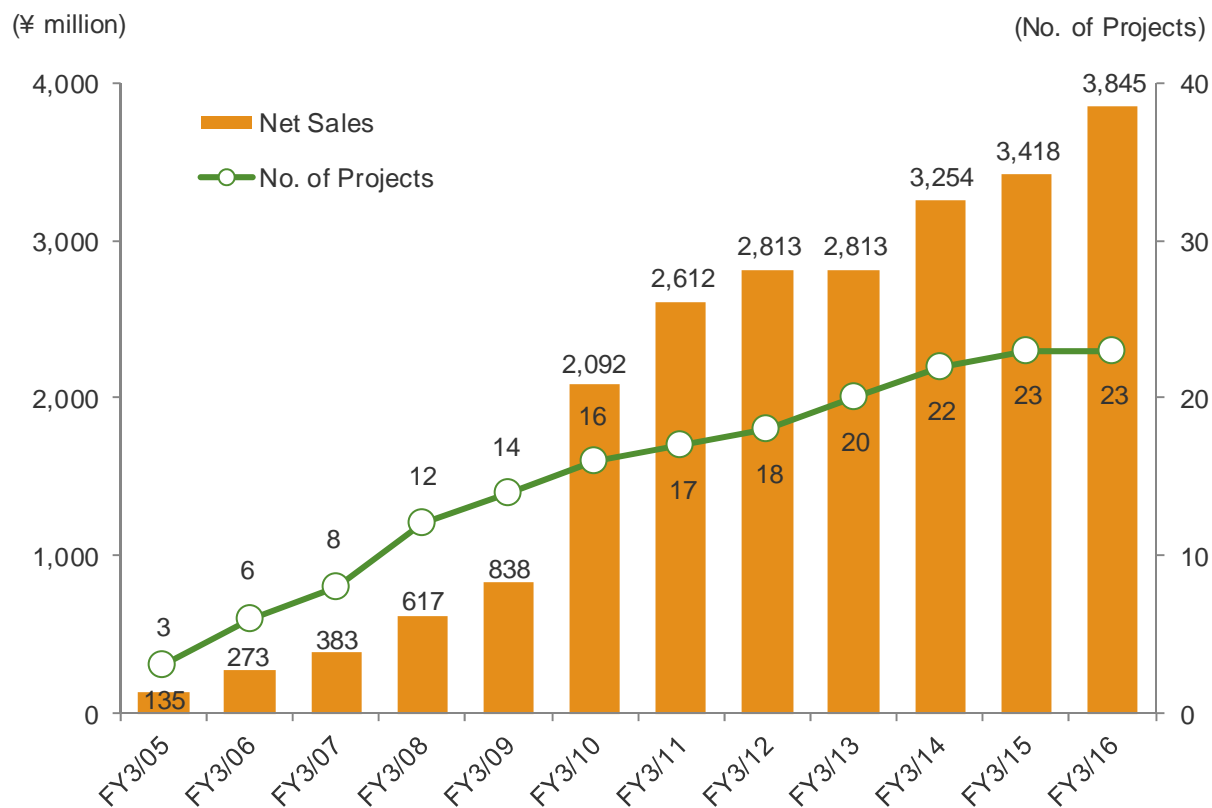
Notes: 1. As of March 31, 2016

2. Business expenditures are the original contract amounts for projects where the amount of public expense was determined through selection of contractors out of projects announced to be carried out, the total amount as ascertained by the Cabinet Office, figures rounded off to the nearest hundred million yen.

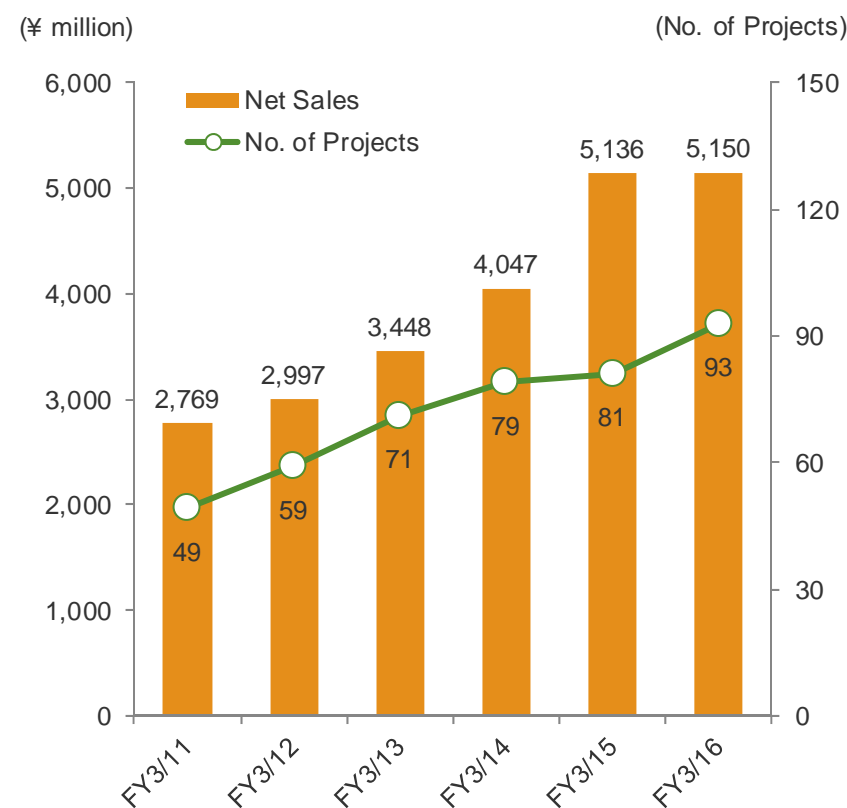
# Business Opportunities (2): Track Records for Public Sector Business (excluding conventional general bidding)

Net sales and number of projects are steadily increasing

## PFI



## Designated Administrator

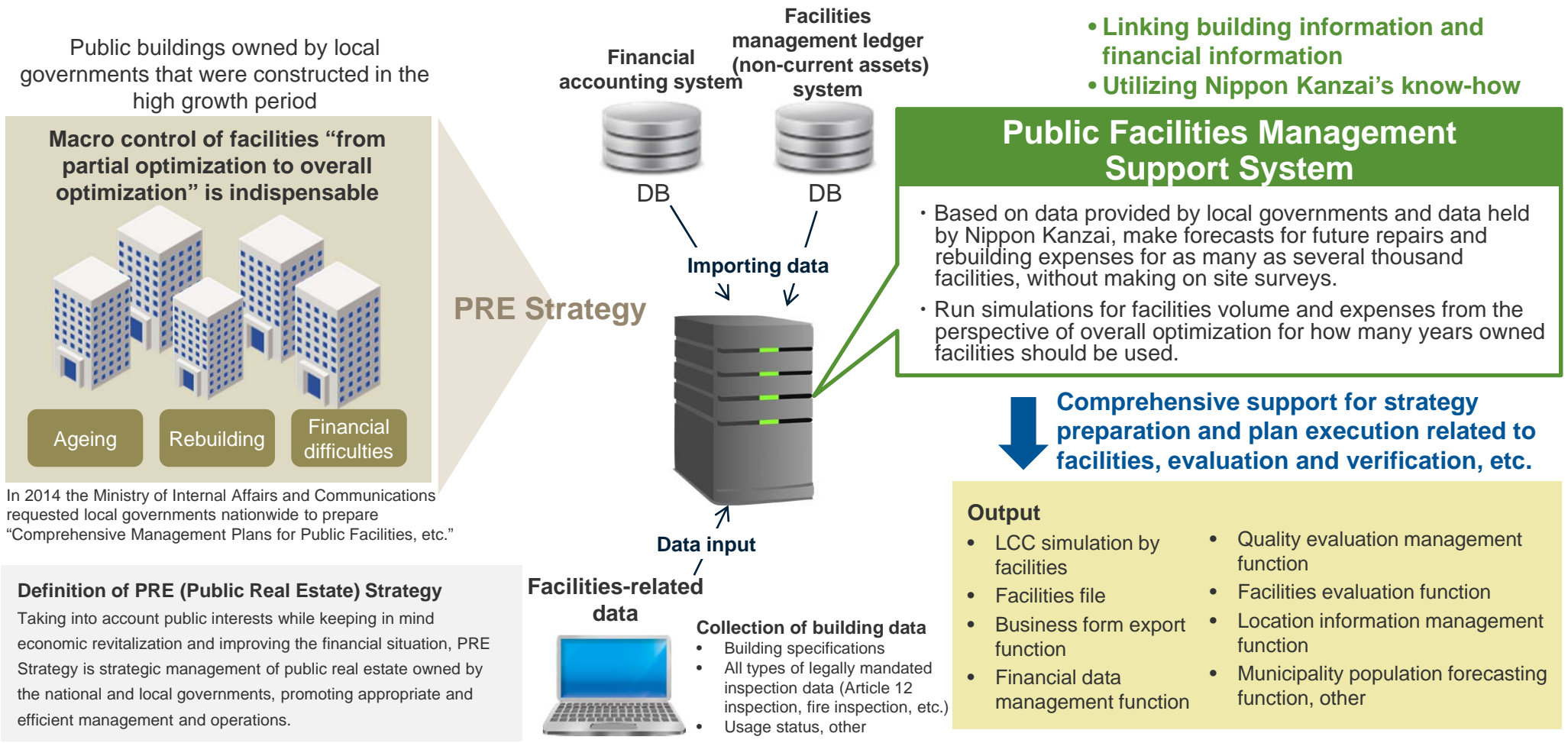




# Business Opportunities (2): Public Facilities Management Business

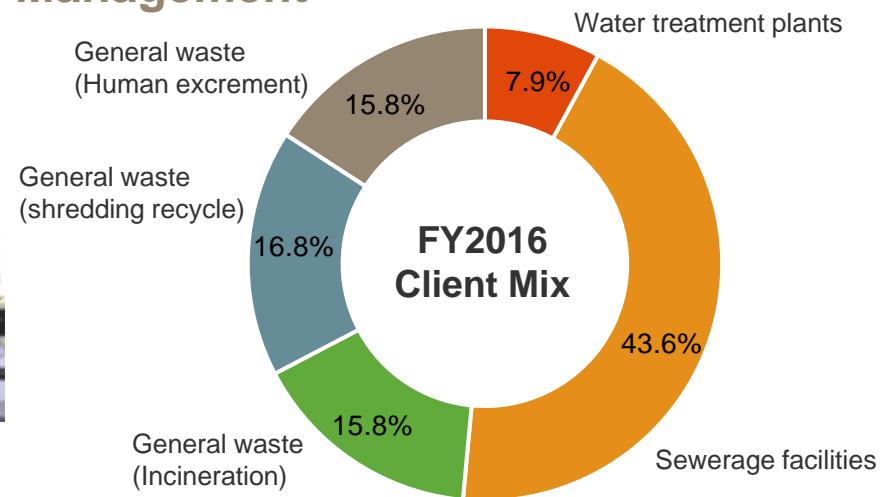
## Systems development related to public facilities management business

- In the field of public facilities management as well, targeting further differentiation through adding the unique perspective possible from a maintenance specialist firm

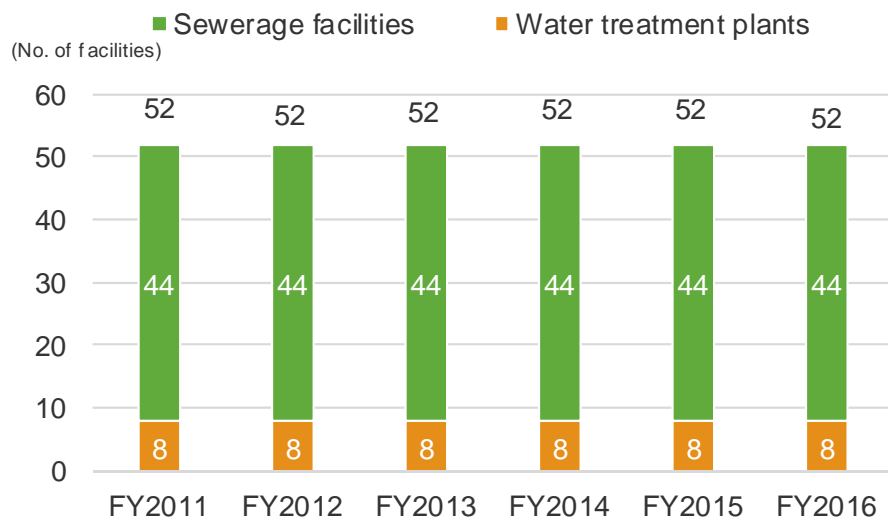


# Business Opportunities (2): Track Records in Environmental Facilities

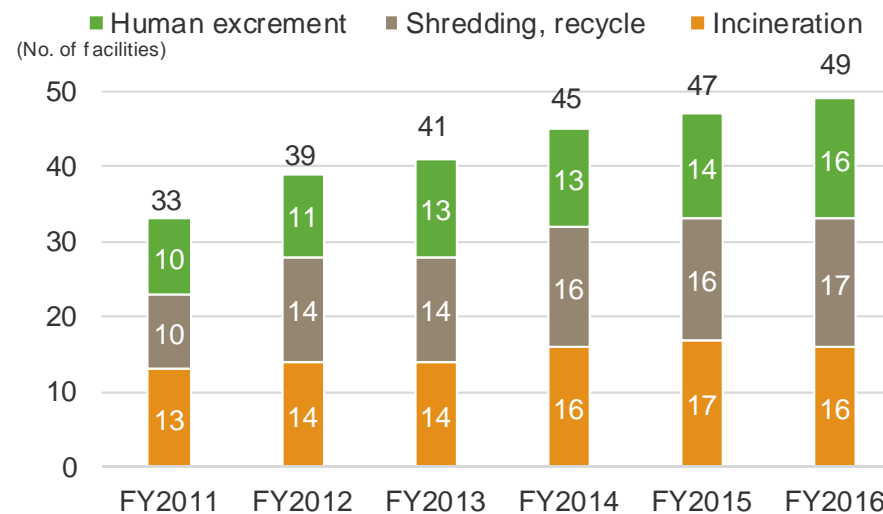
## Overview and Historical Number of Facilities under Management



### Number of water and sewerage facilities



### Number of general waste treatment facilities



\*No. of contracts as of Apr 1

# Business Opportunities (3): Overseas Development (Overview of PICA Pty Ltd.)

## Company Overview

PICA is the largest “Strata Manager” in Australia that acts as an agent for residents’ associations.

Using the brand name “BCS” (Body Corporate Services), PICA mainly provides services to support residents’ associations as well as debt collection for delinquent levies.

With Nippon Kanzai’s engineering abilities, PICA has introduced and has been expanding its services related to physical aspects of buildings.

## Background

Nippon Kanzai acquired 50% shares of PICA from FEXCO, an Irish financial service company, in March 2013.

Now Nippon Kanzai and FEXCO send directors to PICA and manage it jointly.

FEXCO is a global company with 1,800 employees worldwide and operates in Ireland, UK, USA, Asia-Pacific area, Middle East and Australia.

FEXCO website <http://www.fexco.com/>

<b>Company Name</b>	Prudential Investment Company of Australia Pty Ltd.
<b>Establishment</b>	October 4, 1948
<b>Capital</b>	AUD28 million as of December 31, 2015 (approx.JPY2.46 billion) *AUD1=JPY87.91
<b>Main Business</b>	Strata management (agent for residents’ associations), debt collection
<b>HQ</b>	Sydney
<b>Major Branches</b>	Greater Sydney, Melbourne, Brisbane, Cairns, Newcastle, Southport, Hawthorne
<b>Employees</b>	Approx. 620 as of December 31, 2015
<b>No. of Lots under Management</b>	Approx. 203,000 lots, 11,000 associations as of December 31, 2015

Reception



Properties under management



# Focused Strategies This Fiscal Year and Directions Ahead

## Building Management and Operation Business

- Building Management and Operations - office buildings, commercial facilities, public facilities, etc.
  - Boosting marketing for total management needs based on our databases of lifecycle costs, etc.
  - Reinforcing marketing for public facilities under PFIs and designated administrator system
  - Developing WAFM\* for suburban large-scale facilities including college campuses, large-scale shopping centers, logistics distribution facilities, factories, etc.  
\*WAFM: Wide Area Facilities Management remote monitoring center
  - Promoting labor-saving measures such as employing maintenance-light materials and cleaning robots in such a labor shortage period
- Condominium Management
  - Raising ratio for total management contracts through undertaking more accounting and cashier works now done by condominium associations
  - Enhancing resident service menus: fulfilling fringe services including shopping for residents and keeping eyes on seniors

## Environmental Facility Management Business

- Water and Sewerage Facilities
  - Enhancing marketing in Hokuriku and Tohoku areas where more privatization is likely
  - Strength penetration of service contracts with existing clients.
- Waste Incineration Facilities
  - Gaining orders for large-scale repair projects of incineration facilities
  - Exploiting new areas including incineration/ final processing of radioactive pollutants (examples: National Institute of Radiological Sciences, etc.)

# Principal New Contracts

## Equipment management and security service for “TRI-SEVEN ROPPONGI”

<b>Address</b>	Minato City, Tokyo
<b>Business started</b>	March 2016
<b>Facilities' size</b>	Total floor space 31,449 m <sup>2</sup>
<b>Facilities' use</b>	Offices, commercial
<b>Property features</b>	Adjacent to Tokyo Midtown (Roppongi, Minato City), it is the first external building that to be consigned facilities management to Tokyo Midtown Management Co., Ltd. This building is newly built with state-of-the-art design and equipped with global level functionality imbuing a sense of luxuriousness. Japan's first “active chilled beam” air conditioning system is being incorporated throughout. This operation simultaneously consigns equipment management and security, and the person responsible for the equipment coordinates disaster prevention center operations as supervisor.



## Designated management work of the “Higashi Hiroshima Arts & Culture Hall”

<b>Address</b>	Higashihiroshima City, Hiroshima Prefecture
<b>Business started</b>	April 2016 (opened)
<b>Facilities' size</b>	Total floor space 13,386.61 m <sup>2</sup>
<b>Facilities' use</b>	Theatre
<b>Property features</b>	Higashi Hiroshima Arts & Culture Hall was established with the aim of promoting the arts and cultural activities of local city residents, as well as contributing to revitalization of interaction between the residents and promotion of lifelong learning. The Company conducts comprehensive building management as one of the joint enterprises constituting the designated managers. The facility is nicknamed “Kurara” as a place for enjoying music in the sake brewery town of Higashihiroshima and in hopes the hall will become a good place for dissemination of new culture.

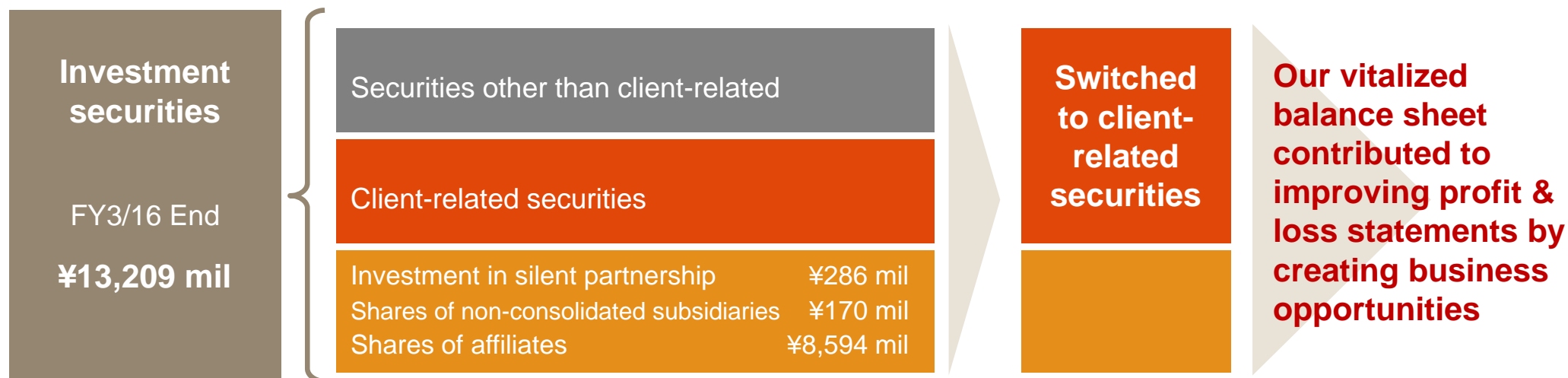




# Corporate Governance Measures

## Promotion of effective asset utilization in accordance with the Corporate Governance Code (since April 2015)

- Vitalize by switching the portfolio of investment securities



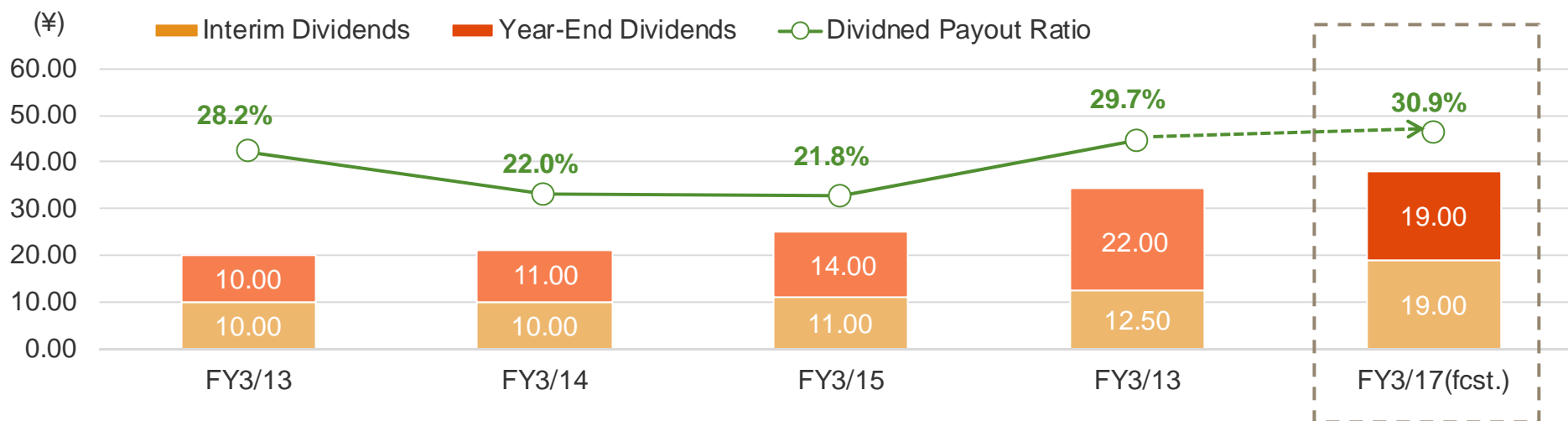
### Track record of sales

Sale status of securities held for non-business purposes

- FY3/16: 6 companies, approximately ¥1,000 million
- 1H FY3/17: 2 companies, approximately ¥700 million

# Strengthening the Shareholder Return Policy

- For FY3/17, Nippon Kanzai is planning 1H and year-end dividends of ¥19 each, for a total annual dividends of ¥38.
- We are targeting at consolidated dividends payout ratio of 35% for the future.



\*The figures from FY3/13 onward indicate equivalent amounts which would have been paid if 2-for-1 stock split had been implemented.

# Legal Disclaimer

---

No information in this material is intended to solicit the purchase or sale of shares in NIPPON KANZAI.

Forward-looking statements contained in this material such as results forecasts and future prospects are forecasts and estimates made by Broadleaf based on information available at the time of the preparation of the material, and are subject to potential risks and uncertainties.

Please note that actual results may differ from the statements contained in this material due to various factors.

NIPPON KANZAI and the information provider accept no liability whatsoever for any damage arising from any action taken by a user based on the information contained in this material.

NIPPON KANZAI Co., Ltd.

Finance Dept.

Phone: +81-3-5299-0863

E-Mail: [ir-info@nkanzai.co.jp](mailto:ir-info@nkanzai.co.jp)