

Consolidated Financial Statements
for the Second Quarter of the Fiscal Year Ending March 31, 2020 [J-GAAP]

October 31, 2019

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Filing date of quarterly report: November 8, 2019
 Date to start dividends distribution: December 3, 2019
 Supplementary materials for quarterly results: Yes
 Quarterly results briefing meeting held: Yes (for institutional investors and analysts)

*Amounts below one million yen have been rounded down.

1. Consolidated results for the second quarter ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(1) Consolidated business results

(Percentage figures indicate the rate of change from the same period in the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2019	52,446	13.4	3,360	16.5	3,450	13.4
Six months ended September 30, 2018	46,256	2.3	2,884	13.7	3,042	6.1

(Note) Comprehensive income: Six months ended September 30, 2019: ¥1,946 million [15.0%]
 Six months ended September 30, 2018: ¥1,693 million [-40.8%]

	Profit Attributable to Owners of Parent		Profit per Share		Diluted Profit per Share	
	Millions of yen	%	Yen		Yen	
Six months ended September 30, 2019	2,160	14.0	58.80		—	
Six months ended September 30, 2018	1,894	(11.0)	55.11		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2019	75,372		52,421		67.9	
As of March 31, 2019	72,670		47,487		63.6	

(Reference) Equity: As of September 30, 2019: ¥51,214 million
 As of March 31, 2019: ¥46,193 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2019	—	25.00	—	25.00	50.00
Fiscal year ending March 31, 2020	—	25.00			
Fiscal year ending March 31, 2020 (forecast)			—	25.00	50.00

(Note) Revisions to the most recently announced forecast of cash dividends in the current quarter: None

3. Consolidated business forecasts for the fiscal year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Percentage figures for the full year indicate the rate of change from the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Profit per Share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	
Full year	100,000	2.1	6,800	6.9	7,200	6.5	4,600	6.7	133.43	

(Note) Revisions to the most recently announced consolidated business forecasts in the current quarter: None

*** Notes**

(1) Changes of significant subsidiaries during the term (changes in specific subsidiaries associated with changes in scope of consolidation): None

(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements:
None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- | | |
|---|------|
| 1) Changes in accounting policies due to revisions of accounting standards, etc.: | None |
| 2) Changes in accounting policies other than 1) above: | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatement of revisions: | None |

(4) Number of shares issued and outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury stock)
- 2) Number of treasury stock
- 3) Average number of shares issued and outstanding

1)	As of September 30, 2019	41,180,306 shares	As of March 31, 2019	41,180,306 shares
2)	As of September 30, 2019	3,796,686 shares	As of March 31, 2019	6,056,686 shares
3)	First six months ended September 30, 2019	36,736,024 shares	First six months ended September 30, 2018	34,383,544 shares

*** This quarterly financial report is not included in the quarterly review by certified public accountants or audit corporations.**

*** Explanation regarding the appropriate use of business forecasts and other notes**

(Notice regarding description of future prospective, etc.)

The business forecasts reported herein were prepared based on information the Company had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers, provided under “1. (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.” on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.

(Where to find supplementary materials for results)

The Company plans to hold a briefing session on its financial results for institutional investors and analysts on Wednesday, November 27, 2019. Presentation materials will be posted on our website after the presentation.

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1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first six months of the fiscal year ending March 31, 2020, the Japanese economy remained on a moderate recovery trend due to the improvement in corporate earnings and the employment and household income environments. However, the outlook continues to be unpredictable in the face of concerns over global economic trends such as the trade friction between the U.S. and China as well as the impact of fluctuations in the financial and capital markets.

In the real estate service industry, the vacancy rates of office and retail facilities continued to remain low mainly in major urban areas and the number of reconstruction projects of multi-purpose buildings has been on the rise, suggesting future expansion of the market targeted by the Company.

In such a business environment, NIPPON KANZAI Group (hereinafter “the Group”) has continued to pursue “optimal building management” through its advanced technologies and responsiveness and continuously provide high-quality services that match customer needs, endeavoring to enhance the asset value and profitability of buildings.

The Group endeavored to further strengthen and improve building management and operation, our core business, while proactively developing business areas including private finance initiatives (PFI) and public facility management.

Consolidated net sales for the first six months of the fiscal year ending March 31, 2020, increased by 13.4% year on year to 52,446 million yen because of rolling over of fixed-term contracts and increase in construction-related orders.

In terms of profit, despite the increase in wages and outsourcing expenses, efforts for reviewing scope of work and improvement of work efficiency resulted in increase in operating income of 16.5% year on year to 3,360 million yen, increase in ordinary income of 13.4% year on year to 3,450 million yen and increase in profit attributable to owners of parent of 14.0% year on year to 2,160 million yen.

The following are the results by segment.

Segment income has been adjusted to operating income described in quarterly consolidated statements of income.

(Building Management and Operation Business)

In the Building Management and Operation Business, our core business that focuses on building management and security services, net sales for the first six months of the fiscal year ending March 31, 2020 increased by 13.3% year on year to 36,830 million yen due to an increase in fixed-term contracts through contract renewals and an increase in construction-related orders.

In terms of profit, thorough cost management and efforts for continuous cost reduction resulted in segment income of 4,523 million yen, up 14.9% year on year.

(Residential Management and Operation Business)

In the Residential Management and Operation Business, which mainly comprises the management of apartments for sale and public housing, net sales for the segment for the first six months of the fiscal year ending March 31, 2020, was 8,593 million yen, up 16.4% year on year, due to an increase in construction-related work in addition to continuation of existing contracts and steady new orders.

In terms of profit, re-examination of outsourcing expenses and thorough cost management resulted in segment income of 756 million yen, up 18.3% year on year.

(Environmental Facility Management Business)

In the Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities related to the overall living environment, we steadily won waste incineration facility and other new management contracts and renewed existing contracts. As a result, net sales for the first six months of the fiscal year ending March 31, 2020, increased by 8.6% year on year to 5,196 million yen. We consider the market has the potential to grow because the private sector’s know-how is useful for local governments, the main customers for this segment to meet their tight budgets.

In terms of profit, segment income increased by 8.8% year on year to 656 million yen as a result of improving cost ratio through fee revisions as well as our efforts in cost reduction such as realignment of personnel assignments.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management (i.e. arrangement and asset management of real estate funds) and handling of investments in silent partnership, net sales for the segment for the first six months of the fiscal year ending March 31, 2020, increased by 262.8% year on year to 772 million yen due to a significant increase in rent income through master lease agreements.

In terms of profit, efforts to win highly profitable contracts and reduce expenses resulted in segment income of 97 million yen (segment loss of 19 million yen in the same quarter of the previous year).

(Other Businesses)

In Other Businesses, which consist mainly of event planning and management, printing and design, the decrease in the number of events and clients’ cost reduction resulted in net sales for the segment of 1,295 million yen, down 4.8% year on year, and segment income of 144 million yen, down 33.9% year on year, for the first six months of the fiscal year ending March 31, 2020.

(2) Explanation regarding financial position

Total assets at the end of the second quarter of the fiscal year ending March 31, 2020, increased by 2,701 million yen, or up 3.7%, from the end of the previous fiscal year to 75,372 million yen, mainly due to an increase in cash and deposits from the exercise of share acquisition rights.

Liabilities decreased by 2,232 million yen, or 8.9%, from the end of the previous fiscal year to 22,950 million yen due to payment of income taxes payable and decrease in net defined benefit liability in line with the partial changeover to a retirement benefit program.

Net assets increased by 4,933 million yen, or 10.4%, from the end of the previous fiscal year to 52,421 million yen due to decrease in the number of treasury shares through exercise of share acquisition rights, increase in capital surplus, etc. The equity ratio increased by 4.3 percentage points from the end of the previous fiscal year to 67.9%.

(Cash Flows)

Cash and cash equivalents (hereinafter “cash”) increased by 2,319 million yen from the end of the previous fiscal year to 27,891 million yen.

The status and main factors of cash flows for the first six months of the fiscal year ending March 31, 2020, were as follows:

[Cash flows from operating activities]

Net cash provided by operating activities for the first six months of the fiscal year ending March 31, 2020, was 152 million yen, up 85 million yen year on year.

The major factors are an increase in notes and accounts receivable - trade (up 3,354 million yen year on year), a decrease in inventories (down 1,991 million yen year on year) and a decrease in notes and accounts payable – trade that is smaller than the previous year (up 1,841 million yen year on year).

[Cash flows from investing activities]

Net cash used in investing activities for the first six months of the fiscal year ending March 31, 2020, was 561 million yen, a larger outflow by 302 million yen year on year.

This is primarily due to an increase in purchase of investment securities (up 247 million yen year on year).

[Cash flows from financing activities]

Net cash provided by financing activities for the first six months of the fiscal year ending March 31, 2020, was 2,758 million yen, up 1,439 million yen year on year.

This is primarily due to proceeds from disposal of treasury shares (up 3,996 million yen year on year) through exercise of share acquisition rights.

(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.

We expect that our business environment will continue to be in an unpredictable situation.

The Group’s business performance has been generally in line with the forecasts announced on May 8, 2019, and there are no changes to the full-year business forecasts.

2. Quarterly consolidated financial statements and key notes**(1) Quarterly consolidated balance sheets**

(Thousands of yen)

	Fiscal year ended March 31, 2019 (As of March 31, 2019)	Second quarter ended September 30, 2019 (As of September 30, 2019)
ASSETS		
Current assets		
Cash and deposits	25,817,496	28,136,681
Notes and accounts receivable—trade	13,461,584	13,852,703
Investments in silent partnership for business purposes	60,351	59,943
Supplies	132,496	142,744
Real estate for sale	4,372,819	4,337,213
Income taxes receivable	73,648	57,258
Other	1,597,427	1,843,032
Allowance for doubtful accounts	(6,954)	(7,845)
Total current assets	45,508,867	48,421,729
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,256,380	3,212,298
Machinery, equipment and vehicles, net	64,293	56,418
Tools, furniture and fixtures, net	437,037	485,476
Land	1,167,664	1,167,664
Lease assets, net	232,640	213,441
Construction in progress	33,950	33,950
Total property, plant and equipment	5,191,964	5,169,247
Intangible assets		
Telephone subscription right	46,526	46,526
Software	262,183	243,846
Goodwill	1,822,307	1,754,507
Lease assets	7,246	5,697
Software in progress	125,540	139,985
Total intangible assets	2,263,802	2,190,561
Investments and other assets		
Investment securities	13,390,147	13,296,456
Long-term loans receivable	569,007	650,993
Long-term prepaid expenses	65,053	73,427
Lease and guarantee deposits	3,788,490	3,656,546
Membership	391,763	391,763
Net defined benefit asset	680,228	754,731
Deferred tax assets	517,490	460,299
Other	361,654	366,924
Allowance for doubtful accounts	(57,993)	(60,603)
Total investments and other assets	19,705,839	19,590,536
Total noncurrent assets	27,161,605	26,950,344
TOTAL ASSETS	72,670,472	75,372,073

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

	(Thousands of yen)	
	Fiscal year ended March 31, 2019 (As of March 31, 2019)	Second quarter ended September 30, 2019 (As of September 30, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	7,594,213	7,705,168
Current portion of long-term loans payable	375,000	375,000
Current portion of long-term non-recourse loans payable	25,330	25,330
Lease obligations	95,135	87,357
Accrued expenses	2,478,274	2,358,884
Income taxes payable	1,621,661	955,702
Accrued consumption taxes	754,745	645,725
Deposits received	628,237	268,084
Advances received	893,141	429,563
Provision for bonuses	726,419	687,325
Asset retirement obligations	5,870	-
Other	11,568	65,636
Total current liabilities	15,209,593	13,603,774
Noncurrent liabilities		
Long-term loans payable	1,500,000	1,312,500
Long-term non-recourse loans payable	2,979,300	2,966,635
Lease obligations	162,610	176,404
Deferred tax liabilities	528,890	522,383
Net defined benefit liability	1,102,475	327,421
Long-term guarantee deposited	2,739,718	2,577,788
Asset retirement obligations	271,275	272,001
Liabilities from application of equity method	-	19,144
Other	689,017	1,172,791
Total noncurrent liabilities	9,973,285	9,347,067
TOTAL LIABILITIES	25,182,878	22,950,841
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	1,415,920	3,785,546
Retained earnings	45,298,936	46,580,891
Treasury stock	(4,422,738)	(2,772,938)
Total shareholders' equity	45,292,118	50,593,499
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,340,429	2,199,662
Foreign currency translation adjustment	(1,117,245)	(1,283,325)
Remeasurements of defined benefit plans	(321,554)	(294,937)
Total accumulated other comprehensive income	901,630	621,400
Share acquisition rights	22,826	-
Non-controlling interests	1,271,020	1,206,333
TOTAL NET ASSETS	47,487,594	52,421,232
TOTAL LIABILITIES AND NET ASSETS	72,670,472	75,372,073

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
Quarterly consolidated statements of income

	(Thousands of yen)	
	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Net sales	46,256,456	52,446,041
Cost of sales	36,723,471	41,977,714
Gross profit	9,532,985	10,468,327
Selling, general and administrative expenses		
Selling expenses	159,289	378,361
Personnel expenses	3,700,174	3,743,874
Provision for bonuses	324,633	320,270
Retirement benefit expenses	45,295	125,371
Transportation and communication expenses	523,901	544,407
Supplies expenses	184,087	213,561
Rent expenses	468,560	498,880
Insurance expenses	243,120	242,907
Depreciation	185,047	186,061
Taxes and dues	76,006	75,743
Enterprise tax	154,337	151,452
Provision of allowance for doubtful accounts	(2,307)	3,559
Amortization of goodwill	69,880	67,800
Other	516,632	555,163
Total selling, general and administrative expenses	6,648,654	7,107,409
Operating income	2,884,331	3,360,918
Non-operating income		
Interest and dividends income	133,400	104,103
Rent income	26,811	27,316
Share of profit of entities accounted for using equity method	6,820	11,452
Foreign exchange gains	19,110	-
Other	39,655	52,778
Total non-operating income	225,796	195,649
Non-operating expenses		
Interest expenses	13,397	13,786
Rent expenses	25,896	26,628
Loss on sales and retirement of non-current assets	17,041	3,377
Foreign exchange losses	-	37,717
Other	11,272	24,377
Total non-operating expenses	67,606	105,885
Ordinary income	3,042,521	3,450,682
Quarterly profit before income taxes	3,042,521	3,450,682
Income taxes—current	1,069,670	1,121,882
Income taxes—deferred	32,719	102,690
Total income taxes	1,102,389	1,224,572
Quarterly profit	1,940,132	2,226,110
Profit attributable to non-controlling interests	45,183	66,065
Profit attributable to owners of parent	1,894,949	2,160,045

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Quarterly profit	1,940,132	2,226,110
Other comprehensive income		
Valuation difference on available-for-sale securities	165,080	(141,207)
Foreign currency translation adjustment	(13,927)	(1,360)
Remeasurements of defined benefit plans, net of tax	9,210	27,865
Share of other comprehensive income of entities accounted for using equity method	(407,387)	(164,719)
Total other comprehensive income	(247,024)	(279,421)
Quarterly comprehensive income	1,693,108	1,946,689
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,646,238	1,879,817
Comprehensive income attributable to non-controlling interests	46,870	66,872

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(3) Quarterly consolidated statements of cash flows

	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Quarterly income before income taxes and minority interests	3,042,521	3,450,682
Depreciation and amortization	277,068	286,740
Amortization of goodwill	69,880	67,800
Increase (decrease) in provision for bonuses	5,745	(45,694)
Increase (decrease) in defined benefit liability	(101,553)	(808,294)
Increase (decrease) in allowance for doubtful accounts	(4,554)	3,500
Shares of (profit) loss of entities accounted for using equity method	(6,820)	(11,452)
Interest and dividends income	(133,400)	(104,103)
Interest expenses	13,397	13,786
Loss (gain) on foreign exchange	(19,059)	33,368
Loss (gain) on sales and retirement of non-current assets	17,041	3,341
Decrease (increase) in notes and accounts receivable—trade	2,564,185	(790,708)
(Increase) decrease in investments in silent partnership for business purposes	(32,709)	408
Decrease (increase) in inventories	(1,966,236)	25,358
Decrease (increase) in other assets	(54,586)	177,801
Increase (decrease) in notes and accounts payable—trade	(2,323,970)	(482,351)
Increase (decrease) in accrued consumption taxes	(109,109)	(99,392)
Increase (decrease) in other liabilities	(259,737)	189,850
Other, net	(734)	(1,059)
Subtotal	977,370	1,909,581
Interest and dividends income received	143,241	211,527
Interest expenses paid	(13,397)	(13,786)
Income taxes paid	(1,040,299)	(1,954,557)
Net cash provided by operating activities	66,915	152,765

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

	Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)
Cash flows from investing activities		
Payments into time deposits	(130,000)	(130,000)
Proceeds from withdrawal of time deposits	130,000	130,000
Purchase of property, plant and equipment and intangible assets	(299,897)	(243,733)
Proceeds from sales of property, plant and equipment and intangible assets	1,438	31
Purchase of investment securities	(25,360)	(273,048)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(22,000)
Payments of loans receivable	(1,385)	(102,561)
Collection of loans receivable	24,924	16,437
Payments for lease and guarantee deposits	(596,630)	(113,887)
Proceeds from collection of lease and guarantee deposits	129,481	299,629
Proceeds from guarantee deposits received	523,469	51,050
Repayments of guarantee deposits received	(13,499)	(212,979)
Other, net	(1,658)	39,227
Net cash used in investing activities	(259,117)	(561,834)
Cash flows from financing activities		
Increase in short-term loans payable	2,800,000	1,400,000
Decrease in short-term loans payable	(1,800,000)	(1,400,000)
Repayment of long-term loans payable	(287,500)	(187,500)
Proceeds from long-term non-recourse loans payable	1,327,000	-
Repayment of long-term non-recourse loans payable	(5,975)	(12,665)
Repayments of lease obligations	(55,337)	(23,227)
Proceeds from disposal of treasury shares through exercise of share acquisition rights	-	3,996,600
Payments from non-controlling interests	197,550	-
Cash dividends paid	(721,803)	(889,814)
Dividends paid to non-controlling interests	(134,650)	(124,750)
Net cash used in financing activities	1,319,285	2,758,644
Effect of exchange rate change on cash and cash equivalents	8,523	(30,390)
Net increase (decrease) in cash and cash equivalents	1,135,606	2,319,185
Cash and cash equivalents at beginning of period	21,757,218	25,572,496
Cash and cash equivalents at end of period	22,892,824	27,891,681

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(4) Notes on quarterly consolidated financial statements**(Notes on going concern assumption)**

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

During the first six months of the fiscal year ending March 31, 2020, the Company received payment from the disposal of treasury shares through partial exercise of share acquisition rights (share acquisition rights with exercise price amendment through third-party allotment clause) issued on November 21, 2018. This resulted in an increase of 2,369,626 thousand yen in capital surplus and decrease of 1,649,800 thousand yen in treasury shares.

As a result, capital surplus stood at 3,785,546 thousand yen and treasury shares at 2,772,938 thousand yen at the end of the first six months of the fiscal year ending March 31, 2020.

(Segment information, etc.)

I. Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)

1. Information on net sales, and income or losses for each reportable segment

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	32,518,450	7,379,682	4,783,446	213,006	1,361,872	46,256,456	—	46,256,456
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	32,518,450	7,379,682	4,783,446	213,006	1,361,872	46,256,456	—	46,256,456
Segment income	3,935,439	639,875	603,558	(19,912)	218,291	5,377,251	(2,492,920)	2,884,331

(Notes) 1. Adjustments of -2,492,920 thousand yen for segment income (loss) are general administrative expenses not allocated to any reportable segment.

2. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

II. Six months ended September 30, 2019 (April 1, 2019 to September 30, 2019)

1. Information on net sales, and income or losses for each reportable segment

(Thousands of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Residential Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales								
Net sales to external customers	36,830,791	8,593,557	5,196,974	772,696	1,052,023	52,446,041	—	52,446,041
Inter-segment net sales and transfer	—	—	—	—	243,831	243,831	(243,831)	—
Total	36,830,791	8,593,557	5,196,974	772,696	1,295,854	52,689,872	(243,831)	52,446,041
Segment income	4,523,131	756,928	656,514	97,765	144,188	6,178,526	(2,817,608)	3,360,918

(Notes) 1. Adjustments of -2,817,608 thousand yen for segment income are unallocated general administrative expenses.

2. Segment income has been adjusted to operating income described in quarterly consolidated statements of income.