

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

February 4, 2020

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
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 Filing date of quarterly report: February 10, 2020
 Date to start dividends distribution: —
 Supplementary materials for quarterly results: None
 Quarterly results briefing meeting held: None

*Amounts below one million yen have been rounded down.

1. Consolidated results for the third quarter ended December 31, 2019 (April 1, 2019 to December 31, 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	%
Nine months ended December 31, 2019	78,966	10.3	5,154	1.6	5,432	2.4
Nine months ended December 31, 2018	71,594	1.4	5,071	15.8	5,303	7.9

(Note) Comprehensive income: Nine months ended December 31, 2019: ¥3,333 million [48.2%]
 Nine months ended December 31, 2018: ¥2,248 million [-51.7%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2019	3,422	1.8	92.63	—
Nine months ended December 31, 2018	3,361	(2.0)	97.76	97.66

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2019	76,129	52,873	67.8
As of March 31, 2019	72,670	47,487	63.6

(Reference) Equity: As of December 31, 2019: ¥51,628 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	Yen —	Yen 25.00	Yen —	Yen 25.00	Yen 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 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 December 31, 2019	41,180,306 shares	As of March 31, 2019	41,180,306 shares
2)	As of December 31, 2019	3,796,758 shares	As of March 31, 2019	6,056,686 shares
3)	First nine months ended December 31, 2019	36,952,656 shares	First nine months ended December 31, 2018	34,385,944 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.

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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 the Brexit and global economic trends of emerging nations, etc. 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 nine months of the fiscal year ending March 31, 2020, increased by 10.3% year on year to 78,966 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 to secure profits, such as the fee revision and review of scope of work and work efficiency, resulted in an increase in operating income of 1.6% year on year to 5,154 million yen, increase in ordinary income of 2.4% year on year to 5,432 million yen and increase in profit attributable to owners of parent of 1.8% year on year to 3,422 million yen.

The following are the business results by segment.

Segment income has been adjusted to operating income described in the 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 nine months of the fiscal year ending March 31, 2020 increased by 12.0% year on year to 55,865 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, including fee revisions and continuous cost reduction, resulted in segment income of 6,982 million yen, up 13.8% 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 nine months of the fiscal year ending March 31, 2020, was 12,444 million yen, up 10.2% 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, despite continuous efforts to cut costs, segment income decreased by 2.7% year on year to 1,063 million yen due to an increase in construction cost, etc.

(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 nine months of the fiscal year ending March 31, 2020, increased by 8.1% year on year to 7,850 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 10.3% year on year to 1,007 million yen as a result of improving profit margin 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 nine months of the fiscal year ending March 31, 2020, decreased by 2.8% year on year to 1,159 million yen due to a decrease in profit brought by sale of asset under management despite an increase in rent income through master lease agreements.

In terms of profit, segment income decreased by 56.0% year on year to 105 million yen due to the aforementioned decrease in profit brought by sale of asset under management despite efforts to win highly profitable contracts and reduce expenses.

(Other Businesses)

In Other Businesses, which consist mainly of event planning and management, printing and design, net sales for the segment for the first nine months of the fiscal year ending March 31, 2020 increased by 0.5% year on year to 1,984 million yen due to an increase in video production business, etc., while segment income decreased by 42.3% year on year to 229 million yen due to an increase in outsourcing and other major costs.

(2) Explanation regarding financial position

Total assets at the end of the third quarter of the fiscal year ending March 31, 2020, increased by 3,459 million yen, or up 4.8%, from the end of the previous fiscal year to 76,129 million yen, mainly due to an increase in cash and deposits from the exercise of share acquisition rights.

Liabilities decreased by 1,926 million yen, or 7.7%, from the end of the previous fiscal year to 23,256 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 5,385 million yen, or 11.3%, from the end of the previous fiscal year to 52,873 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 4.2 percentage points from the end of the previous fiscal year to 67.8%.

(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)	Third quarter ended December 31, 2019 (As of December 31, 2019)
ASSETS		
Current assets		
Cash and deposits	25,817,496	28,604,898
Notes and accounts receivable—trade	13,461,584	13,513,762
Investments in silent partnership for business purposes	60,351	81,290
Supplies	132,496	142,989
Real estate for sale	4,372,819	4,320,618
Income taxes receivable	73,648	176,561
Other	1,597,427	1,988,468
Allowance for doubtful accounts	(6,954)	(7,725)
Total current assets	45,508,867	48,820,861
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	3,256,380	3,164,825
Machinery, equipment and vehicles, net	64,293	38,113
Tools, furniture and fixtures, net	437,037	459,671
Land	1,167,664	1,167,664
Lease assets, net	232,640	215,448
Construction in progress	33,950	33,950
Total property, plant and equipment	5,191,964	5,079,671
Intangible assets		
Telephone subscription right	46,526	46,526
Software	262,183	209,209
Goodwill	1,822,307	1,720,606
Lease assets	7,246	4,923
Software in progress	125,540	302,981
Total intangible assets	2,263,802	2,284,245
Investments and other assets		
Investment securities	13,390,147	13,659,061
Long-term loans receivable	569,007	649,711
Long-term prepaid expenses	65,053	69,101
Lease and guarantee deposits	3,788,490	3,712,425
Membership	391,763	391,763
Net defined benefit asset	680,228	792,350
Deferred tax assets	517,490	345,616
Other	361,654	384,586
Allowance for doubtful accounts	(57,993)	(59,603)
Total investments and other assets	19,705,839	19,945,010
Total noncurrent assets	27,161,605	27,308,926
TOTAL ASSETS	72,670,472	76,129,787

*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)	Third quarter ended December 31, 2019 (As of December 31, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	7,594,213	7,656,062
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	85,521
Accrued expenses	2,478,274	2,784,009
Income taxes payable	1,621,661	287,197
Accrued consumption taxes	754,745	953,030
Deposits received	628,237	856,865
Advances received	893,141	495,190
Provision for bonuses	726,419	119,312
Asset retirement obligations	5,870	-
Other	11,568	60,408
Total current liabilities	15,209,593	13,697,924
Noncurrent liabilities		
Long-term loans payable	1,500,000	1,218,750
Long-term non-recourse loans payable	2,979,300	2,960,303
Lease obligations	162,610	178,366
Deferred tax liabilities	528,890	793,780
Net defined benefit liability	1,102,475	318,134
Long-term guarantee deposited	2,739,718	2,623,000
Asset retirement obligations	271,275	254,420
Liabilities from application of equity method	-	40,360
Other	689,017	1,171,320
Total noncurrent liabilities	9,973,285	9,558,433
TOTAL LIABILITIES	25,182,878	23,256,357
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	46,909,145
Treasury stock	(4,422,738)	(2,773,074)
Total shareholders' equity	45,292,118	50,921,617
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,340,429	2,417,208
Foreign currency translation adjustment	(1,117,245)	(1,428,836)
Remeasurements of defined benefit plans	(321,554)	(281,628)
Total accumulated other comprehensive income	901,630	706,744
Share acquisition rights	22,826	-
Non-controlling interests	1,271,020	1,245,069
TOTAL NET ASSETS	47,487,594	52,873,430
TOTAL LIABILITIES AND NET ASSETS	72,670,472	76,129,787

*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)	
	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Net sales	71,594,061	78,966,738
Cost of sales	56,571,302	63,041,385
Gross profit	15,022,759	15,925,353
Selling, general and administrative expenses		
Selling expenses	233,800	563,852
Personnel expenses	5,944,278	6,106,779
Provision for bonuses	73,757	96,751
Retirement benefit expenses	71,814	188,980
Transportation and communication expenses	790,999	823,156
Supplies expenses	278,983	318,787
Rent expenses	710,955	757,143
Insurance expenses	362,539	362,214
Depreciation	280,739	282,505
Taxes and dues	84,050	85,090
Enterprise tax	231,060	225,003
Provision of allowance for doubtful accounts	(2,826)	3,439
Amortization of goodwill	115,220	101,701
Other	775,455	855,476
Total selling, general and administrative expenses	9,950,823	10,770,876
Operating income	5,071,936	5,154,477
Non-operating income		
Interest and dividends income	166,777	141,254
Rent income	40,078	40,857
Share of profit of entities accounted for using equity method	82,737	87,663
Foreign exchange gains	-	28,068
Other	55,039	76,943
Total non-operating income	344,631	374,785
Non-operating expenses		
Interest expenses	21,638	21,182
Rent expenses	37,829	38,354
Loss on sales and retirement of noncurrent assets	17,041	5,518
Foreign exchange losses	19,049	-
Other	17,227	31,911
Total non-operating expenses	112,784	96,965
Ordinary income	5,303,783	5,432,297
Extraordinary income		
Gain on transfer from business divestitures	-	27,791
Total extraordinary income	-	27,791
Quarterly profit before income taxes	5,303,783	5,460,088
Income taxes—current	1,519,555	1,547,391
Income taxes—deferred	342,313	387,162
Total income taxes	1,861,868	1,934,553
Quarterly profit	3,441,915	3,525,535
Profit attributable to non-controlling interests	80,461	102,646
Profit attributable to owners of parent	3,361,454	3,422,889

*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)

	Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)
Quarterly profit	3,441,915	3,525,535
Other comprehensive income		
Valuation difference on available-for-sale securities	(850,315)	77,870
Foreign currency translation adjustment	(5,328)	(4,418)
Remeasurements of defined benefit plans, net of tax	13,815	41,798
Share of other comprehensive income of entities accounted for using equity method	(351,362)	(307,172)
Total other comprehensive income	(1,193,190)	(191,922)
Quarterly comprehensive income	2,248,725	3,333,613
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,169,699	3,228,004
Comprehensive income attributable to non-controlling interests	79,026	105,609

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

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

Not applicable.

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

During the first nine 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 2,773,074 thousand yen, including shares acquired through purchase of odd-lot shares, at the end of the third quarter of the fiscal year ending March 31, 2020.

(Segment information)

I. Nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	49,875,523	11,288,796	7,260,935	1,193,320	1,975,487	71,594,061	—	71,594,061
Inter-segment net sales and transfer	—	—	—	—	—	—	—	—
Total	49,875,523	11,288,796	7,260,935	1,193,320	1,975,487	71,594,061	—	71,594,061
Segment income	6,136,591	1,093,371	913,253	239,846	397,480	8,780,541	(3,708,605)	5,071,936

(Notes) 1. Adjustments of -3,708,605 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.

II. Nine months ended December 31, 2019 (April 1, 2019 to December 31, 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	55,865,631	12,444,362	7,850,380	1,159,904	1,646,461	78,966,738	—	78,966,738
Inter-segment net sales and transfer	—	—	—	—	337,980	337,980	(337,980)	—
Total	55,865,631	12,444,362	7,850,380	1,159,904	1,984,441	79,304,718	(337,980)	78,966,738
Segment income	6,982,371	1,063,583	1,007,325	105,504	229,467	9,388,250	(4,233,773)	5,154,477

(Notes) 1. Adjustments of -4,233,773 thousand yen for segment income are elimination of inter-segment transactions and unallocated general administrative expenses.

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