

Consolidated Financial Statements
for the Third Quarter of the Fiscal Year Ending March 31, 2021 [J-GAAP]

February 2, 2021

NIPPON KANZAI Co., Ltd.

Listed exchanges: Tokyo Stock Exchange, First Section
Code number: 9728 URL: <https://www.nkanzai.co.jp/en/>
Representative: Shintaro Fukuda, President and Representative Director
Contact: Shigeki Okamoto, Director and Head of Finance & Accounting Dept.
Telephone: +81-3-5299-0863
Filing date of quarterly report: February 9, 2021
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, 2020 (April 1, 2020 to December 31, 2020)

(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, 2020	75,090	(4.9)	5,140	(0.3)	5,408	(0.4)
Nine months ended December 31, 2019	78,966	10.3	5,154	1.6	5,432	2.4

(Note) Comprehensive income: Nine months ended December 31, 2020: ¥3,937 million [18.1%]
Nine months ended December 31, 2019: ¥3,333 million [48.2%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Nine months ended December 31, 2020	3,553	3.8	95.05	—
Nine months ended December 31, 2019	3,422	1.8	92.63	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of December 31, 2020	77,260	55,006	69.6
As of March 31, 2020	77,024	53,029	67.2

(Reference) Equity: As of December 31, 2020: ¥53,750 million
As of March 31, 2020: ¥51,780 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2020	—	25.00	—	25.00	50.00
Fiscal year ending March 31, 2021	—	25.00	—		
Fiscal year ending March 31, 2021 (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, 2021 (April 1, 2020 to March 31, 2021)

(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	108,000	1.6	7,000	2.1	7,400	2.3	4,600	5.8	123.05

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

* Notes

(1) **Changes of significant subsidiaries during the period (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, 2020	41,180,306 shares	As of March 31, 2020	41,180,306 shares
2)	As of December 31, 2020	3,796,818 shares	As of March 31, 2020	3,796,758 shares
3)	First nine months ended December 31, 2020	37,383,536 shares	First nine months ended December 31, 2019	36,952,656 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**

(Notes to forward-looking statements)

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. Qualitative information on financial statements; (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.

(Change of unit of amounts)

Amounts for the Company’s quarterly financial statement accounts and other matters were previously stated in thousands of yen, but starting from the first quarter/first three months of the fiscal year ending March 31, 2021, the unit has been changed and is stated in millions of yen.

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1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first nine months of the fiscal year ending March 31, 2021, the Japanese economy saw the COVID-19 pandemic cause economic downturn and prolonged stagnation in economic activity in Japan and abroad, continuing to cast extreme uncertainty over the future.

In the real estate service industry, with a shift from an urban-intensive society to a decentralized one due to measures such as the introduction of remote working and establishment of satellite offices in the suburbs as countermeasures against COVID-19, the vacancy rates of office and retail facilities are turning toward an upward trend with the exception of some areas. In addition, due to concerns over the increasing cost-consciousness of clients, a severe business environment is expected to continue going forward.

In such a business environment, Nippon Kanzai Group (hereinafter “the Group”) sought to continuously provide high-quality services that address customer needs by unremittingly pursuing “optimal building management” through its advanced technologies and responsiveness, endeavoring to enhance the asset value of buildings.

The Group has also exerted itself to further strengthen and improve building management and operation, its core business, while proactively developing peripheral 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, 2021, decreased by 4.9% year on year to 75,090 million yen due to sluggish growth in orders for construction-related work and temporary work.

In terms of profit, although a review of terms and conditions for purchases and efforts for thorough working-time management were made, sluggish growth in net sales and an increase in personnel expenses, etc. due to the strengthening of the corporate structure resulted in slight year-on-year decreases with operating income decreasing by 0.3% year on year to 5,140 million yen and ordinary income decreasing by 0.4% year on year to 5,408 million yen. On the other hand, gain on sales of investment securities resulted in profit attributable to owners of parent increasing by 3.8% year on year to 3,553 million yen.

The following are the business results by segment.

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

Building Management and Operation

With regard to Building Management and Operation, the Group’s core business that focuses on building management and security services, sluggish growth in orders for construction-related work resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2021, decreasing by 5.9% year on year to 52,543 million yen.

In terms of profit, despite efforts in cost reduction, sluggish growth in net sales and an increase in personnel expenses, etc. due to the strengthening of the corporate structure resulted in segment income decreasing by 2.5% year on year to 6,807 million yen.

Residential Management and Operation

With regard to Residential Management and Operation, which mainly consists of managing apartments and condominiums as well as public housing, a decrease in orders due to the cancellation and postponement of construction-related work resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2021, decreasing by 3.1% year on year to 12,061 million yen.

In terms of profit, efforts to win highly profitable contracts and reduce costs resulted in segment income increasing by 6.2% year on year to 1,129 million yen.

Environmental Facility Management

With regard to Environmental Facility Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, steady contract renewals as well as an increase in orders for construction-related work, etc. resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2021, increasing by 4.4% year on year to 8,199 million yen.

In terms of profit, segment income increased by 9.5% year on year to 1,103 million yen as a result of an improved cost ratio through fee revisions as well as the Group’s efforts in cost reduction with a focus on appropriate personnel assignments.

Real Estate Fund Management

With regard to Real Estate Fund Management, which mainly consists of asset management (i.e., arrangement and asset management of real estate funds) and handling of investments in silent partnership, sales of assets under management, etc. resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2021, increasing by 24.0% year on year to 1,438 million yen.

In terms of profit, despite an increase in profit due to sales of assets under management, a decrease in rent income through master lease agreements in relation to hotels resulted in segment income decreasing by 38.6% year on year to 64 million yen.

Other Businesses

As for Other Businesses, which mainly consists of event planning and management, printing, and design, the cancellation of many events due to COVID-19 resulted in net sales for the segment for the first nine months of the fiscal year ending March 31, 2021, decreasing by 43.1% year on year to 1,129 million yen, but successfully winning highly profitable contracts resulted in segment income increasing by 3.1% year on year to 236 million yen.

(2) Explanation regarding financial position

(Analysis of financial position)

Total assets at the end of the third quarter of the fiscal year ending March 31, 2021, increased by 236 million yen, or 0.3%, from the end of the previous fiscal year to 77,260 million yen, mainly due to an increase from advance payment of outsourcing expenses in other items, even partly offset by a decrease in trade accounts receivable from collection of trade receivables and a decrease resulting from the sales of real estate for sale.

Liabilities decreased by 1,740 million yen, or 7.3%, from the end of the previous fiscal year to 22,253 million yen due to payment of trade accounts payable and reversal of provision for bonuses.

Net assets increased by 1,976 million yen, or 3.7%, from the end of the previous fiscal year to 55,006 million yen, mainly due to an increase in retained earnings. The equity ratio increased by 2.4 percentage points from the end of the previous fiscal year to 69.6%.

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

The Group remains cautious of the future business environment which continues to be unpredictable.

The Group's business performance has been generally in line with the forecasts announced on May 7, 2020, and there are no changes to the full-year business forecasts.

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	Third quarter ended December 31, 2020 (As of December 31, 2020)
ASSETS		
Current assets		
Cash and deposits	28,588	29,259
Notes and accounts receivable—trade	13,989	12,681
Investments in silent partnership for business purposes	81	80
Supplies	138	153
Real estate for sale	4,302	3,533
Income taxes receivable	57	86
Other	1,647	3,042
Allowance for doubtful accounts	(7)	(8)
Total current assets	48,797	48,827
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,111	3,008
Machinery, equipment and vehicles, net	33	26
Tools, furniture and fixtures, net	483	496
Land	1,167	1,234
Leased assets, net	236	233
Construction in progress	222	429
Total property, plant and equipment	5,254	5,428
Intangible assets		
Telephone subscription right	46	46
Software	454	446
Goodwill	1,686	1,585
Leased assets	4	2
Software in progress	47	-
Total intangible assets	2,239	2,080
Investments and other assets		
Investment securities	14,633	14,721
Long-term loans receivable	577	788
Long-term prepaid expenses	66	41
Lease and guarantee deposits	3,697	3,597
Membership	391	391
Net defined benefit asset	518	575
Deferred tax assets	525	497
Other	381	369
Allowance for doubtful accounts	(59)	(58)
Total investments and other assets	20,732	20,924
Total non-current assets	28,226	28,433
TOTAL ASSETS	77,024	77,260

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020 (As of March 31, 2020)	Third quarter ended December 31, 2020 (As of December 31, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	8,587	7,274
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	25	19
Lease obligations	87	89
Accrued expenses	2,215	2,836
Income taxes payable	1,070	627
Accrued consumption taxes	1,273	1,211
Deposits received	282	897
Advances received	337	630
Provision for bonuses	714	108
Asset retirement obligations	1	-
Other	49	59
Total current liabilities	15,019	14,131
Non-current liabilities		
Long-term loans payable	1,125	843
Long-term non-recourse loans payable	2,953	2,341
Lease obligations	195	182
Deferred tax liabilities	266	609
Net defined benefit liability	548	186
Long-term guarantee deposited	2,598	2,501
Asset retirement obligations	253	253
Liabilities from application of equity method	40	24
Other	992	1,179
Total non-current liabilities	8,974	8,122
TOTAL LIABILITIES	23,994	22,253
NET ASSETS		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	47,833	49,516
Treasury shares	(2,773)	(2,773)
Total shareholders' equity	51,845	53,529
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,621	1,941
Foreign currency translation adjustment	(1,227)	(1,323)
Remeasurements of defined benefit plans	(460)	(397)
Total accumulated other comprehensive income	(65)	220
Non-controlling interests	1,249	1,256
TOTAL NET ASSETS	53,029	55,006
TOTAL LIABILITIES AND NET ASSETS	77,024	77,260

*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

	(Millions of yen)	
	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)
Net sales	78,966	75,090
Cost of sales	63,041	59,014
Gross profit	15,925	16,076
Selling, general and administrative expenses		
Selling expenses	563	528
Personnel expenses	6,106	6,351
Provision for bonuses	96	84
Retirement benefit expenses	188	217
Transportation and communication expenses	823	674
Supplies expenses	318	360
Rent expenses	757	777
Insurance expenses	362	355
Depreciation	282	304
Taxes and dues	85	86
Enterprise tax	225	240
Provision of allowance for doubtful accounts	3	2
Amortization of goodwill	101	101
Other	855	850
Total selling, general and administrative expenses	10,770	10,935
Operating income	5,154	5,140
Non-operating income		
Interest and dividend income	141	141
Rent income	40	40
Share of profit of entities accounted for using equity method	87	90
Foreign exchange gains	28	25
Other	76	90
Total non-operating income	374	389
Non-operating expenses		
Interest expenses	21	19
Rent expenses	38	37
Loss on sales and retirement of non-current assets	5	31
Other	31	32
Total non-operating expenses	96	121
Ordinary income	5,432	5,408
Extraordinary income		
Gain on sales of investment securities	-	217
Gain on transfer from business divestitures	27	-
Total extraordinary income	27	217
Quarterly profit before income taxes	5,460	5,626
Income taxes—current	1,547	1,773
Income taxes—deferred	387	209
Total income taxes	1,934	1,982
Quarterly profit	3,525	3,643
Profit attributable to non-controlling interests	102	90
Profit attributable to owners of parent	3,422	3,553

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

Quarterly consolidated statements of comprehensive income

	(Millions of yen)	
	Nine months ended December 31, 2019 (April 1, 2019 to December 31, 2019)	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)
Quarterly profit	3,525	3,643
Other comprehensive income		
Valuation difference on available-for-sale securities	77	325
Foreign currency translation adjustment	(4)	9
Remeasurements of defined benefit plans, net of tax	41	64
Share of other comprehensive income of entities accounted for using equity method	(307)	(105)
Total other comprehensive income	(191)	293
Quarterly comprehensive income	3,333	3,937
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,228	3,839
Comprehensive income attributable to non-controlling interests	105	97

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

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

Not applicable.

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

Not applicable.

(Segment information, etc.)

I. 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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation	Residential Management and Operation	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	55,865	12,444	7,850	1,159	1,646	78,966	—	78,966
Inter-segment net sales and transfer	—	—	—	—	337	337	(337)	—
Total	55,865	12,444	7,850	1,159	1,984	79,304	(337)	78,966
Segment income	6,982	1,063	1,007	105	229	9,388	(4,233)	5,154

(Notes) 1. Adjustments of -4,233 million 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.

II. Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)

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

(Millions of yen)

	Reportable segment						Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation	Residential Management and Operation	Environmental Facility Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	52,543	12,061	8,199	1,438	847	75,090	—	75,090
Inter-segment net sales and transfer	—	—	—	—	282	282	(282)	—
Total	52,543	12,061	8,199	1,438	1,129	75,372	(282)	75,090
Segment income	6,807	1,129	1,103	64	236	9,341	(4,201)	5,140

(Notes) 1. Adjustments of -4,201 million 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.