

Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 31, 2023 [J-GAAP]

August 4, 2022

NIPPON KANZAI Co., Ltd.

Listed exchange: Tokyo Stock Exchange, Prime Market
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 Filing date of quarterly report: August 10, 2022
 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 first quarter ended June 30, 2022 (April 1, 2022 to June 30, 2022)

(1) Consolidated business results

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

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2022	25,604	8.2	2,169	28.2	2,474	38.9
Three months ended June 30, 2021	23,662	(3.1)	1,692	15.4	1,781	23.6

(Note) Comprehensive income: Three months ended June 30, 2022: ¥1,857 million [16.9%]
 Three months ended June 30, 2021: ¥1,588 million [167.1%]

	Profit Attributable to Owners of Parent		Profit per Share	Diluted Profit per Share
	Millions of yen	%	Yen	Yen
Three months ended June 30, 2022	1,632	48.3	43.67	—
Three months ended June 30, 2021	1,100	24.4	29.45	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	81,858	62,399	74.8
As of March 31, 2022	82,141	61,652	73.5

(Reference) Equity: As of June 30, 2022: ¥61,199 million
 As of March 31, 2022: ¥60,372 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2022	—	27.00	—	27.00	54.00
Fiscal year ending March 31, 2023	—	—	—	—	—
Fiscal year ending March 31, 2023 (forecast)	—	27.00	—	27.00	54.00

(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, 2023 (April 1, 2022 to March 31, 2023)

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

Percentage figures for the first six months indicate the rate of change from the same period of 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
First half	51,800	3.8	3,700	1.3	4,100	1.1	2,700	(21.4)	72.22
Full year	108,000	4.1	7,800	4.0	8,500	2.7	5,600	(9.3)	149.80

(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: | Yes |
| 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 June 30, 2022	41,180,306 shares	As of March 31, 2022	41,180,306 shares
2)	As of June 30, 2022	3,797,012 shares	As of March 31, 2022	3,797,012 shares
3)	First three months ended June 30, 2022	37,383,294 shares	First three months ended June 30, 2021	37,383,488 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.

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1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first three months of the fiscal year ending March 31, 2023, the Japanese economy was faced with concerns of stagnation in economic activity due to the impact of surging raw material prices caused by the prolonged situation in Ukraine and currency exchange fluctuation risks with no prospects of an end to COVID-19 yet in sight. These factors still continue to cast uncertainty over the future.

The real estate services industry also saw vacancy rates for office buildings and retail facilities in urban areas still remain high as a result of a widespread adoption of remote working and establishment of satellite offices as countermeasures against COVID-19 and other factors. In addition, with surging raw material prices and rising labor costs leading to client companies becoming more conscious of reducing costs, a severe business environment is expected to continue.

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

The Group has also endeavored to further strengthen and improve Building Management and Operations, its core business, while proactively developing business areas including private finance initiatives (PFI) and public facility management.

Consolidated net sales for the first three months of the fiscal year ending March 31, 2023, increased by 8.2% year on year to 25,604 million yen from new management project contracts and steady contract renewals.

In terms of profit, although there was a rise in labor costs, efforts to secure profits such as through fee revision and review of scope of work and work efficiency resulted in operating income increasing by 28.2% year on year to 2,169 million yen, ordinary income increasing by 38.9% year on year to 2,474 million yen, and profit attributable to owners of parent increasing by 48.3% year on year to 1,632 million yen.

The following are business results by segment.

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

Building Management and Operations

With regard to Building Management and Operations, the Group’s core business that focuses on building management and security services, steadily winning new management contracts and renewing contracts resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2023, increasing by 8.1% year on year to 17,780 million yen.

In terms of profit, efforts to secure profits such as through fee revision and review of scope of work and work efficiency resulted in segment income increasing by 29.0% year on year to 2,658 million yen.

Residential Management and Operations

With regard to Residential Management and Operations, which mainly consists of managing rental apartment buildings and condominiums as well as public housing, increasingly winning new management contracts resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2023, increasing by 7.8% year on year to 4,194 million yen.

In terms of profit, efforts to review the cost ratio and reduce costs resulted in segment income increasing by 15.2% year on year to 501 million yen.

Environmental Facilities Management

With regard to Environmental Facilities Management, which mainly consists of managing water treatment, sewage disposal, and other public facilities related to the overall living environment, steadily renewing existing management contracts resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2023, increasing by 4.0% year on year to 2,851 million yen.

In terms of profit, efforts in cost reduction with a focus on realignment of personnel assignments resulted in segment income increasing by 3.3% year on year to 478 million yen.

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, increasing income from sublease contracts resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2023, increasing by 22.7% year on year to 264 million yen.

In terms of profit, efforts in cost reduction with a focus on realignment of personnel assignments resulted in segment income of 9 million yen (segment loss of 13 million yen in the same period of the previous fiscal year).

Other Businesses

In Other Businesses, which consist mainly of event planning and management, design and payroll accounting services, contribution of the business performance of Neotrust Co., Ltd., which became a consolidated subsidiary at the end of the second quarter of the fiscal year ended March 31, 2022, resulted in net sales for the segment for the first three months of the fiscal year ending March 31, 2023, increasing by 36.8% year on year to 597 million yen.

In terms of profit, despite cost reduction efforts, a decrease in highly profitable contracts resulted in segment income decreasing by 56.0% year on year to 60 million yen.

(2) Explanation regarding financial position

Total assets at the end of the first quarter of the fiscal year ending March 31, 2023, decreased by 282 million yen, or 0.3%, from the end of the previous fiscal year to 81,858 million yen, mainly due to a decrease in trade accounts receivable from collection of trade receivables.

Liabilities decreased by 1,029 million yen, or 5.0%, from the end of the previous fiscal year to 19,459 million yen, mainly due to payment of trade accounts payable and repayment of loans payable.

Net assets increased by 746 million yen, or 1.2%, from the end of the previous fiscal year to 62,399 million yen, mainly due to foreign currency translation adjustment and an increase in retained earnings from recording profit attributable to owners of parent. The equity ratio increased by 1.3 percentage points from the end of the previous fiscal year to 74.8%.

(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 10, 2022, 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, 2022 (As of March 31, 2022)	First quarter ended June 30, 2022 (As of June 30, 2022)
ASSETS		
Current assets		
Cash and deposits	32,789	32,722
Notes, accounts receivable — trade and contract assets	14,296	12,191
Investments in silent partnership for business purposes	74	69
Supplies	183	221
Real estate for sale	2,907	2,896
Income taxes receivable	141	28
Other	1,465	1,411
Allowance for doubtful accounts	(8)	(7)
Total current assets	51,849	49,533
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,846	3,892
Machinery, equipment and vehicles, net	39	36
Tools, furniture and fixtures, net	550	556
Land	1,226	1,228
Leased assets, net	302	429
Construction in progress	21	8
Total property, plant and equipment	5,988	6,152
Intangible assets		
Telephone subscription right	46	46
Software	405	375
Goodwill	1,825	1,780
Leased assets	9	9
Software in progress	70	83
Total intangible assets	2,357	2,294
Investments and other assets		
Investment securities	15,653	17,537
Long-term loans receivable	833	838
Long-term prepaid expenses	19	18
Lease and guarantee deposits	3,671	3,705
Membership	361	360
Net defined benefit asset	830	868
Deferred tax assets	245	219
Other	388	385
Allowance for doubtful accounts	(56)	(56)
Total investments and other assets	21,946	23,877
Total non-current assets	30,291	32,324
TOTAL ASSETS	82,141	81,858

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022 (As of March 31, 2022)	First quarter ended June 30, 2022 (As of June 30, 2022)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	6,143	4,024
Current portion of long-term loans payable	375	375
Current portion of long-term non-recourse loans payable	16	309
Lease obligations	107	146
Accrued expenses	2,659	3,875
Income taxes payable	561	508
Accrued consumption taxes	930	1,357
Deposits received	277	440
Contract liabilities	1,711	1,785
Provision for bonuses	768	118
Asset retirement obligations	21	7
Other	53	41
Total current liabilities	13,626	12,990
Non-current liabilities		
Long-term loans payable	375	281
Long-term non-recourse loans payable	1,871	1,573
Lease obligations	229	315
Deferred tax liabilities	731	598
Net defined benefit liability	166	150
Long-term guarantee deposited	2,475	2,498
Asset retirement obligations	284	327
Liabilities from application of equity method	22	13
Other	705	709
Total non-current liabilities	6,862	6,468
TOTAL LIABILITIES	20,489	19,459
NET ASSETS		
Shareholders' equity		
Capital stock	3,000	3,000
Capital surplus	3,785	3,785
Retained earnings	55,080	55,704
Treasury shares	(2,773)	(2,773)
Total shareholders' equity	59,092	59,715
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,282	2,132
Foreign currency translation adjustment	(820)	(484)
Remeasurements of defined benefit plans	(181)	(165)
Total accumulated other comprehensive income	1,280	1,483
Non-controlling interests	1,279	1,199
TOTAL NET ASSETS	61,652	62,399
TOTAL LIABILITIES AND NET ASSETS	82,141	81,858

*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)	
	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)	Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)
Net sales	23,662	25,604
Cost of sales	18,193	19,395
Gross profit	5,469	6,208
Selling, general and administrative expenses		
Selling expenses	103	141
Personnel expenses	2,155	2,270
Provision for bonuses	92	52
Retirement benefit expenses	95	72
Transportation and communication expenses	235	264
Supplies expenses	123	143
Rent expenses	274	319
Insurance expenses	115	104
Depreciation	101	117
Taxes and dues	61	62
Enterprise tax	83	93
Provision of allowance for doubtful accounts	(0)	(1)
Amortization of goodwill	33	44
Other	301	351
Total selling, general and administrative expenses	3,777	4,039
Operating income	1,692	2,169
Non-operating income		
Interest and dividend income	60	66
Rent income	13	13
Share of profit of entities accounted for using equity method	27	28
Foreign exchange gains	3	227
Other	27	17
Total non-operating income	131	353
Non-operating expenses		
Interest expenses	6	6
Rent expenses	16	17
Loss on sales and retirement of non-current assets	8	18
Other	10	7
Total non-operating expenses	42	49
Ordinary income	1,781	2,474
Profit before income taxes	1,781	2,474
Income taxes — current	708	858
Income taxes — deferred	(53)	(42)
Total income taxes	654	815
Profit	1,126	1,658
Profit attributable to non-controlling interests	25	25
Profit attributable to owners of parent	1,100	1,632

*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)	
	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)	Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)
Profit	1,126	1,658
Other comprehensive income		
Valuation difference on available-for-sale securities	(34)	(153)
Foreign currency translation adjustment	43	(234)
Remeasurements of defined benefit plans, net of tax	71	16
Share of other comprehensive income of entities accounted for using equity method	381	570
Total other comprehensive income	461	198
Comprehensive income	1,588	1,857
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,572	1,835
Comprehensive income attributable to non-controlling interests	15	21

*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)

Not applicable.

(Changes in accounting policies)

Overseas equity method affiliated companies that have adopted International Financial Reporting Standards (IFRS), have traditionally recognized the configuration or customization of costs for cloud computing contracts in accordance with IAS 38 as "intangible assets." Starting from the fourth quarter of the fiscal year ended March 31, 2022, however, the method has been changed to one with which the above costs are recognized as costs generated when the configuration or customization service is received, based on the agenda decision of the IFRS Interpretations Committee that was announced in April 2021.

The change in accounting policy is applied retrospectively and has been reflected in the quarterly consolidated financial statements for the first three months of the fiscal year ended March 31, 2022.

The change has minimal impact on the quarterly consolidated financial statements for the first three months of the fiscal year ended March 31, 2022.

(Segment information, etc.)

I. Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)

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 Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	16,451	3,891	2,742	215	361	23,662	—	23,662
Inter-segment net sales and transfer	—	—	—	—	75	75	(75)	—
Total	16,451	3,891	2,742	215	437	23,738	(75)	23,662
Segment income (loss)	2,060	434	462	(13)	136	3,082	(1,390)	1,692

(Notes) 1. Adjustments of -1,390 million yen for segment income (loss) are elimination of inter-segment transactions and unallocated general administrative expenses.

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

II. Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)

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 Operations	Residential Management and Operations	Environmental Facilities Management	Real Estate Fund Management	Other Businesses	Total		
Net sales								
Net sales to external customers	17,780	4,194	2,851	264	512	25,604	—	25,604
Inter-segment net sales and transfer	—	—	—	—	85	85	(85)	—
Total	17,780	4,194	2,851	264	597	25,689	(85)	25,604
Segment income	2,658	501	478	9	60	3,707	(1,537)	2,169

(Notes) 1. Adjustments of -1,537 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.