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Consolidated Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]

October 22, 2021

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 Stock exchange listing: Tokyo
 Code number: 8818
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 Scheduled date of filing quarterly securities report: October 29, 2021
 Scheduled date of commencing dividend payments: December 03, 2021
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended September 30, 2021 (April 01, 2021 to September 30, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2021	8,824	15.3	2,361	(20.9)	2,243	(23.2)	1,570	(39.0)
September 30, 2020	7,654	(0.5)	2,986	5.6	2,919	5.7	2,575	7.7

(Note) Comprehensive income: Six months ended September 30, 2021: ¥ 2,008 million [(61.9)%]

Six months ended September 30, 2020: ¥ 5,267 million [180.7%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2021	30.93	30.82
September 30, 2020	49.56	49.38

(Reference) Ordinary income after tax before depreciation: Six months ended September 30, 2021: ¥ 3,386 million [8.3%]

Six months ended September 30, 2020: ¥ 3,126 million [3.9%]

The Company has positioned ordinary income after tax before depreciation as an important management indicator.

Ordinary income after tax before depreciation = (ordinary profit × (1-effective tax rate) + depreciation)

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of September 30, 2021	150,083	69,415	46.2
March 31, 2021	154,043	70,539	45.7

(Reference) Equity: As of September 30, 2021: ¥ 69,295 million

As of March 31, 2021: ¥ 70,419 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	-	13.50	-	17.50	31.00
Fiscal year ending March 31, 2022	-	15.50			
Fiscal year ending March 31, 2022 (Forecast)			-	17.50	33.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022(April 01, 2021 to March 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	17,600	14.8	5,100	(3.7)	4,900	(3.6)	4,300	(47.9)	85.75

(Note) Revision to the financial results forecast announced most recently: Yes

(Reference) Ordinary income after tax before depreciation : ¥ 7,000 million [20.8%]

* Notes:

(1) Changes in significant subsidiaries during the six months ended September 30, 2021

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2021: 52,184,498 shares

March 31, 2021: 52,184,498 shares

2) Total number of treasury shares at the end of the period:

September 30, 2021: 2,036,568 shares

March 31, 2021: 481,029 shares

3) Average number of shares during the period:

Six months ended September 30, 2021: 50,792,900 shares

Six months ended September 30, 2020: 51,979,751 shares

*This summary is not subject to quarterly review procedures by a certified public accountant or audit firm.

*Appropriate use of business forecasts ; other special items

Information described in this document, such as projections, is prepared based on available information at the time of the release this document and certain assumptions that the Company judged as rational. Actual results may be significantly different due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the second quarter of the fiscal year ending March 31, 2022, the Japanese economy was impacted by the spread of new variants of COVID-19, which led to a series of declarations of the state of emergency being issued and area-focused intensive measures for prevention of the spread of infection being taken mainly in large metropolitan areas, resulting in repeated extensions of these declarations and intensive measures. Meanwhile, vaccination efforts have steadily progressed, and it is expected that economic activities will return to normal as movement restrictions are mitigated. However, there remains concerns over a resurgence of infections and the prolongation of the impact of COVID-19, and it is still unclear when the spread of the infections will be contained. In the real estate leasing industry as well, there has been an increasing trend toward downsizing and withdrawal of offices as well as consolidation of hubs against the backdrop of the spread of remote work and other new workstyles, and we will need to closely monitor the trends of the real estate market going forward.

Under such circumstances, the Group's vacancy rate as of September 30, 2021 rose to 0.45% from 0.19% at the end of the previous fiscal year. Although there were some vacancies in office buildings, datacenter buildings continued to maintain low vacancy rates, as the OBP Building, which was completed in April 2021, quickly became fully occupied. We will continue to enhance the asset value of our existing buildings and maintain our competitive advantage over the surrounding buildings, while at the same time proactively taking initiatives for new investments to expand our business foundation.

For the six months ended September 30, 2021, consolidated net sales increased by 1,169 million yen (15.3%) year-on-year to 8,824 million yen, thanks to an increase in rental income in conjunction with the commencement of operations of the newly-built Toranomom Building and the OBP Building.

However, due to the posting of expenses including real estate acquisition tax of 652 million yen associated with the OBP Building as one-time expenses and also to an increase in the burden of depreciation, operating profit declined by 624 million yen (20.9%) year-on-year to 2,361 million yen and ordinary profit declined by 675 million yen (23.2%) year-on-year to 2,243 million yen. Profit attributable to owners of parent amounted to 1,570 million yen, a decrease of 1,005 million yen (39.0%) year-on-year, due to the absence of gain on sale of non-current assets which was reported under extraordinary income in the previous fiscal year.

The Group operates under a single segment of the "Building lease business," which is primarily engaged in the leasing of land and buildings. The status of each business division operated by the Group is as follows.

1) Office Buildings

The Group owns and leases a total of eight office buildings, mainly in city centers of Osaka and Tokyo. We are developing safe and comfortable office buildings equipped with the latest features, and even with aged buildings, we strive to offer comfortable business spaces comparable to new buildings by means of systematic facility renewal and maintenance. Furthermore, at the newest buildings, we meet BCP needs by leveraging our expertise in the operation of datacenter buildings.

Amid the trend toward teleworking and downsizing of offices due to the spread of COVID-19, the impact on the Group's office building business has been currently minimal and we have maintained a low vacancy rate. Owing to the completion of the Toranomom Building and the contribution from rental income thanks to improved occupancy rates of existing buildings, consolidated net sales from the office building business amounted to 2,132 million yen (net sales ratio: 24.2%).

2) Datacenter Buildings

The Group is developing datacenter buildings mainly in the city center of Osaka, and owns and leases a total of eight datacenter buildings, including the OBP Building, which was newly completed in April 2021. The Group's urban-type datacenter buildings boast the latest specifications including advanced disaster prevention features by the adoption of seismic isolation structures, among others, stable power supplies in emergencies

utilizing large emergency-use generators, and state-of-the-art security systems. Furthermore, our solid maintenance and management services based on our rich track record of datacenter building leases are also highly regarded.

With factors such as the popularization of telework and promotion of digital transformation (DX), the demand for and profile of datacenters is expected to grow further, along with anticipated further increases in data communication volume. Owing to the contribution from the OBP Building's rental income, consolidated net sales from the datacenter building business stood at 4,469 million yen (net sales ratio: 50.6%).

3) WINS Buildings

WINS buildings refer to the facilities that sell off-track betting tickets for Japan Racing Association (JRA) races held all over Japan. The Group owns and leases a total of five WINS buildings in the central area of the cities of Kyoto, Osaka, and Kobe. Since the Group's founding, the WINS buildings business has continued to be one of our core businesses that generate stable revenue. To provide safe, convenient, and comfortable premises to horse-racing fans, we have continued to clean up and make improvements to the facilities.

While the share of sales of tickets at WINS buildings is on a declining trend as online betting becomes widespread due to the impact of the spread of COVID-19, the impact on our business performance is minimal owing to the leasing system by fixed rent. Consolidated net sales from the WINS buildings business amounted to 1,730 million yen (net sales ratio: 19.6%).

4) Commercial Buildings and Logistics Warehouses

The Group has been developing the leasing business for commercial buildings and logistics warehouses since the 1970s. We used to have road-side-type commercial facilities located across Japan, but these have been progressively sold in response to changing needs and we are currently promoting acquisition of more conveniently located properties in accordance with our Mid-Term Business Plan. The Group owns and leases five commercial buildings and logistics warehouses in the country, particularly in the Kansai Region and the Tokyo metropolitan area.

The impact of the COVID-19 pandemic on our facilities has been minor even for comparatively easily affected commercial buildings, as they are leased to retailers of daily necessities such as supermarkets. Also, strong demand for logistics warehouses is predicted to continue due to factors such as the proliferation of electronic commerce (EC). Consolidated net sales from the commercial buildings and logistics warehouses business stood at 491 million yen (net sales ratio: 5.6%).

(2) Explanation of Financial Position

1) Assets, liabilities and net assets

Total assets at the end of the six months ended September 30, 2021 amounted to 150,083 million yen, a decrease of 3,959 million yen (2.6%) from the end of the previous fiscal year. This was mainly due to a decrease of 14,906 million yen in cash and deposits as a result of the final payment for newly-constructed buildings, despite an increase of 8,813 million yen in property, plant and equipment due to factors such as the completion of the OBP Building and an increase of 1,789 million yen in consumption taxes refund receivable as a result of posting large amounts of suspense consumption tax paid in conjunction with the completion of the OBP Building.

Total liabilities at the end of the six months ended September 30, 2021 amounted to 80,668 million yen, a decrease of 2,835 million yen (3.4%) from the end of the previous fiscal year. This was mainly due to a decrease of 2,202 million yen in income taxes payable as a result of a final tax payment and a decrease of 973 million yen in interest-bearing debt as a result of repayment.

Total net assets at the end of the six months ended September 30, 2021 amounted to 69,415 million yen, a decrease of 1,123 million yen (1.6%) compared to the end of the previous fiscal year. This was mainly due to the purchase of treasury shares of 2,290 million yen, despite an increase of 664 million yen in retained earnings reflecting the posting of profit attributable to owners of parent and an increase of 437 million yen in valuation difference on available-for-sale securities.

2) Cash flows

Cash and cash equivalents at the end of the six months ended September 30, 2021 amounted to 6,644 million yen, a decrease of 14,906 million yen from the end of the previous fiscal year.

(Cash flows from operating activities)

Net cash used in operating activities amounted to 9 million yen (4,541 million yen provided in the same period of the previous fiscal year). Major inflows were 2,270 million yen in profit before income taxes and 1,829 million yen in depreciation, while major outflows were 2,919 million yen in income taxes paid and the posting of 1,789 million yen in consumption taxes receivable in conjunction with the completion of the OBP Building.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 10,728 million yen (2,069 million yen used in the same period of the previous fiscal year). This was mainly due to the purchase of property, plant and equipment of 10,752 million yen.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 4,168 million yen (1,689 million yen used in the same period of the previous fiscal year). This was due to the purchase of treasury shares of 2,290 million yen, repayments of long-term borrowings of 973 million yen, and dividends paid of 904 million yen.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The consolidated financial results forecast stated in the “Consolidated Financial Results for the Year Ended March 31, 2021 [Japanese GAAP],” announced on May 13, 2021, has been revised. For details, please see the “Notice Concerning the Revisions to the Earnings Forecast and the Dividend Forecast (Dividend Increase),” announced today (October 22, 2021).

While it is unclear when the spread of COVID-19 will be contained, in the real estate leasing industry as well, it is necessary to continue to keep a close watch on the rise in vacancy rates against the backdrop of the downsizing of office spaces as a result of reexamination of the significance of offices, and we cannot be optimistic about the future outlook. However, the impact of COVID-19 on the Group’s business performance has been currently minimal as the number of tenant departures and requests for rent reductions by tenants have been limited. Going forward, we will properly disclose information if there is any change in the situation.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31,2021	As of September 30,2021
Assets		
Current assets		
Cash and deposits	21,550,649	6,644,204
Notes and accounts receivable - trade	331,797	395,313
Other	720,947	2,138,661
Total current assets	22,603,394	9,178,179
Non-current assets		
Property, plant and equipment		
Buildings and structures	70,499,470	99,541,569
Accumulated depreciation	(39,354,505)	(41,034,464)
Buildings and structures, net	31,144,965	58,507,105
Land	52,424,697	52,941,954
Buildings in trust	3,343,060	3,343,060
Accumulated depreciation	(1,418,331)	(1,502,310)
Buildings in trust, net	1,924,729	1,840,750
Land in trust	11,038,280	11,038,280
Construction in progress	19,990,264	934,740
Other	932,810	1,025,855
Accumulated depreciation	(689,991)	(709,041)
Other, net	242,818	316,813
Total property, plant and equipment	116,765,755	125,579,644
Intangible assets	125,912	123,984
Investments and other assets		
Investment securities	11,910,639	12,511,221
Other	2,637,680	2,690,857
Total investments and other assets	14,548,320	15,202,078
Total non-current assets	131,439,988	140,905,707
Total assets	154,043,383	150,083,886

(Thousand yen)

	As of March 31,2021	As of September 30,2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,533	-
Short-term borrowings	4,285,200	4,113,300
Income taxes payable	3,043,744	841,224
Provisions	38,609	47,017
Other	2,207,845	2,652,081
Total current liabilities	9,578,931	7,653,622
Non-current liabilities		
Bonds payable	45,000,000	45,000,000
Long-term borrowings	17,359,950	16,558,300
Retirement benefit liability	63,770	66,246
Asset retirement obligations	114,570	114,757
Other	11,386,470	11,275,188
Total non-current liabilities	73,924,761	73,014,491
Total liabilities	83,503,692	80,668,114
Net assets		
Shareholders' equity		
Share capital	9,827,611	9,827,611
Capital surplus	9,199,840	9,199,840
Retained earnings	50,938,631	51,603,455
Treasury shares	(697,656)	(2,924,281)
Total shareholders' equity	69,268,426	67,706,625
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,683,794	6,121,676
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	1,151,248	1,589,130
Share acquisition rights	120,015	120,015
Total net assets	70,539,690	69,415,771
Total liabilities and net assets	154,043,383	150,083,886

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Thousand yen)

	For the six months ended September 30,2020	For the six months ended September 30,2021
Net sales	7,654,858	8,824,083
Cost of sales	3,961,974	5,712,444
Gross profit	3,692,883	3,111,639
Selling, general and administrative expenses	706,871	750,503
Operating profit	2,986,012	2,361,135
Non-operating income		
Interest income	374	98
Dividend income	157,739	140,907
Other	6,694	6,477
Total non-operating income	164,808	147,484
Non-operating expenses		
Interest expenses	78,283	84,776
Interest on bonds	147,466	169,201
Other	5,674	11,206
Total non-operating expenses	231,424	265,184
Ordinary profit	2,919,396	2,243,434
Extraordinary income		
Gain on sale of non-current assets	803,567	-
Contribution for construction	-	20,300
Gain on sale of investment securities	-	10,852
Total extraordinary income	803,567	31,152
Extraordinary losses		
Loss on retirement of non-current assets	5,866	3,610
Loss on sale of non-current assets	-	317
Total extraordinary losses	5,866	3,928
Profit before income taxes	3,717,097	2,270,659
Income taxes - current	1,072,007	792,346
Income taxes - deferred	69,096	(92,500)
Total income taxes	1,141,104	699,845
Profit	2,575,993	1,570,813
Profit attributable to owners of parent	2,575,993	1,570,813

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Thousand yen)

	For the six months ended September 30,2020	For the six months ended September 30,2021
Profit	2,575,993	1,570,813
Other comprehensive income		
Valuation difference on available-for-sale securities	2,691,640	437,881
Total other comprehensive income	2,691,640	437,881
Comprehensive income	5,267,633	2,008,695
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,267,633	2,008,695
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

(Thousand yen)

	For the six months ended September 30,2020	For the six months ended September 30,2021
Cash flows from operating activities		
Profit before income taxes	3,717,097	2,270,659
Depreciation	1,100,031	1,829,713
Share-based payment expenses	18,256	24,881
Increase (decrease) in retirement benefit liability	(6,964)	2,476
Increase (decrease) in provision for bonuses	6,866	8,408
Interest and dividend income	(158,113)	(141,006)
Interest expenses	78,283	84,776
Interest expenses on bonds	147,466	169,201
Loss (gain) on sale of investment securities	-	(10,852)
Loss (gain) on sale of property, plant and equipment	(803,567)	317
Loss on retirement of property, plant and equipment	5,866	3,610
Proceeds from contribution for construction	-	(20,300)
Decrease (increase) in trade receivables	(94,593)	279,188
Increase (decrease) in trade payables	1,368,642	365,111
Decrease (increase) in consumption taxes refund receivable	-	(1,789,391)
Increase (decrease) in accrued consumption taxes	187,511	(59,105)
Other, net	4,186	5,380
Subtotal	5,570,969	3,023,069
Interest and dividends received	158,113	141,006
Interest paid	(226,919)	(254,464)
Income taxes paid	(960,502)	(2,919,122)
Net cash provided by (used in) operating activities	4,541,661	(9,510)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,334,487)	(10,752,439)
Proceeds from sale of property, plant and equipment	1,269,467	1,922
Purchase of intangible assets	(5,833)	(11,069)
Proceeds from sale of investment securities	-	31,805
Other, net	1,555	1,555
Net cash provided by (used in) investing activities	(2,069,298)	(10,728,224)
Cash flows from financing activities		
Repayments of long-term borrowings	(845,250)	(973,550)
Purchase of treasury shares	(39,801)	(2,290,689)
Dividends paid	(804,705)	(904,470)
Other, net	15	-
Net cash provided by (used in) financing activities	(1,689,741)	(4,168,709)
Net increase (decrease) in cash and cash equivalents	782,620	(14,906,445)
Cash and cash equivalents at beginning of period	13,205,088	21,550,649
Cash and cash equivalents at end of period	13,987,709	6,644,204

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "Accounting Standard for Revenue Recognition"), etc., effective from the beginning of the first quarter of the fiscal year ending March 31, 2022. The application of the Accounting Standard for Revenue Recognition, etc. has no impact on the quarterly consolidated financial statements.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as "Accounting Standard for Fair Value Measurement"), etc., effective from the beginning of the first quarter of the fiscal year ending March 31, 2022, and in accordance with the transitional treatment provided for in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement, etc. into the future. This application has no impact on the quarterly consolidated financial statements.

(Segment information)

I. For the six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

As stated in “II. For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021), (Matters pertaining to changes in reportable segments).”

II. For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Statement is omitted as the Group operates under the single segment of the “Building lease business.”

(Matters pertaining to changes in reportable segments)

The Group had previously divided its reportable segments into the “Building lease business” and “Other.” However, in light of such factors as the Group’s business development, allocation of management resources, and actual conditions of its business management system, the Group has determined that it is appropriate to manage its business operations under the single segment of the “Building lease business.”

As a result of this change, segment information for the six months ended September 30, 2020 and the six months ended September 30, 2021 have been omitted.

(Significant subsequent events)

(Sales of investment securities)

On October 22, 2021, the Company sold a portion of its investment securities (one listed stock). As a result, the Company will post a gain on sale of investment securities of 1,246 million yen as extraordinary income in the third quarter of the fiscal year ending March 31, 2022.