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Consolidated Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]

January 25, 2022

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 Stock exchange listing: Tokyo
 Code number: 8818
 URL: <http://www.keihanshin.co.jp/english/>
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 Scheduled date of filing quarterly securities report: January 28, 2022
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: No
 Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2021 (April 01, 2021 to December 31, 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	%
Nine months ended December 31, 2021	13,323	16.0	3,776	(8.8)	3,648	(9.8)	3,412	(14.7)
December 31, 2020	11,481	0.1	4,140	(1.5)	4,046	(1.6)	4,000	22.2

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥ 3,282 million [(55.3)%]

Nine months ended December 31, 2020: ¥ 7,350 million [107.8%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	67.47	67.23
December 31, 2020	76.97	76.70

(Reference) Ordinary income after tax before depreciation: Nine months ended December 31, 2021: ¥ 5,305 million [18.3%]

Nine months ended December 31, 2020: ¥ 4,485 million [(0.1)%]

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 December 31, 2021	149,458	69,912	46.7
March 31, 2021	154,043	70,539	45.7

(Reference) Equity: As of December 31, 2021: ¥ 69,792 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)				20.50	36.00

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

(Note) Breakdown of the year-end dividend for the fiscal year ending March 31, 2022 :

Ordinary dividend 17.50 yen Special dividend 3.00 yen

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)	4,900	(40.6)	97.71

(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 nine months ended December 31, 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):

December 31, 2021: 50,309,498 shares

March 31, 2021: 52,184,498 shares

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

December 31, 2021: 161,597 shares

March 31, 2021: 481,029 shares

3) Average number of shares during the period:

Nine months ended December 31, 2021: 50,577,908 shares

Nine months ended December 31, 2020: 51,979,509 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.

*This document was prepared by combining the table of contents for attachments and notes to the quarterly consolidated financial statements with the documents the Company disclosed on January 25, 2022, which are the summary of the consolidated financial results and the quarterly consolidated financial statements for the nine months ended December 31, 2021.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the third quarter of the fiscal year ending March 31, 2022, the Japanese economy was impacted by the spread of COVID-19 resulting in corporate activities and personal consumption being severely restricted. Expectations mounted for economic activities to return to normal, as movement restrictions were mitigated in conjunction with the lifting of the declaration of the state of emergency and other measures at the end of September 2021. However, the latest surge in the number of new COVID-19 cases in Japan as a result of the new variant has led to increasing concern, and the outlook remains unclear. In the real estate leasing industry, 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 December 31, 2021 rose to 0.45% from 0.19% at the end of the previous fiscal year, but it remained at low levels. Although vacancies in some office buildings increased, we are focusing on sales activities to achieve full occupancy. 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 nine months ended December 31, 2021, consolidated net sales increased by 1,842 million yen (16.0%) year-on-year to 13,323 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 363 million yen (8.8%) year-on-year to 3,776 million yen and ordinary profit declined by 398 million yen (9.8%) year-on-year to 3,648 million yen. Profit attributable to owners of parent amounted to 3,412 million yen, a decrease of 588 million yen (14.7%) 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 3,206 million yen (net sales ratio: 24.1%).

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 6,773 million yen (net sales ratio: 50.8%).

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 2,605 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 736 million yen (net sales ratio: 5.5%).

(2) Explanation of Financial Position

Total assets at the end of the nine months ended December 31, 2021 amounted to 149,458 million yen, a decrease of 4,584 million yen (3.0%) from the end of the previous fiscal year. This was mainly due to a decrease of 15,748 million yen in cash and deposits as a result of the final payment for the OBP Building, despite an increase of 9,554 million yen in property, plant and equipment due to factors such as the completion of the OBP Building and an increase of 1,911 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 nine months ended December 31, 2021 amounted to 79,546 million yen, a decrease of 3,957 million yen (4.7%) from the end of the previous fiscal year. This was mainly due to a decrease of 3,020 million yen in income taxes payable as a result of a final tax payment and a decrease of 1,367 million yen in interest-bearing debt as a result of repayment.

Total net assets at the end of the nine months ended December 31, 2021 amounted to 69,912 million yen, a decrease of 627 million yen (0.9%) compared to the end of the previous fiscal year. This was due to a decrease of 963 million yen in retained earnings, as a result of 1,682 million yen in dividends of surplus and 2,693 million in cancellation of treasury shares, despite the posting of profit attributable to owners of parent of 3,412 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 Six Months Ended September 30, 2021 [Japanese GAAP],” announced on October 22, 2021, has been revised. For details, please see the “Notice Concerning the Revisions to the Earnings Forecast and the Dividend Forecast (Special Dividend),” announced today (January 25, 2022).

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

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31,2021	As of December 31,2021
Assets		
Current assets		
Cash and deposits	21,550,649	5,802,182
Notes and accounts receivable - trade	331,797	383,355
Other	720,947	2,558,106
Total current assets	22,603,394	8,743,644
Non-current assets		
Property, plant and equipment		
Buildings and structures	70,499,470	102,070,056
Accumulated depreciation	(39,354,505)	(41,896,095)
Buildings and structures, net	31,144,965	60,173,961
Land	52,424,697	52,941,954
Buildings in trust	3,343,060	3,343,060
Accumulated depreciation	(1,418,331)	(1,544,299)
Buildings in trust, net	1,924,729	1,798,760
Land in trust	11,038,280	11,038,280
Construction in progress	19,990,264	61,840
Other	932,810	1,028,737
Accumulated depreciation	(689,991)	(723,073)
Other, net	242,818	305,664
Total property, plant and equipment	116,765,755	126,320,461
Intangible assets	125,912	120,740
Investments and other assets		
Investment securities	11,910,639	11,595,551
Other	2,637,680	2,678,171
Total investments and other assets	14,548,320	14,273,723
Total non-current assets	131,439,988	140,714,925
Total assets	154,043,383	149,458,569

(Thousand yen)

	As of March 31,2021	As of December 31,2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,533	82
Short-term borrowings	4,285,200	4,099,925
Income taxes payable	3,043,744	23,120
Provisions	38,609	-
Other	2,207,845	3,084,919
Total current liabilities	9,578,931	7,208,047
Non-current liabilities		
Bonds payable	45,000,000	45,000,000
Long-term borrowings	17,359,950	16,177,700
Retirement benefit liability	63,770	65,438
Asset retirement obligations	114,570	114,850
Other	11,386,470	10,980,334
Total non-current liabilities	73,924,761	72,338,324
Total liabilities	83,503,692	79,546,371
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	49,975,302
Treasury shares	(697,656)	(232,034)
Total shareholders' equity	69,268,426	68,770,719
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,683,794	5,554,009
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	1,151,248	1,021,462
Share acquisition rights	120,015	120,015
Total net assets	70,539,690	69,912,198
Total liabilities and net assets	154,043,383	149,458,569

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Thousand yen)

	For the nine months ended December 31,2020	For the nine months ended December 31,2021
Net sales	11,481,178	13,323,396
Cost of sales	6,227,114	8,429,619
Gross profit	5,254,063	4,893,776
Selling, general and administrative expenses	1,113,699	1,116,838
Operating profit	4,140,363	3,776,938
Non-operating income		
Interest income	418	396
Dividend income	284,887	255,084
Other	8,952	9,222
Total non-operating income	294,257	264,703
Non-operating expenses		
Interest expenses	121,237	125,778
Interest on bonds	225,004	253,395
Bond issuance costs	33,220	-
Other	8,546	14,183
Total non-operating expenses	388,008	393,358
Ordinary profit	4,046,613	3,648,283
Extraordinary income		
Gain on sale of non-current assets	803,567	-
Gain on sale of investment securities	924,525	1,257,193
Contribution for construction	-	20,300
Total extraordinary income	1,728,092	1,277,493
Extraordinary losses		
Loss on retirement of non-current assets	9,605	3,676
Loss on sale of non-current assets	-	317
Total extraordinary losses	9,605	3,994
Profit before income taxes	5,765,100	4,921,782
Income taxes - current	1,699,506	1,523,096
Income taxes - deferred	64,682	(13,554)
Total income taxes	1,764,189	1,509,541
Profit	4,000,911	3,412,241
Profit attributable to owners of parent	4,000,911	3,412,241

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

(Thousand yen)

	For the nine months ended December 31,2020	For the nine months ended December 31,2021
Profit	4,000,911	3,412,241
Other comprehensive income		
Valuation difference on available-for-sale securities	3,350,061	(129,785)
Total other comprehensive income	3,350,061	(129,785)
Comprehensive income	7,350,972	3,282,455
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,350,972	3,282,455
Comprehensive income attributable to non-controlling interests	-	-

(3) 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 nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

As stated in “II. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021), (Matters pertaining to changes in reportable segments).”

II. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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 nine months ended December 31, 2020 and the nine months ended December 31, 2021 have been omitted.

(Significant subsequent events)

(Sales of investment securities)

On January 25, 2022, 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 890 million yen as extraordinary income in the fourth quarter of the fiscal year ending March 31, 2022.