

Note: This document is a translation of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original and this English translation, the Japanese original shall prevail.

Consolidated Financial Results for the Nine Months Ended December 31, 2022 [Japanese GAAP]

January 27, 2023

Company name: Keihanshin Building Co., Ltd.
 Stock exchange listing: Tokyo
 Code number: 8818
 URL: <http://www.keihanshin.co.jp/english/>
 Representative: Tsuneo Wakabayashi, President
 Contact: Toshiaki Tabuchi, Executive Officer, General Manager (Finance & Accounting Dept.)
 Phone: 06-6202-7331
 Scheduled date of filing quarterly securities report: February 03, 2023
 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, 2022 (April 01, 2022 to December 31, 2022)

(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, 2022	14,073	5.6	4,347	15.1	4,245	16.4	3,630	6.4
December 31, 2021	13,323	16.0	3,776	(8.8)	3,648	(9.8)	3,412	(14.7)

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥ 3,020 million [(8.0)%]
 Nine months ended December 31, 2021: ¥ 3,282 million [(55.3)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2022	73.19	72.99
December 31, 2021	67.47	67.23

(Reference) Ordinary income after tax before depreciation: Nine months ended December 31, 2022: ¥ 5,804 million [9.4%]
 Nine months ended December 31, 2021: ¥ 5,305 million [(18.3)%]

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	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	151,663	69,931	46.1
March 31, 2022	149,994	70,510	46.9

(Reference) Equity: As of December 31, 2022: ¥ 69,854 million
 As of March 31, 2022: ¥ 70,390 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, 2022	-	15.50	-	20.50	36.00
Fiscal year ending March 31, 2023	-	18.00	-		
Fiscal year ending March 31, 2023 (Forecast)				18.00	36.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023(April 01, 2022 to March 31, 2023)

(% 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	18,700	5.0	5,200	1.5	5,000	2.5	4,300	(16.8)	87.80

(Note) Revision to the financial results forecast announced most recently: No

(Reference) Ordinary income after tax before depreciation: ¥ 7,200million [1.2%]

* Notes:

(1) Changes in significant subsidiaries during the nine months ended December 31, 2022

(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: No

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, 2022: 49,211,498 shares

March 31, 2022: 50,309,498 shares

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

December 31, 2022: 236,482 shares

March 31, 2022: 161,781 shares

3) Average number of shares during the period:

Nine months ended December 31, 2022: 49,605,911 shares

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

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Condition	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	4
2. Quarterly Consolidated Financial Statements and Principal Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Notes to Quarterly Consolidated Financial Statements	
(Notes on going concern assumption)	9
(Notes in case of significant changes in shareholders' equity)	9
(Segment information)	9
(Significant subsequent events)	9

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the third quarter of the fiscal year ending March 31, 2023, the Japanese economy saw social and economic activities resuming gradually due to policies implemented to ease COVID-19-related restrictions significantly. However, concerns about business recession are increasing with the price surge triggered by the situation in Russia and Ukraine, rapid fluctuations in exchange rates, and an increase in interest rates. In the real estate leasing industry, there has been an increasing trend of the reexamination of significance of business sites due to the proliferation of remote working and other new workstyles, while the supply of office buildings is likely to increase due to the new large-scale development at business areas. Therefore, it is necessary to keep a close watch on the real estate market conditions.

Under such circumstances, Keihanshin Building Co., Ltd. (“the Group”) continued to maintain high occupancy rate, with the vacancy rate at 0.25%. In addition, as part of expansion of assets in the Tokyo metropolitan area, the Company acquired land in trust in Minamiaoyama, Minato-ku, Tokyo in November 2022. We will proactively work on an investment strategy toward the next growth. Also, in terms of existing buildings, we will strive to maintain competitive edge against surrounding buildings by enhancing asset value of existing buildings through preventive maintenance against natural disasters and promotion of energy saving.

For the nine months ended December 31, 2022, consolidated net sales increased by 749 million yen (5.6%) year-on-year to 14,073 million yen due mainly to the contribution from income of the OBP Building with excellent occupancy rate, which was completed in April 2021. As for cost of sales, one-time burdens decreased including real estate acquisition tax associated with acquisition of the OBP Building (652 million yen) although skyrocketing electricity prices caused utility cost burdens to increase. Accordingly, operating profit increased by 570 million yen (15.1%) year-on-year to 4,347 million yen, and ordinary profit increased by 596 million yen (16.4%) to 4,245 million yen. Profit attributable to owners of parent amounted to 3,630 million yen, an increase of 218 million yen (6.4%) year-on-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.

	Nine months ended December 31, 2021		Nine months ended December 31, 2022	
	Net sales (million yen)	Rate (%)	Net sales (million yen)	Rate (%)
Office building business	3,206	24.1	3,253	23.1
Datacenter building business	6,773	50.8	7,367	52.4
WINS building business	2,605	19.6	2,712	19.3
Commercial buildings and logistics warehouses business	736	5.5	739	5.2
Total	13,323	100.0	14,073	100.0

1) Office Buildings Business

The Group owns and leases a total of eight office buildings, mainly in business areas of Osaka and Tokyo. The newest buildings have advanced BCP functions leveraging our expertise in the operation of datacenter buildings. Even with aged buildings, we strive to offer comfortable and safe business spaces comparable to new buildings by means of planned facility renewal and maintenance.

Office vacancy rates have been increasing as the significance of offices has been reconsidered due to the progress of workstyle reforms triggered by the COVID-19 pandemic. However, the impact on the Group’s office building business has been currently minimal and we have maintained high occupancy rates. Owing to the increase in rental income of the Toranomom Building, consolidated net sales from the office building business for the nine months ended December 31, 2022 amounted to 3,253 million yen, an increase of 46 million yen (1.5%) year-on-year.

2) Datacenter Buildings Business

The Group owns and leases eight urban-type datacenter buildings in Osaka. The Group's datacenter buildings boast the latest specifications including advanced disaster-prevention functions 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 over more than 30 years are also highly regarded.

Owing to increased occupancy rates for equipment rooms of the OBP Building which was completed in the previous fiscal year and existing Nishishinsaibashi Building, consolidated net sales from the datacenter building business for the nine months ended December 31, 2022 stood at 7,367 million yen, an increase of 593 million yen (8.8%) year-on-year.

3) WINS Buildings Business

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. The WINS buildings business, history of which dates back to the Group's founding, has continued to be one of our core businesses that generate stable revenue for many years.

While the share of sales of betting tickets at WINS buildings is on a declining trend as online betting has become widespread due to the COVID-19 pandemic, the impact on our business performance is minimal owing to the leasing system by fixed rent. Consolidated net sales from the WINS building business for the nine months ended December 31, 2022 amounted to 2,712 million yen, an increase of 106 million yen (4.1%) year-on-year.

4) Commercial Buildings and Logistics Warehouses Business

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

The impact of the COVID-19 pandemic on our facilities has been minor, as our commercial buildings 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 EC (electronic commerce). Consolidated net sales from the commercial buildings and logistics warehouses business for the nine months ended December 31, 2022 stood at 739 million yen, an increase of 2 million yen (0.3%) year-on-year.

(2) Explanation of Financial Condition

Total assets at the end of the nine months ended December 31, 2022 amounted to 151,663 million yen, an increase of 1,668 million yen (1.1%) from the end of the previous fiscal year. This was mainly due to an increase of 8,655 million yen in land in trust due to acquisition of beneficial interests in trust for land in Minamiaoyama in November 2022, despite a decrease of 2,658 million yen in cash and deposits, a decrease of 1,850 million yen in consumption taxes refund receivable due to tax refund, a decrease of 1,443 million yen in buildings and structures due to depreciation, and a decrease of 1,023 million yen in investment securities due to sale.

Total liabilities at the end of the nine months ended December 31, 2022 amounted to 81,732 million yen, an increase of 2,248 million yen (2.8%) from the end of the previous fiscal year. This was mainly due to an increase of 3,085 million yen in long-term borrowings due to financing required for acquisition of non-current assets and other factors.

Total net assets at the end of the nine months ended December 31, 2022 amounted to 69,931 million yen, a decrease of 579 million yen (0.8%) compared to the end of the previous fiscal year. This was mainly due to a decrease of 609 million yen in valuation difference on available-for-sale securities, despite an increase of 152 million yen in retained earnings.

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

There is no change in the consolidated financial results forecast announced on May 13, 2022. The progress of consolidated financial results at the end of the nine months ended December 31, 2022 is as originally planned. In the real estate leasing industry, the rise in vacancy rates associated with reexamination of the significance of business sites triggered by the COVID-19 is an issue to keep a close watch on, 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.

At the moment, it is unclear how the electricity price increase caused by surging crude oil prices and transportation costs triggered by the conflict between Russia and Ukraine will affect our business in the future. We will continue to keep a close watch on the situation and, going forward, properly disclose information if there is any change.

Quarterly Consolidated Financial Statements
Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31,2022	As of December 31,2022
Assets		
Current assets		
Cash and deposits	9,876,282	7,217,537
Accounts receivable - trade	381,901	491,757
Other	2,002,494	275,519
Total current assets	12,260,678	7,984,814
Non-current assets		
Property, plant and equipment		
Buildings and structures	102,575,415	103,148,126
Accumulated depreciation	(42,648,900)	(44,664,631)
Buildings and structures, net	59,926,514	58,483,495
Land	52,058,390	52,058,390
Buildings in trust	3,343,060	3,343,060
Accumulated depreciation	(1,586,289)	(1,712,258)
Buildings in trust, net	1,756,770	1,630,802
Land in trust	11,038,280	19,694,013
Construction in progress	80,790	29,940
Other	1,036,864	1,053,040
Accumulated depreciation	(738,174)	(765,485)
Other, net	298,690	287,554
Total property, plant and equipment	125,159,437	132,184,196
Intangible assets	126,838	112,507
Investments and other assets		
Investment securities	9,775,728	8,752,204
Other	2,671,886	2,629,404
Total investments and other assets	12,447,614	11,381,608
Total non-current assets	137,733,890	143,678,312
Total assets	149,994,569	151,663,127

(Thousand yen)

	As of March 31,2022	As of December 31,2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	342	1,003
Short-term borrowings	4,090,550	4,323,200
Income taxes payable	514,339	154,135
Provisions	43,730	-
Other	3,559,334	3,079,292
Total current liabilities	8,208,296	7,557,632
Non-current liabilities		
Bonds payable	45,000,000	45,000,000
Long-term borrowings	15,769,400	18,854,500
Retirement benefit liability	67,171	71,739
Asset retirement obligations	114,944	115,225
Other	10,324,283	10,133,004
Total non-current liabilities	71,275,799	74,174,468
Total liabilities	79,484,095	81,732,100
Net assets		
Shareholders' equity		
Share capital	9,827,611	9,827,611
Capital surplus	9,199,840	9,199,840
Retained earnings	51,728,266	51,880,866
Treasury shares	(232,293)	(310,708)
Total shareholders' equity	70,523,424	70,597,609
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,399,579	3,789,858
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	(132,966)	(742,687)
Share acquisition rights	120,015	76,104
Total net assets	70,510,473	69,931,027
Total liabilities and net assets	149,994,569	151,663,127

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 31,2021	For the nine months ended December 31,2022
Net sales	13,323,396	14,073,075
Cost of sales	8,429,619	8,535,262
Gross profit	4,893,776	5,537,812
Selling, general and administrative expenses	1,116,838	1,189,922
Operating profit	3,776,938	4,347,890
Non-operating income		
Interest income	396	2,917
Dividend income	255,084	255,524
Other	9,222	43,855
Total non-operating income	264,703	302,297
Non-operating expenses		
Interest expenses	125,778	116,161
Interest on bonds	253,395	253,395
Other	14,183	35,514
Total non-operating expenses	393,358	405,071
Ordinary profit	3,648,283	4,245,116
Extraordinary income		
Gain on sale of investment securities	1,257,193	1,006,262
Contribution for construction	20,300	-
Other	-	500
Total extraordinary income	1,277,493	1,006,763
Extraordinary losses		
Loss on sale of non-current assets	317	-
Loss on retirement of non-current assets	3,676	24,156
Total extraordinary losses	3,994	24,156
Profit before income taxes	4,921,782	5,227,723
Income taxes - current	1,523,096	1,310,779
Income taxes - deferred	(13,554)	286,430
Total income taxes	1,509,541	1,597,209
Profit	3,412,241	3,630,514
Profit attributable to owners of parent	3,412,241	3,630,514

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

(Thousand yen)

	For the nine months ended December 31,2021	For the nine months ended December 31,2022
Profit	3,412,241	3,630,514
Other comprehensive income		
Valuation difference on available-for-sale securities	(129,785)	(609,720)
Total other comprehensive income	(129,785)	(609,720)
Comprehensive income	3,282,455	3,020,793
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,282,455	3,020,793
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.

(Segment information)

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

(Significant subsequent events)

Not applicable.