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Consolidated Financial Results for the Three Months Ended June 30, 2023 [Japanese GAAP]

July 28, 2023

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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: August 4, 2023
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (April 1, 2023 to June 30, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	4,962	8.5	1,399	(4.2)	1,415	(4.3)	1,276	(26.3)
June 30, 2022	4,574	5.9	1,460	69.7	1,478	70.9	1,732	188.6

(Note) Comprehensive income: Three months ended June 30, 2023: ¥ 2,593 million [154.7%]
 Three months ended June 30, 2022: ¥ 1,018 million [477.7%]

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2023	Yen 26.07	Yen 26.01
June 30, 2022	34.55	34.44

(Reference) Business profit before depreciation and amortization

Three months ended June 30, 2024: ¥ 2,379 million [(1.3)%]

Three months ended June 30, 2023: ¥ 2,410 million [35.8%]

The Company has positioned business profit before depreciation and amortization as an important management indicator.

Business profit before depreciation and amortization

=Business profit (Operating Profit + Share of profit (loss) of entities accounted for using equity method) + Depreciation and amortization

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of June 30, 2023	Millions of yen 159,719	Millions of yen 72,582	45.4
March 31, 2023	152,321	70,870	46.5

(Reference) Equity: As of June 30, 2023: ¥ 72,506 million

As of March 31, 2023: ¥ 70,794 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, 2023	-	18.00	-	18.00	36.00
Fiscal year ending March 31, 2024	-				
Fiscal year ending March 31, 2024 (Forecast)		18.00	-	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, 2024(April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	20,000	5.9	4,500	(16.3)	4,200	(16.7)	3,200	(23.6)	65.34

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

(Reference) Business profit before depreciation and amortization ¥ 8,300 million [(9.7)%]

* Notes:

(1) Changes in significant subsidiaries during the three months ended June 30, 2023

(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):

June 30, 2023: 49,211,498 shares

March 31, 2023: 49,211,498 shares

2) Number of treasury shares at the end of the period:

June 30, 2023: 236,592 shares

March 31, 2023: 236,482 shares

3) Average number of shares outstanding during the period:

Three months ended June 30, 2023: 48,974,979 shares

Three months ended June 30, 2022: 50,154,163 shares

*This summary is not subject to 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 first quarter of the fiscal year ending March 31, 2024, the Japanese economy showed a gradual trend toward recovery due to positive corporate results and an increase in demand for domestic goods and services by foreign tourists to Japan as well as service consumption as people grew accustomed to coexisting with COVID-19, despite the surge in energy costs triggered by the situation in Russia and Ukraine and a slowdown in overseas economies resulting from global inflation.

In the real estate leasing industry, the vacancy rate is expected to remain high as demand for offices is declining in conjunction with workstyle reforms and the proliferation of remote working, and due to expectations of increased competition with the successive completion of new office buildings.

Under such circumstances, the Company focused on building stronger relationships with tenants through meticulous building management. Thanks to these efforts, the Company maintained a high occupancy rate, with the vacancy rate as of June 30, 2023 at 1.77%. In addition, as part of expansion of assets in the Tokyo metropolitan area, the Company proactively worked on new investments based on its Long-Term Management Plan, including the acquisition of the Asakusa Ekimae Building, a commercial building in Asakusa, Taito-ku, Tokyo, in June 2023.

For the three months ended June 30, 2023, consolidated net sales increased by 388 million yen (8.5%) year-on-year to 4,962 million yen due to the enhanced occupancy rate of the OBP Building, which was completed in April 2021, among other factors.

However, with respect to cost of sales, mainly due to an increase in repair expenses for existing facilities and an increase in power utilities costs as a result of increased datacenter building occupancy rates, operating profit decreased by 61 million yen (4.2%) year-on-year to 1,399 million yen and ordinary profit decreased by 63 million yen (4.3%) to 1,415 million yen. Profit attributable to owners of parent amounted to 1,276 million yen, a decrease of 456 million yen (26.3%) year-on-year, chiefly due to not recording gain on sale of investment securities in extraordinary income, which had been recorded in the same period of the previous fiscal year.

Keihanshin Building Co., Ltd. (“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.

	Three months ended June 30, 2022		Three months ended June 30, 2023	
	Net sales (million yen)	Rate (%)	Net sales (million yen)	Rate (%)
Office building business	1,076	23.5	1,126	22.7
Datacenter building business	2,382	52.1	2,588	52.2
WINS building business	869	19.0	978	19.7
Commercial buildings, logistics warehouses, and other properties business	245	5.4	269	5.4
Total	4,574	100.0	4,962	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. Our newest properties are equipped with advanced BCP functions based on our expertise in datacenter building operations. Even in older buildings, we strive to provide comfortable and safe business spaces that compare favorably with those in newly constructed buildings through planned facility renovations and maintenance.

There are concerns about rising office vacancy rates due to a combination of the reexamination of the ideal form of office resulting from the progress of workstyle reform and supply of newly-completed large-scale

properties. However, the impact on the Group's office building business has been minimal and we have maintained high occupancy rates.

Due in part to proceeds from the land in Minamiaoyama, which was acquired during the previous fiscal year, consolidated net sales from the office building business for the three months ended June 30, 2023 amounted to 1,126 million yen, an increase of 50 million yen (4.6%) year-on-year.

2) Datacenter Buildings Business

The Group owns and leases a total of eight datacenter buildings in the heart of the Osaka central area. The datacenter buildings, which operate 24 hours a day, 365 days a year, ensure high reliability through advanced disaster-prevention functions with seismic isolation structures, stable electric power supply with large emergency-use generators, and advanced security systems, etc. Our extensive maintenance and management services, based on over 30 years of experience in the datacenter leasing business, are also highly regarded.

Mainly owing to increased occupancy rates for equipment rooms of datacenter buildings, consolidated net sales from the datacenter building business for the three months ended June 30, 2023 amounted to 2,588 million yen, an increase of 206 million yen (8.6%) 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 dates back to the Company's founding, and has been one of our core businesses that generate stable revenue for many years.

Although the share of sales at WINS buildings is in a declining trend as online betting is spreading, the impact on the business performance is minor as the buildings are leased at fixed rents. Consolidated net sales from the WINS building business for the three months ended June 30, 2023 amounted to 978 million yen, an increase of 108 million yen (12.5%) year-on-year.

4) Commercial Buildings, Logistics Warehouses, and Other Properties Business

The Group owns and leases seven commercial buildings, logistics warehouses, and other properties in the country, particularly in the Tokyo metropolitan area and the Kansai area. We are working on information gathering activities targeting prime locations for transportation access, such as locations near terminal stations for commercial facilities and trunk roads for logistics warehouses, in order to acquire profitable properties. Under our Long-Term Management Plan, we are striving to expand our assets by acquiring more conveniently located properties, including new assets types such as housing and healthcare facilities.

Consolidated net sales from the commercial buildings, logistics warehouses, and other properties business for the three months ended June 30, 2023 amounted to 269 million yen, an increase of 23 million yen (9.6%) year-on-year, due in part to proceeds from the Sekime-Takadono Apartment Building, which was acquired during the previous fiscal year.

(2) Explanation of Financial Condition

Total assets at the end of the three months ended June 30, 2023 amounted to 159,719 million yen, an increase of 7,397 million yen (4.9%) from the end of the previous fiscal year. This was mainly due to an increase of 5,849 million yen in property, plant and equipment due to the recording of buildings in trust and land in trust in conjunction with the acquisition of the Asakusa Ekimae Building and an increase of 1,896 million yen in investment securities due to rising stock prices.

Total liabilities at the end of the three months ended June 30, 2023 amounted to 87,136 million yen, an increase of 5,685 million yen (7.0%) from the end of the previous fiscal year. This was mainly due to an increase of 5,802 million yen in interest-bearing debt in conjunction with financing for the acquisition of the Asakusa Ekimae Building.

Total net assets at the end of the three months ended June 30, 2023 amounted to 72,582 million yen, an increase of 1,711 million yen (2.4%) from the end of the previous fiscal year. This was mainly due to an

increase of 395 million yen in retained earnings and an increase of 1,316 million yen in valuation difference on available-for-sale securities due to the recording of 881 million yen in dividends of surplus, despite the recording of 1,276 million yen of profit attributable to owners of parent.

(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 12, 2023. The consolidated financial results at the end of the three months ended June 30, 2023 are as originally planned.

In the real estate leasing industry, it is necessary to keep a close watch on the rise in vacancy rates resulting from the downsizing of office spaces triggered by the COVID-19 and the large supply of new office buildings to be completed in the future, 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 continued high electricity price caused mainly by surging resource prices triggered by the situation 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

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	5,312,956	5,425,997
Accounts receivable - trade	560,390	529,588
Other	829,196	418,696
Total current assets	6,702,542	6,374,282
Non-current assets		
Property, plant and equipment		
Buildings and structures	104,377,130	105,072,746
Accumulated depreciation	(45,458,276)	(46,350,151)
Buildings and structures, net	58,918,854	58,722,594
Land	52,660,042	52,660,042
Buildings in trust	3,343,060	3,986,740
Accumulated depreciation	(1,754,247)	(1,803,907)
Buildings in trust, net	1,588,812	2,182,833
Land in trust	19,694,013	25,235,263
Construction in progress	100,640	12,440
Other	1,096,685	1,115,989
Accumulated depreciation	(785,973)	(806,438)
Other, net	310,711	309,551
Total property, plant and equipment	133,273,075	139,122,726
Intangible assets	109,720	104,421
Investments and other assets		
Investment securities	9,607,603	11,503,974
Other	2,628,364	2,613,762
Total investments and other assets	12,235,967	14,117,737
Total non-current assets	145,618,763	153,344,884
Total assets	152,321,306	159,719,166

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	849	1,012
Short-term borrowings	3,922,400	4,755,016
Income taxes payable	498,139	516,651
Provisions	44,811	-
Other	3,421,645	2,699,858
Total current liabilities	7,887,845	7,972,537
Non-current liabilities		
Bonds payable	45,000,000	45,000,000
Long-term borrowings	18,234,150	23,204,484
Retirement benefit liability	65,172	66,874
Asset retirement obligations	115,318	115,412
Other	10,147,885	10,777,036
Total non-current liabilities	73,562,526	79,163,807
Total liabilities	81,450,371	87,136,344
Net assets		
Shareholders' equity		
Share capital	9,827,611	9,827,611
Capital surplus	9,199,840	9,199,840
Retained earnings	52,436,792	52,831,967
Treasury shares	(310,708)	(310,837)
Total shareholders' equity	71,153,536	71,548,581
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,173,840	5,490,681
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	(358,706)	958,135
Share acquisition rights	76,104	76,104
Total net assets	70,870,934	72,582,821
Total liabilities and net assets	152,321,306	159,719,166

Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the three months)

(Thousands of yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Net sales	4,574,282	4,962,812
Cost of sales	2,710,022	3,152,307
Gross profit	1,864,259	1,810,504
Selling, general and administrative expenses	403,473	411,121
Operating profit	1,460,786	1,399,382
Non-operating income		
Interest income	2,842	10
Dividend income	138,570	148,009
Other	2,408	821
Total non-operating income	143,820	148,841
Non-operating expenses		
Interest expenses	38,624	45,985
Interest expenses on bonds	84,065	84,065
Other	3,010	3,043
Total non-operating expenses	125,699	133,094
Ordinary profit	1,478,907	1,415,130
Extraordinary income		
Gain on sale of investment securities	1,006,262	-
Contribution received for construction	-	406,300
Other	500	13,057
Total extraordinary income	1,006,763	419,357
Extraordinary losses		
Loss on retirement of non-current assets	0	2,398
Total extraordinary losses	0	2,398
Profit before income taxes	2,485,671	1,832,089
Income taxes - current	682,088	511,050
Income taxes - deferred	70,597	44,314
Total income taxes	752,686	555,365
Profit	1,732,984	1,276,724
Profit attributable to owners of parent	1,732,984	1,276,724

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

(Thousands of yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	1,732,984	1,276,724
Other comprehensive income		
Valuation difference on available-for-sale securities	(714,875)	1,316,841
Total other comprehensive income	(714,875)	1,316,841
Comprehensive income	1,018,109	2,593,566
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,018,109	2,593,566
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.