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Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]

October 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

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Scheduled date of filing quarterly securities report: November 2, 2023

Scheduled date of commencing dividend payments: December 5, 2023

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, 2023 (April 1, 2023 to September 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	%
Six months ended September 30, 2023	9,861	5.7	2,835	(7.7)	2,716	(8.6)	2,338	(14.9)
September 30, 2022	9,330	5.7	3,072	30.1	2,973	32.5	2,747	74.9

(Note) Comprehensive income: Six months ended September 30, 2023: ¥ 3,476 million [72.2%]

Six months ended September 30, 2022: ¥ 2,018 million [0.5%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	47.71	47.60
September 30, 2022	55.09	54.94

(Reference) Business profit before depreciation and amortization

Six months ended September 30, 2024: ¥ 4,814 million [(3.3)%]

Six months ended September 30, 2023: ¥ 4,977 million [18.8%]

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
	Millions of yen	Millions of yen	%
As of September 30, 2023	159,758	73,385	45.9
March 31, 2023	152,321	70,870	46.5

(Reference) Equity: As of September 30, 2023: ¥ 73,309 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	-	18.00			
Fiscal year ending March 31, 2024 (Forecast)			-	19.00	37.00

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

(Note) Breakdown of year-end dividend for the fiscal year ending March 31, 2024 (Forecast):

Ordinary dividend 18.00 yen Commemorative dividend 1.00 yen

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)	65.40

(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 six months ended September 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):

September 30, 2023: 49,211,498 shares

March 31, 2023: 49,211,498 shares

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

September 30, 2023: 283,102 shares

March 31, 2023: 236,482 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2023: 49,008,790 shares

Six months ended September 30, 2022: 49,863,934 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 second quarter of the fiscal year ending March 31, 2024, the Japanese economy remained half-way through a full-scale business recovery with a sluggish trend in consumption due partly to the surge in commodity prices triggered by the situation in Russia and Ukraine and other factors, while supported by an increase in demand for domestic goods and services by foreign tourists to Japan and recovery trend of corporate results as people grew accustomed to coexisting with COVID-19.

In the real estate leasing industry, the rent levels were on a downward trend and the vacancy rate still remains high. This is because, amid concerns about shrinking of demand for offices in conjunction with workstyle reforms and the proliferation of remote working, competition began to get fiercer with the successive completion of new office buildings in central urban areas.

Under such circumstances, the Group focused on building stronger relationships with tenants through meticulous building management. Thanks to these efforts, the vacancy rate as of September 30, 2023 remained at 1.80%. In addition, as part of expansion of assets, we proactively worked on new investments based on our Long-Term Management Plan, including the acquisition of the Asakusa Ekimae Building, a commercial building in Taito-ku, Tokyo, in June 2023.

For the six months ended September 30, 2023, consolidated net sales increased by 531 million yen (5.7%) year-on-year to 9,861 million yen due mainly to an increase in sales thanks to new investment properties and an increase in electricity expenses received by datacenter buildings.

However, with respect to cost of sales, operating profit decreased by 237 million yen (7.7%) year-on-year to 2,835 million yen and ordinary profit decreased by 256 million yen (8.6%) to 2,716 million yen with a rebound from reversal of 346 million yen of a difference from estimated real estate acquisition tax in the previous fiscal year.

Profit attributable to owners of parent amounted to 2,338 million yen, a decrease of 408 million yen (14.9%) year-on-year due to a decrease in extraordinary income from the sale of investment securities.

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.

	Six months ended September 30, 2022		Six months ended September 30, 2023	
	Net sales (million yen)	Rate (%)	Net sales (million yen)	Rate (%)
Office Building Business	2,161	23.1	2,240	22.7
Datacenter Building Business	4,850	52.0	5,200	52.7
WINS Building Business	1,825	19.6	1,838	18.7
Commercial Buildings, Logistics Warehouses, and Other Properties Business	492	5.3	581	5.9
Total	9,330	100.0	9,861	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 reconsideration of the ideal form of office resulting from the progress of workstyle reform and supply of newly-completed large-scale properties. While such a condition exists, 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 six months ended September 30, 2023 amounted to 2,240 million yen, an increase of 78 million yen (3.6%) year-on-year.

2) Datacenter Buildings Business

The Group owns and leases a total of eight datacenter buildings in 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 an increase in electricity expenses received from the Nishishinsaibashi Building and the OBP Building, consolidated net sales from the datacenter building business for the six months ended September 30, 2023 amounted to 5,200 million yen, an increase of 350 million yen (7.2%) 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 six months ended September 30, 2023 amounted to 1,838 million yen, an increase of 13 million yen (0.7%) 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 six months ended September 30, 2023 amounted to 581 million yen, an increase of 88 million yen (18.0%) year-on-year, due to proceeds from the Sekime-Takadono Apartment Building, which was acquired during the previous fiscal year, and the Asakusa Ekimae Building, which was acquired during the fiscal year under review.

(2) Explanation of Financial Condition

1) Assets, liabilities and net assets

Total assets at the end of the six months ended September 30, 2023 amounted to 159,758 million yen, an increase of 7,437 million yen (4.9%) from the end of the previous fiscal year. This was mainly due to an increase of 5,143 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 1,548 million yen in investment securities due to rising stock prices.

Total liabilities at the end of the six months ended September 30, 2023 amounted to 86,373 million yen, an increase of 4,922 million yen (6.0%) from the end of the previous fiscal year. This was mainly due to an increase of 5,130 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 six months ended September 30, 2023 amounted to 73,385 million yen,

an increase of 2,514 million yen (3.5%) from the end of the previous fiscal year. This was mainly due to an increase of 1,447 million yen in retained earnings and an increase of 1,137 million yen in valuation difference on available-for-sale securities due to a decrease resulting from payment of 881 million yen of dividends of surplus and other factors, despite the recording of 2,338 million yen of profit attributable to owners of parent.

2) Cash flows

Cash and cash equivalents at the end of the six months ended September 30, 2023 amounted to 6,535 million yen, an increase of 1,222 million yen from the end of the previous fiscal year. The status of each type of cash flows and reasons for cash inflow or outflow are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 3,102 million yen (5,632 million yen provided in the same period of the previous fiscal year). Major inflows were 3,364 million yen in profit before income taxes, 1,979 million yen in depreciation. Major outflows were a decrease of 828 million yen in accrued consumption taxes and contribution received for construction of 406 million yen in extraordinary income.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 5,961 million yen (385 million yen provided in the same period of the previous fiscal year). Inflows were 312 million yen from contribution received for construction and 297 million yen from proceeds from sale of investment securities. Outflow was 6,558 million yen mainly due to purchase of property, plant and equipment associated with new investments.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 4,082 million yen (3,528 million yen used in the same period of the previous fiscal year). This was owing to 6,300 million yen raised through long-term borrowings, despite outflows mainly due to repayments of long-term borrowings of 1,169 million yen and dividends paid of 881 million yen.

(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 six months ended September 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 shrinking of the office market 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.

Meanwhile, amid the recent increasingly tense situation in the Middle East, as well as the continuous trend of weak yen due in part to interest rate differences between U.S. and Japan, the future economic conditions have been getting more uncertain with the impact of inflation triggered by the situation between Russia and Ukraine, concerns about an increase in domestic long-term interest rates, and other factors. At the moment, it is unclear how the continued high electricity price caused mainly by surging resource prices 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 September 30, 2023
Assets		
Current assets		
Cash and deposits	5,312,956	6,535,610
Accounts receivable - trade	560,390	527,233
Other	829,196	407,976
Total current assets	6,702,542	7,470,819
Non-current assets		
Property, plant and equipment		
Buildings and structures	104,377,130	105,324,745
Accumulated depreciation	(45,458,276)	(47,225,277)
Buildings and structures, net	58,918,854	58,099,467
Land	52,660,042	52,660,042
Buildings in trust	3,343,060	3,986,740
Accumulated depreciation	(1,754,247)	(1,868,909)
Buildings in trust, net	1,588,812	2,117,831
Land in trust	19,694,013	25,235,263
Construction in progress	100,640	12,440
Other	1,096,685	1,118,270
Accumulated depreciation	(785,973)	(827,066)
Other, net	310,711	291,203
Total property, plant and equipment	133,273,075	138,416,250
Intangible assets	109,720	109,608
Investments and other assets		
Investment securities	9,607,603	11,155,758
Other	2,628,364	2,606,209
Total investments and other assets	12,235,967	13,761,968
Total non-current assets	145,618,763	152,287,827
Total assets	152,321,306	159,758,647

(Thousands of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	849	1,194
Short-term borrowings	3,922,400	4,780,016
Income taxes payable	498,139	1,087,658
Provisions	44,811	48,567
Other	3,421,645	1,988,856
Total current liabilities	7,887,845	7,906,292
Non-current liabilities		
Bonds payable	45,000,000	45,000,000
Long-term borrowings	18,234,150	22,507,480
Retirement benefit liability	65,172	68,548
Asset retirement obligations	115,318	115,506
Other	10,147,885	10,775,445
Total non-current liabilities	73,562,526	78,466,980
Total liabilities	81,450,371	86,373,273
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	53,884,566
Treasury shares	(310,708)	(381,926)
Total shareholders' equity	71,153,536	72,530,092
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,173,840	5,311,723
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	(358,706)	779,177
Share acquisition rights	76,104	76,104
Total net assets	70,870,934	73,385,374
Total liabilities and net assets	152,321,306	159,758,647

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

(Thousands of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	9,330,197	9,861,526
Cost of sales	5,450,201	6,162,643
Gross profit	3,879,996	3,698,883
Selling, general and administrative expenses	807,176	863,839
Operating profit	3,072,819	2,835,044
Non-operating income		
Interest income	2,861	21
Dividend income	145,390	157,627
Other	4,504	3,100
Total non-operating income	152,756	160,749
Non-operating expenses		
Interest expenses	76,195	102,818
Interest expenses on bonds	169,201	169,201
Other	6,602	6,852
Total non-operating expenses	251,999	278,873
Ordinary profit	2,973,577	2,716,920
Extraordinary income		
Gain on sale of investment securities	1,006,262	236,915
Contribution received for construction	-	406,300
Other	500	23,557
Total extraordinary income	1,006,763	666,773
Extraordinary losses		
Loss on retirement of non-current assets	23,280	18,696
Total extraordinary losses	23,280	18,696
Profit before income taxes	3,957,060	3,364,997
Income taxes - current	986,433	1,034,816
Income taxes - deferred	223,553	(8,170)
Total income taxes	1,209,986	1,026,646
Profit	2,747,073	2,338,350
Profit attributable to owners of parent	2,747,073	2,338,350

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

(Thousands of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	2,747,073	2,338,350
Other comprehensive income		
Valuation difference on available-for-sale securities	(728,187)	1,137,883
Total other comprehensive income	(728,187)	1,137,883
Comprehensive income	2,018,885	3,476,234
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,018,885	3,476,234
Comprehensive income attributable to non-controlling interests	-	-

Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	3,957,060	3,364,997
Depreciation	1,904,597	1,979,058
Share-based payment expenses	34,136	40,299
Increase (decrease) in retirement benefit liability	5,315	3,376
Increase (decrease) in provision for bonuses	(983)	3,755
Interest and dividend income	(148,252)	(157,649)
Interest expenses	76,195	102,818
Interest expenses on bonds	169,201	169,201
Loss (gain) on sale of investment securities	(1,006,262)	(236,915)
Loss on retirement of property, plant and equipment	23,280	18,696
Contribution received for construction	-	(406,300)
Other extraordinary loss (income)	(500)	(23,557)
Decrease (increase) in trade receivables	(284,890)	(78,240)
Increase (decrease) in trade payables	(830,703)	(247,102)
Decrease (increase) in consumption taxes refund receivable	1,850,128	-
Increase (decrease) in accrued consumption taxes	456,695	(828,065)
Other, net	4,687	(22,884)
Subtotal	6,209,705	3,681,489
Interest and dividends received	148,252	157,649
Interest paid	(245,893)	(270,281)
Income taxes paid	(480,015)	(466,546)
Net cash provided by (used in) operating activities	5,632,048	3,102,310
Cash flows from investing activities		
Purchase of property, plant and equipment	(702,654)	(6,558,096)
Purchase of intangible assets	-	(13,770)
Proceeds from sale of investment securities	1,087,783	297,322
Proceeds from contribution received for construction	-	312,851
Net cash provided by (used in) investing activities	385,128	(5,961,692)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(200,000)	-
Proceeds from long-term borrowings	-	6,300,000
Repayments of long-term borrowings	(801,650)	(1,169,054)
Purchase of treasury shares	(1,499,981)	(167,782)
Dividends paid	(1,027,319)	(881,126)
Other, net	65	-
Net cash provided by (used in) financing activities	(3,528,885)	4,082,036
Net increase (decrease) in cash and cash equivalents	2,488,292	1,222,653
Cash and cash equivalents at beginning of period	9,876,282	5,312,956
Cash and cash equivalents at end of period	12,364,575	6,535,610

(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.

(Segment information)

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

(Significant subsequent events)

(Issue of bonds)

Keihanshin Building Co., Ltd. adopted a resolution issuing unsecured bonds (sustainability-linked bonds) at the Board of Directors' meeting held on October 27, 2023 as follows.

Item	The 14th series of unsecured bonds (sustainability-linked bonds)
Total amount of issue	5,000 million yen or less
Issue price	100 yen per the face value of 100 yen
Interest rate	1.6% per annum or less (scheduled)
Scheduled date of issue	November 29, 2023
Maturity and method of redemption	Seven years, bullet maturity
Use of proceeds	To be appropriated partly for new investments, operating funds, and repayment of borrowings