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Consolidated Financial Results for the Six Months Ended September 30, 2024 [Japanese GAAP]

October 30, 2024

Company name: Keihanshin Building Co., Ltd.
Stock exchange listing: Tokyo
Code number: 8818
URL: https://www.keihanshin.co.jp/english/
Representative: Tsuneo Wakabayashi, President
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Scheduled date of filing semi-annual securities report: November 1, 2024
Scheduled date of commencing dividend payments: December 5, 2024
Availability of supplementary briefing material on financial results: Yes
Schedule of 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, 2024 (April 1, 2024 to September 30, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2024	9,701	(1.6)	2,762	(2.5)	2,749	1.2	1,903	(18.6)
September 30, 2023	9,861	5.7	2,835	(7.7)	2,716	(8.6)	2,338	(14.9)

(Note) Comprehensive income: Six months ended September 30, 2024: ¥ 1,998 million [(42.5)%]
Six months ended September 30, 2023: ¥ 3,476 million [72.2%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2024	38.88	38.79
September 30, 2023	47.71	47.60

(Reference) Buisiness profit before depreciation and amortization
Six months ended September 30, 2024: ¥ 4,867 million [1.1%]
Six months ended September 30, 2023: ¥ 4,814 million [(3.3)%]

The Company has positioned business profit before depreciation and amortization as an important management indecator.
Business profit before depreciation and amortization
=Business profit (Operating Profit + loss (gain) on investments in investment partnerships) + Depreciation and amortization

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
September 30, 2024	165,533	76,014	45.9
March 31, 2024	166,616	74,874	44.9

(Reference) Equity: As of September 30, 2024: ¥ 75,938 million
As of March 31, 2024: ¥ 74,798 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, 2024	-	18.00	-	19.00	37.00
Fiscal year ending March 31, 2025	-	18.50			
Fiscal year ending March 31, 2025 (Forecast)			-	18.50	37.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025(April 1, 2024 to March 31, 2025)

(% 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	19,700	2.0	5,600	10.2	5,500	13.6	3,800	0.2	77.60

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

(Reference) Business profit before depreciation and amortization ¥ 9,800 million [7.4%]

* Notes:

(1) Significant changes in the scope of consolidation during the period: Yes

Newly included: 1 (Company name: Keihanshin Building America Co., Ltd.)

Excluded: -

(2) Accounting policies adopted specially for the preparation of semi-annual 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, 2024: 49,211,498 shares

March 31, 2024: 49,211,498 shares

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

September 30, 2024: 241,708 shares

March 31, 2024: 283,234 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2024: 48,947,443 shares

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

* This summarry 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. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Semi-annual Period under Review

During the six months ended September 30, 2024, the Japanese economy showed a gradual trend toward recovery, mainly due to an improvement in employment and income conditions, as well as brisk demand for domestic goods and services by foreign tourists to Japan resulting in the normalization of social activities. Meanwhile, given increasing geopolitical risks such as the prolonged situation in Russia and Ukraine and the ongoing tensions in the Middle East, fluctuations in exchange rates affected by monetary and financial policies in each country, trends in commodity prices and interest rates, and other factors, the economic outlook is expected to remain unclear.

In the real estate leasing industry, although remote working is becoming more established in some areas due to the progress of workstyle reforms, the current vacancy rate remained relatively firm, driven by improved corporate earnings and a trend toward returning to office.

Under such circumstances, Keihanshin Building Co., Ltd. ("the Group") focused on operating activities such as finding new tenants when tenants depart, and continued to maintain a high occupancy rate, including the vacancy rate improving to 1.27% as of September 30, 2024 from 1.87% as of March 31, 2024. In addition, based on its Long-Term Business Plan, the Group established a U.S. subsidiary, Keihanshin Building America Co., Ltd. in May 2024, and made equity investments to the multifamily residence in Miami, Florida in U.S. as a new investment in August 2024. In terms of existing buildings, we will continuously work on enhancing asset value of them through preventive maintenance against natural disasters and promotion of energy efficiency and conservation.

For the six months ended September 30, 2024, consolidated net sales decreased by 159 million yen (1.6%) year-on-year to 9,701 million yen due mainly to a decrease in electricity expenses received by office buildings and datacenter buildings and the impact of partial rent revisions to WINS buildings.

While repair costs, electricity payments, and other costs decreased in cost of sales, selling, general and administrative expenses increased, including costs for the increased number of employees, research and examination to promote new investments. Accordingly, operating profit decreased by 72 million yen (2.5%) year-on-year to 2,762 million yen. Ordinary profit increased by 32 million yen (1.2%) year-on-year to 2,749 million yen due mainly to the recording of gain on investments in investment partnerships through equity investments in non-operating income.

However, profit attributable to owners of parent amounted to 1,903 million yen, a decrease of 435 million yen (18.6%) year-on-year, chiefly due to the absence of contribution received for construction, which was recorded as extraordinary income during 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.

	Six months ended September 30, 2023		Six months ended September 30, 2024	
	Net sales (million yen)	Rate (%)	Net sales (million yen)	Rate (%)
Office Building Business	2,240	22.7	2,223	22.9
Datacenter Building Business	5,200	52.7	5,145	53.0
WINS Building Business	1,838	18.7	1,677	17.3
Commercial Building, Logistics Warehouse, and Other Properties Business	581	5.9	655	6.8
Total	9,861	100.0	9,701	100.0

1) Office Building Business

The Group owns and leases a total of eight medium-sized office buildings, mainly in business areas of Osaka and Tokyo. Our newest properties are equipped with advanced BCP functions developed through datacenter building operations, such as being outfitted with emergency-use generators and seismic isolation structures. 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, etc.

Although there are concerns about intensifying competition due to the large supply of new office buildings, etc., the impact on the Group's office building business has been minimal and occupancy rates remain higher than the market average.

Due in part to the temporary impact from the departures of tenants, consolidated net sales from the office building business for the six months ended September 30, 2024 amounted to 2,223 million yen, a decrease of 17 million yen (0.8%) year-on-year.

2) Datacenter Building 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 a decline in electricity expenses received resulting from a revision to electricity rate, consolidated net sales from the datacenter building business for the six months ended September 30, 2024 amounted to 5,145 million yen, a decrease of 55 million yen (1.1%) year-on-year.

3) WINS Building 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 building business dates back to the Group's founding, and has been one of our core businesses that generate stable earnings 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 limited as the buildings are leased at fixed rents.

Due in part to the impact of rent revisions for some facilities, consolidated net sales from the WINS building business for the six months ended September 30, 2024 amounted to 1,677 million yen, a decrease of 161 million yen (8.8%) year-on-year.

4) Commercial Building, Logistics Warehouse, and Other Properties Business

The Group owns and leases a total of seven commercial buildings, logistics warehouses, and other properties 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 Business Plan, we are striving to expand our assets by acquiring properties, including new assets types such as residences and healthcare buildings.

Consolidated net sales from the commercial building, logistics warehouse, and other properties business for the six months ended September 30, 2024 amounted to 655 million yen, an increase of 74 million yen (12.7%) year-on-year, partly due to the contribution by Asakusa Ekimae Building, acquired in June 2023.

(2) Overview of Financial Condition for the Semi-annual Period under Review

1) Assets, liabilities and net assets

Total assets at the end of the six months ended September 30, 2024 amounted to 165,533 million yen, a decrease of 1,082 million yen (0.6%) from the end of the previous fiscal year. This was mainly due to a decrease of 1,777 million yen in property, plant and equipment, despite increases of 208 million yen in cash

and deposits and 184 million yen in investment securities due to a rise in stock prices.

Total liabilities at the end of the six months ended September 30, 2024 amounted to 89,519 million yen, a decrease of 2,222 million yen (2.4%) from the end of the previous fiscal year. This was mainly due to decreases of 1,522 million yen in interest-bearing debt and 498 million yen in accounting payable - facilities.

Total net assets at the end of the six months ended September 30, 2024 amounted to 76,014 million yen, an increase of 1,139 million yen (1.5%) from the end of the previous fiscal year. This was mainly due to an increase of 973 million yen in retained earnings resulting from the recording of 1,903 million yen of profit attributable to owners of parent, offset by 929 million yen in dividends of surplus, as well as an increase of 95 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, 2024 amounted to 8,877 million yen, an increase of 208 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 3,384 million yen (3,102 million yen provided in the same period of the previous fiscal year). Major inflows were 2,743 million yen in profit before income taxes and 1,971 million yen in depreciation. Major outflows were 902 million yen in income taxes paid and 377 million yen in decrease in trade payables.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 700 million yen (5,961 million yen used in the same period of the previous fiscal year). This was mainly owing to an outflow due to the purchase of property, plant and equipment of 699 million yen.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 2,451 million yen (4,082 million yen provided in the same period of the previous fiscal year). This was owing to outflows mainly due to repayments of long-term borrowings of 1,522 million yen and dividends paid of 929 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 14, 2024. The consolidated financial results for the six months ended September 30, 2024 are as originally planned.

In the real estate leasing industry, it is necessary to continue to keep a close watch on the rise in the vacancy rate against the backdrop of a new supply of completed large-scale properties, and we cannot be optimistic about the future outlook. However, in the current situation, the impact on the Group’s business performance has been minimal as the number of tenant departures and requests for rent reductions by tenants have been limited.

In addition, attention must be paid to exchange fluctuations and trends in crude oil and resource prices caused by ongoing international instability along with the trend in electricity prices in response to these factors. At the moment, it is unclear how these matters 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.

2.Semi-annual Consolidated Financial Statements and Principal Notes

(1)Semi-annual Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	8,668,714	8,877,562
Accounts receivable - trade	486,123	526,580
Other	230,414	530,375
Total current assets	9,385,252	9,934,517
Non-current assets		
Property, plant and equipment		
Buildings and structures	105,765,523	105,856,872
Accumulated depreciation	(48,795,378)	(50,528,561)
Buildings and structures, net	56,970,145	55,328,311
Land	52,660,042	52,660,042
Buildings in trust	3,986,740	3,986,740
Accumulated depreciation	(1,998,911)	(2,128,913)
Buildings in trust, net	1,987,829	1,857,827
Land in trust	25,235,263	25,235,263
Construction in progress	17,640	21,410
Other	1,136,189	1,166,533
Accumulated depreciation	(854,943)	(894,793)
Other, net	281,246	271,739
Total property, plant and equipment	137,152,167	135,374,594
Intangible assets	107,436	97,520
Investments and other assets		
Investment securities	17,382,863	17,566,982
Other	2,588,377	2,560,055
Total investments and other assets	19,971,240	20,127,038
Total non-current assets	157,230,845	155,599,153
Total assets	166,616,097	165,533,671

(Thousands of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Current portion of bonds payable	-	5,000,000
Short-term borrowings	4,676,616	4,810,216
Income taxes payable	940,767	825,955
Provisions	49,425	50,826
Other	3,064,272	2,262,112
Total current liabilities	8,731,081	12,949,110
Non-current liabilities		
Bonds payable	50,000,000	45,000,000
Long-term borrowings	20,853,372	19,197,264
Retirement benefit liability	71,550	68,806
Asset retirement obligations	115,694	115,883
Other	11,969,830	12,188,381
Total non-current liabilities	83,010,447	76,570,335
Total liabilities	91,741,528	89,519,445
Net assets		
Shareholders' equity		
Share capital	9,827,611	9,827,611
Capital surplus	9,199,840	9,214,934
Retained earnings	54,459,351	55,432,726
Treasury shares	(382,119)	(326,117)
Total shareholders' equity	73,104,684	74,149,155
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,226,326	6,321,511
Revaluation reserve for land	(4,532,546)	(4,532,546)
Total accumulated other comprehensive income	1,693,780	1,788,965
Share acquisition rights	76,104	76,104
Total net assets	74,874,569	76,014,225
Total liabilities and net assets	166,616,097	165,533,671

(2)Semi-annual Consolidated Statements of Income and Comprehensive Income

Semi-annual Consolidated Statements of Income (For the six months)

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	9,861,526	9,701,995
Cost of sales	6,162,643	5,953,767
Gross profit	3,698,883	3,748,227
Selling, general and administrative expenses	863,839	985,283
Operating profit	2,835,044	2,762,944
Non-operating income		
Interest income	21	391
Dividend income	157,627	186,022
Gain on investments in investment partnerships	-	133,285
Other	3,100	5,306
Total non-operating income	160,749	325,004
Non-operating expenses		
Interest expenses	102,818	101,611
Interest expenses on bonds	169,201	203,548
Other	6,852	33,097
Total non-operating expenses	278,873	338,258
Ordinary profit	2,716,920	2,749,691
Extraordinary income		
Gain on sale of investment securities	236,915	-
Contribution received for construction	406,300	-
Other	23,557	-
Total extraordinary income	666,773	-
Extraordinary losses		
Loss on retirement of non-current assets	18,696	6,572
Total extraordinary losses	18,696	6,572
Profit before income taxes	3,364,997	2,743,118
Income taxes - current	1,034,816	789,334
Income taxes - deferred	(8,170)	50,771
Total income taxes	1,026,646	840,106
Profit	2,338,350	1,903,012
Profit attributable to owners of parent	2,338,350	1,903,012

Semi-annual Consolidated Statements of Comprehensive Income (For the six months)

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Profit	2,338,350	1,903,012
Other comprehensive income		
Valuation difference on available-for-sale securities	1,137,883	95,185
Total other comprehensive income	1,137,883	95,185
Comprehensive income	3,476,234	1,998,197
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,476,234	1,998,197
Comprehensive income attributable to non-controlling interests	-	-

(3)Semi-annual Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	3,364,997	2,743,118
Depreciation	1,979,058	1,971,595
Share-based payment expenses	40,299	43,027
Increase (decrease) in retirement benefit liability	3,376	(2,743)
Increase (decrease) in provision for bonuses	3,755	1,401
Interest and dividend income	(157,649)	(186,413)
Interest expenses	102,818	101,611
Interest expenses on bonds	169,201	203,548
Loss (gain) on sale of investment securities	(236,915)	-
Loss on retirement of property, plant and equipment	18,696	6,572
Loss (gain) on investments in investment partnerships	-	(133,285)
Contribution received for construction	(406,300)	-
Other extraordinary loss (income)	(23,557)	-
Decrease (increase) in trade receivables	(78,240)	(272,662)
Increase (decrease) in trade payables	(247,102)	(377,325)
Decrease (increase) in consumption taxes refund receivable	-	(7,396)
Increase (decrease) in accrued consumption taxes	(828,065)	162,743
Other, net	(22,884)	30,019
Subtotal	3,681,489	4,283,811
Interest and dividends received	157,649	309,747
Interest paid	(270,281)	(306,020)
Income taxes paid	(466,546)	(902,887)
Net cash provided by (used in) operating activities	3,102,310	3,384,651
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,558,096)	(699,034)
Purchase of intangible assets	(13,770)	(1,400)
Proceeds from sale of investment securities	297,322	-
Proceeds from contribution received for construction	312,851	-
Net cash provided by (used in) investing activities	(5,961,692)	(700,434)
Cash flows from financing activities		
Proceeds from long-term borrowings	6,300,000	-
Repayments of long-term borrowings	(1,169,054)	(1,522,508)
Purchase of treasury shares	(167,782)	(122)
Dividends paid	(881,126)	(929,033)
Net cash provided by (used in) financing activities	4,082,036	(2,451,663)
Effect of exchange rate change on cash and cash equivalents	-	(23,705)
Net increase (decrease) in cash and cash equivalents	1,222,653	208,847
Cash and cash equivalents at beginning of period	5,312,956	8,668,714
Cash and cash equivalents at end of period	6,535,610	8,877,562

(4) Notes to Semi-annual 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.