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



February 10, 2022

Company name: KYUSHU LEASING SERVICE CO., LTD.
 Stock exchange listing: Tokyo and Fukuoka Stock Exchanges
 Securities code: 8596
 URL: <https://www.k-lease.co.jp>
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 Scheduled date of filing quarterly securities report: February 14, 2022
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Scheduled

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2021 (April 1, 2021 - December 31, 2021)

(1) Consolidated Operating Results (Cumulative) (% 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	17,672	(12.3)	2,623	(7.3)	2,639	(8.6)	1,878	(3.0)
December 31, 2020	20,144	1.8	2,829	8.4	2,888	8.5	1,937	13.6

(Note) Comprehensive income: Nine months ended December 31, 2021: 1,398 million yen [(42.9)%]
 Nine months ended December 31, 2020: 2,449 million yen [(2.5)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	82.70	–
December 31, 2020	85.42	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2021	163,972	33,041	20.1
As of March 31, 2021	148,523	32,033	21.5

(Reference) Equity: As of December 31, 2021: 32,900 million yen
 As of March 31, 2021: 31,885 million yen

2. Dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	–	7.50	–	9.00	16.50
Fiscal year ending March 31, 2022	–	8.00	–		
Fiscal year ending March 31, 2022 (Forecast)				8.50	16.50

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022 (April 1, 2021 - 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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	28,700	1.6	2,900	(19.3)	2,950	(21.0)	1,900	2.1	83.70

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Changes in significant subsidiaries during the period under review: None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation):

Newly included: – (), Excluded: – ()

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None

(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: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 9 of the Attachments.

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2021: 25,952,374 shares

March 31, 2021: 25,952,374 shares

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

December 31, 2021: 3,225,404 shares

March 31, 2021: 3,251,904 shares

3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):

Nine months ended December 31, 2021: 22,719,071 shares

Nine months ended December 31, 2020: 22,681,837 shares

(Note) Treasury shares include the Company shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust property for the “Board Benefit Trust (BBT)” and the “Japanese employee stock ownership plan (J-ESOP).”

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

Financial results forecasts and other forward-looking statements contained herein are based on information available as of this report’s publication and certain assumptions that are deemed reasonable, and these forecasts are not guarantees of future performance. Actual results may differ significantly due to various factors. For the assumptions underlying the forecasts herein and cautionary notes on the use of these financial results forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the Attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2021 (from April 1 to December 31, 2021), economic and social activities both in Japan and abroad continued to be heavily impacted by the recurring cycles of outbreak and contraction of the novel coronavirus disease (COVID-19).

In Japan, while the rollout of COVID-19 vaccines progressed, an outbreak of highly contagious variant of the disease (the Delta variant) caused states of emergency to be declared and quasi-emergency measures to be taken intermittently, which resulted in weak consumer spending and manufacturing activities, keeping the Japanese economy in a difficult situation. Although the Japanese economy has begun to show signs of recovery after the states of emergency and quasi-emergency measures were lifted on September 30, 2021, the outlook remains uncertain due to soaring prices of raw materials and crude oil and the exponential outbreak of the new variant of the disease (the Omicron variant).

Under such circumstances, the Group is working on its medium-term management plan, “Co-creation 2024: Challenge for the Future,” covering the period from April 2021 to March 2024. To this end, we are focusing on environment-related businesses such as renewable energy and striving to develop a wide range of new businesses that will establish new revenue bases. In the meantime, in line with the expansion of business scale and business domains, we are also striving to reinforce risk management and our governance system while maintaining a healthy balance of risk and return.

In September 2021, we set the target of environment-related operating assets (24 billion yen by March 31, 2024, up 40% from March 31, 2021) as sustainability performance targets (SPTs) and became the first company in Kyushu to raise capital through a sustainability linked loan, where the lending financial institution links the interest rate to the level of achievement of the SPTs. Furthermore, in October, the Company concluded a contract to invest in a ship investment fund whose main investment target is LNG carriers that use liquefied natural gas (LNG) as the main fuel, which has a lower environmental load than coal and petroleum. By expanding environment-related businesses, we will support decarbonization initiatives and environmental load reduction activities by local companies mainly in Kyushu. We will also contribute to the development of regional economy and the achievement of a sustainable society.

In addition, on November 25, the Company entered into a “Basic Agreement on Capital and Business Alliance” with Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH) to discuss and consider the realization of a capital and business alliance. It was intended that the Company be an equity-method affiliate of Nishi-Nippon FH by the end of October this year on the assumption that a proposal regarding a company split to succeed part of the Company’s business will be approved at the Annual General Meeting of Shareholders scheduled to be held in June this year. The idea is that the two companies, which share the same main foothold, will further deepen their cooperation, provide a wider range of solutions to the needs of customers, leading to the improvement of the sustainability of the region and, by extension, the corporate value of both companies.

As consolidated financial results for the nine months ended December 31, 2021, the Company posted net sales of 17,672 million yen (down 12.3% year on year), operating profit of 2,623 million yen (down 7.3% year on year), ordinary profit of 2,639 million yen (down 8.6% year on year), and profit attributable to owners of parent of 1,878 million yen (down 3.0% year on year), due to a reactionary decline owing to the absence of proceeds from the disposal of a major real estate that were posted in the previous fiscal year.

On the other hand, as a result of aggressive sales activities centered on environment-related businesses, operating assets increased by 15,790 million yen to 151,999 million yen (up 11.6% from the end of the previous fiscal year).

Operating results by business segment are as follows.

1) Leasing/Installment sales

Net sales increased by 3.7% year on year to 12,874 million yen thanks to an increase in new leasing contracts mainly of commercial facilities, but operating profit decreased by 5.8% year on year to 958 million yen, primarily

due to a temporal decrease in aircraft lease revenue reflecting the transition to re-leasing. Operating assets as of December 31, 2021 were 74,036 million yen (up 7.1% from the end of the previous fiscal year).

2) Finance

Net sales increased by 18.8% year on year to 1,236 million yen and operating profit increased by 9.5% year on year to 698 million yen, in line with the increase in interest revenue, etc., reflecting the increase in operating assets thanks to our increased efforts for expanding environment-related businesses. Operating assets as of December 31, 2021 were 32,812 million yen (up 19.9% from the end of the previous fiscal year).

3) Real estate

Net sales decreased by 56.2% year on year to 2,473 million yen and operating profit decreased by 14.6% year on year to 1,146 million yen, due to a reactionary decline owing to the absence of proceeds from the disposal of a major real estate for sale, which became a major factor for the increase in sales in the previous fiscal year. Due to the acquisition of 6 properties of real estate for sale, etc., operating assets as of December 31, 2021 were 40,482 million yen (up 15.5% from the end of the previous fiscal year).

4) Fee business

Net sales increased by 2.4% year on year to 315 million yen and operating profit increased by 2.5% year on year to 123 million yen, due to increases in automobile-related commission income and income from the insurance agency business.

5) Environmental solutions

Net sales increased by 9.0% year on year to 753 million yen and operating profit increased by 11.1% year on year to 85 million yen, due to the revenue from the solar power station acquired in September 2020 and an increase in the sales of environment-related devices such as LED lighting. Operating assets as of December 31, 2021 were 4,668 million yen (up 0.5% from the end of the previous fiscal year).

(2) Explanation of Financial Position

Assets, liabilities and net assets

Total assets at the end of the nine months under review increased by 15,448 million yen or 10.4% from the end of the previous fiscal year to 163,972 million yen reflecting the increase in operating assets. This was mainly due to an increase of 2,102 million yen in lease receivables and investments in leases, an increase of 2,875 million yen in installment receivables, an increase of 5,436 million yen in accounts receivable - operating loans, and an increase of 4,460 million yen in real estate for sale.

Total liabilities increased by 14,440 million yen or 12.4% from the end of the previous fiscal year to 130,930 million yen. This was mainly due to an increase of 15,121 million yen in borrowings.

Total net assets increased by 1,008 million yen or 3.1% from the end of the previous fiscal year to 33,041 million yen. This was mainly due to an increase of 1,497 million yen in retained earnings.

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

The consolidated financial results for the nine months ended December 31, 2021 witnessed decreases in both sales and profits compared to the same period of the previous fiscal year, mainly as a result of a reactionary decline in net sales in the Real estate segment. Otherwise, the results progressed mostly in accordance with the initial plan and increases in both net sales and profit attributable to owners of parent are expected. Accordingly, no changes have been made to the consolidated financial results forecast for the full year ending March 31, 2022, announced on May 14, 2021.

The financial results forecast is based on information available as of this report's publication and actual results may change due to various factors going forward including the timing of the end of the COVID-19 pandemic.

(4) Material Contracts, Etc.

On November 25, 2021, the Company entered into a "Basic Agreement on Capital and Business Alliance" with Nishi-Nippon Financial Holdings, Inc. to discuss and consider the realization of a capital and business alliance.

2. Quarterly Consolidated Financial Statements and Principal Notes
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	4,722	4,628
Notes and accounts receivable - trade	76	47
Installment receivables	17,713	20,589
Lease receivables and investments in leases	50,266	52,368
Accounts receivable - operating loans	27,375	32,812
Accounts receivable - lease	175	201
Real estate for sale	7,229	11,690
Other	335	704
Allowance for doubtful accounts	(252)	(286)
Total current assets	107,642	122,755
Non-current assets		
Property, plant and equipment		
Assets for lease		
Real estate for rent, net	26,371	27,034
Other, net	2,003	1,888
Total assets for lease	28,374	28,923
Other operating assets	3,801	3,820
Own-used assets	678	654
Total property, plant and equipment	32,854	33,399
Intangible assets	513	409
Investments and other assets		
Investment securities	6,482	6,159
Other	1,030	1,247
Total investments and other assets	7,512	7,406
Total non-current assets	40,881	41,216
Total assets	148,523	163,972

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,998	3,016
Short-term borrowings	33,833	47,849
Current portion of bonds payable	100	100
Income taxes payable	457	245
Provisions	347	318
Other	5,003	5,167
Total current liabilities	42,740	56,696
Non-current liabilities		
Bonds payable	200	100
Long-term borrowings	62,164	63,271
Provisions	25	22
Retirement benefit liability	364	371
Asset retirement obligations	337	345
Other	10,656	10,123
Total non-current liabilities	73,749	74,234
Total liabilities	116,490	130,930
Net assets		
Shareholders' equity		
Share capital	2,933	2,933
Capital surplus	835	835
Retained earnings	27,081	28,579
Treasury shares	(1,008)	(999)
Total shareholders' equity	29,841	31,348
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,044	1,552
Total accumulated other comprehensive income	2,044	1,552
Non-controlling interests	147	141
Total net assets	32,033	33,041
Total liabilities and net assets	148,523	163,972

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Net sales	20,144	17,672
Cost of sales	15,532	13,180
Gross profit	4,612	4,492
Selling, general and administrative expenses	1,782	1,868
Operating profit	2,829	2,623
Non-operating income		
Dividend income	83	78
Gain on sale of investment securities	49	4
Other	14	10
Total non-operating income	147	93
Non-operating expenses		
Interest expenses	45	43
Share of loss of entities accounted for using equity method	16	3
Other	26	31
Total non-operating expenses	88	78
Ordinary profit	2,888	2,639
Extraordinary income		
Gain on sales of real estate for rent	—	4
Gain on sale of shares of subsidiaries and associates	—	76
Total extraordinary income	—	80
Profit before income taxes	2,888	2,719
Income taxes – current	867	683
Income taxes – deferred	78	145
Total income taxes	945	829
Profit	1,942	1,890
Profit attributable to non-controlling interests	5	11
Profit attributable to owners of parent	1,937	1,878

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Profit	1,942	1,890
Other comprehensive income		
Valuation difference on available-for-sale securities	505	(491)
Deferred gains or losses on hedges	0	—
Total other comprehensive income	506	(491)
Comprehensive income	2,449	1,398
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,444	1,386
Comprehensive income attributable to non-controlling interests	5	11

(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), etc. effective from the beginning of the first quarter of this fiscal year. The application of this accounting standard has only minimal 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), etc. effective from the beginning of the first quarter of this fiscal year 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.

The application of this accounting standard has no impact on the quarterly consolidated financial statements.

(Additional information)

(Transactions of delivering the Company's own stock to employees, etc. through trusts)

The Company introduced a performance-based stock compensation plan (the "Board Benefit Trust (BBT)") for its Directors and Audit & Supervisory Board Members (excluding Outside Directors and Outside Audit & Supervisory Board Members), and an incentive plan (the "Japanese employee stock ownership plan (J-ESOP)") that delivers the Company's shares to employees who have satisfied certain requirements (hereinafter, collectively referred to as the "Trust").

The Company's shares held by the Trust are presented as treasury shares under net assets in the quarterly consolidated balance sheets, and the book value and the number of these treasury shares as of the end of the previous fiscal year were 315 million yen and 1,061,600 shares, respectively, while those as of the end of the third quarter under review were 306 million yen and 1,035,100 shares, respectively.

(Accounting estimates regarding the effects of the spread of COVID-19)

Economic and social activities both in Japan and abroad continue to be heavily impacted by the spread of COVID-19 and it is currently difficult to predict when the pandemic will be contained. However, the Company, on the assumption that its impact will continue for some time even after the current fiscal year, has made accounting estimates including allowances for doubtful accounts. These estimates contain uncertainties and the amount of losses may change should any changes occur in the status of COVID-19 and its effects on the economy.

It should be noted that there have been no material changes to the assumptions used in the accounting estimates regarding the effects of the spread of COVID-19 stated in (Additional information) of the Annual Securities Report of the previous fiscal year.

(Segment information, etc.)

(Segment information)

I. For the nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					
	Leasing/ Installment sales	Finance	Real estate	Fee business	Environmental solutions	Total
Net sales						
Net sales to outside customers	12,416	1,040	5,645	307	691	20,101
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	12,416	1,040	5,645	307	691	20,101
Segment profit (loss)	1,018	638	1,342	120	76	3,196

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	43	20,144	—	20,144
Inter-segment net sales or transfers	—	—	—	—
Total	43	20,144	—	20,144
Segment profit (loss)	(1)	3,194	(364)	2,829

(Notes) 1. "Others" include business segments that are not included in reportable segments, including sale of goods.

2. The negative 364 million yen adjustment for segment profit (loss) represents corporate expenses unallocated to reportable segments consisting of general administrative expenses.

3. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment					
	Leasing/ Installment sales	Finance	Real estate	Fee business	Environmental solutions	Total
Net sales						
Net sales to outside customers	12,874	1,236	2,473	315	753	17,653
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	12,874	1,236	2,473	315	753	17,653
Segment profit (loss)	958	698	1,146	123	85	3,013

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	18	17,672	—	17,672
Inter-segment net sales or transfers	—	—	—	—
Total	18	17,672	—	17,672
Segment profit (loss)	(8)	3,005	(381)	2,623

- (Notes) 1. “Others” include business segments that are not included in reportable segments, including sale of goods.
 2. The negative 381 million yen adjustment for segment profit (loss) represents corporate expenses unallocated to reportable segments consisting of general administrative expenses.
 3. Segment profit (loss) was adjusted based on operating profit reported on the quarterly consolidated statements of income for the corresponding period.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

3. Matters pertaining to changes in reportable segments

The Company has applied the Accounting Standard for Revenue Recognition, etc., effective from the beginning of the first quarter of this fiscal year, as stated in “Changes in accounting policies,” and due to the change in the accounting treatment of revenue recognition, it has similarly changed the method of calculating the profit (loss) of business segments.

This change in calculation method has had only minimal impact on the “Net sales to outside customers” and “Segment profit (loss)” of each business segment for the nine months ended December 31, 2021.

3. Supplementary Information

Operating assets (Consolidated)

Name of segment		As of March 31, 2021		As of December 31, 2021	
		Year-end amount (Million yen)	Percentage (%)	3rd quarter-end amount (Million yen)	Percentage (%)
Lease/Installment sales	Finance leases	49,420	36.3	51,558	33.9
	Operating leases	2,003	1.5	1,888	1.3
	Total leases	51,423	37.8	53,446	35.2
	Installment sales	17,713	13.0	20,589	13.5
	Total leases and installment sales	69,137	50.8	74,036	48.7
Finance		27,375	20.1	32,812	21.6
Real estate	Operating leases	26,371	19.3	27,034	17.8
	Other	8,677	6.4	13,447	8.8
	Total real estate	35,048	25.7	40,482	26.6
Environmental solutions		4,647	3.4	4,668	3.1
Total		136,208	100.0	151,999	100.0