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



February 9, 2023

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>
 Representative: Seiji Isoyama, President and CEO
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 Phone: +81-92-431-2530
 Scheduled date of filing quarterly securities report: February 10, 2023
 Scheduled date of commencing dividend payments: –
 Availability of supplementary explanatory materials on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (April 1, 2022 - December 31, 2022)

(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, 2022	27,387	55.0	5,239	99.7	5,231	98.2	5,939	216.1
December 31, 2021	17,672	(12.3)	2,623	(7.3)	2,639	(8.6)	1,878	(3.0)

(Note) Comprehensive income: Nine months ended December 31, 2022: 4,691 million yen [235.4%]

Nine months ended December 31, 2021: 1,398 million yen [(42.9)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2022	261.31	—
December 31, 2021	82.70	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2022	176,719	37,829	21.2
As of March 31, 2022	169,417	33,467	19.7

(Reference) Equity: As of December 31, 2022: 37,488 million yen

As of March 31, 2022: 33,336 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, 2022	—	8.00	—	10.50	18.50
Fiscal year ending March 31, 2023	—	11.00	—		
Fiscal year ending March 31, 2023 (Forecast)				12.50	23.50

(Note 1) Revision to the forecast for dividends announced most recently: None

(Note 2) Breakdown for the six months ended September 30, 2021 Ordinary dividend: 8.00 yen
Breakdown for the fiscal year ended March 31, 2022 Ordinary dividend: 10.50 yen
Breakdown for the six months ended September 30, 2022 Ordinary dividend: 9.00 yen
Special dividend: 2.00 yen
Breakdown for the fiscal year ending March 31, 2023 (forecast) Ordinary dividend: 9.50 yen
Special dividend: 3.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - 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	36,000	21.8	5,000	53.8	5,000	51.6	5,500	158.5
								242.00

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: Yes
(Changes in specified subsidiaries resulting in changes in the scope of consolidation):
Newly included: 1 (TOKYO23 Residential Fund 2 Specific Purpose Company), 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 8 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, 2022: 25,952,374 shares
March 31, 2022: 25,952,374 shares

2) Total number of treasury shares at the end of the period:
December 31, 2022: 3,214,539 shares
March 31, 2022: 3,225,404 shares

3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):
Nine months ended December 31, 2022: 22,728,426 shares
Nine months ended December 31, 2021: 22,719,071 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 3 of the Attachments.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Principal Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in case of significant changes in shareholders' equity)	8
(Changes in scope of consolidation or equity method)	8
(Changes in accounting policies).....	8
(Additional information)	8
(Segment information, etc.)	9
3. Supplementary Information	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2022 (from April 1 to December 31, 2022), Japan experienced the recurring cycles of outbreak and contraction of the novel coronavirus disease (COVID-19), with its seventh wave of the infections from late June to mid-August and the eighth wave during the year-end and new year days, and it remains difficult to foresee when the pandemic will come to an end. The government, however, maintained the easing of movement restrictions and entry restrictions to Japan, and the trend toward normalization in socioeconomic activities has made steady progress. Nevertheless, with factors such as the impact of the soaring prices of resources and raw materials due to the prolonged situation in Ukraine on the price of goods in Japan and the increase of domestic long-term interest rates against the backdrop of the Bank of Japan's monetary policy modifications, the outlook of the Japanese economy remains uncertain.

Under such harsh circumstances, with an aim to create new value and a prosperous future as a Kyushu-based comprehensive financial services company, the Group has continuously been working toward "Expanding business foundations" and "Raising the sophistication of corporate structure" by implementing various measures set forth in the medium-term management plan, "Co-creation 2024: Challenge for the Future," covering the period from April 2021 to March 2024.

In addition, in accordance with the capital and business alliance agreement with Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH), the Company became an equity-method affiliate of Nishi-Nippon FH on October 5, 2022. The two companies, which share the same main foothold, will further deepen their cooperation and provide a wider range of solutions to the needs of customers, striving to improve the sustainability of the region, and thus the corporate value of both companies.

Regarding consolidated financial results for the nine months ended December 31, 2022, all segments generally performed according to projections, with higher lease sales and strong real estate business performance including the proceeds from major real estate sales at consolidated subsidiaries. As a result, the Company posted net sales of 27,387 million yen (up 55.0% year on year), operating profit of 5,239 million yen (up 99.7% year on year), ordinary profit of 5,231 million yen (up 98.2% year on year), and profit attributable to owners of parent of 5,939 million yen (up 216.1% year on year) as a result of the recording of gain on sale of investment securities as extraordinary income.

Operating results by business segment are as follows.

1) Leasing/Installment sales

Net sales increased by 38.5% year on year to 17,826 million yen and operating profit increased by 221.3% year on year to 3,081 million yen, due to factors such as an increase in new leasing contracts mainly of commercial facilities and proceeds from sale of assets for lease (aircrafts) in connection with replacement of operating assets. Operating assets as of December 31, 2022 were 84,103 million yen (up 3.4% from the end of the previous fiscal year).

2) Finance

Net sales increased by 0.8% year on year to 1,246 million yen and operating profit increased by 5.8% year on year to 738 million yen, in line with the increase in interest revenue, etc. from accounts receivable - operating loans. Operating assets as of December 31, 2022 were 32,032 million yen (down 1.3% from the end of the previous fiscal year), primarily due to prepayment of accounts receivable - operating loans.

3) Real estate

Net sales increased by 189.1% year on year to 7,151 million yen and operating profit increased by 34.4% year on year to 1,541 million yen, mainly due to the recording of proceeds from major real estate sales including those of consolidated subsidiaries. As a result of the acquisition of properties of real estate for sale, operating assets as

of December 31, 2022 were 45,484 million yen (up 20.4% from the end of the previous fiscal year).

4) Fee business

Net sales increased by 9.5% year on year to 344 million yen and operating profit increased by 12.8% year on year to 139 million yen, due to increases in automobile-related commission income and income from the insurance agency business.

5) Environmental solutions

Net sales increased by 5.5% year on year to 795 million yen and operating profit increased by 21.5% year on year to 103 million yen, due to the revenue from the solar power station acquired in the previous fiscal year. Operating assets as of December 31, 2022 were 4,462 million yen (down 4.6% 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 7,302 million yen or 4.3% from the end of the previous fiscal year to 176,719 million yen. This was mainly due to an increase of 2,537 million yen in lease receivables and investments in leases, an increase of 2,198 million yen in installment receivables, an increase of 7,003 million yen in real estate for sale, a decrease of 2,058 million yen in assets for lease and a decrease of 1,842 million yen in investment securities.

Total liabilities increased by 2,940 million yen or 2.2% from the end of the previous fiscal year to 138,890 million yen. This was mainly due to an increase of 1,133 million yen in notes and accounts payable - trade and an increase of 1,756 million yen in income taxes payable.

Total net assets increased by 4,362 million yen or 13.0% from the end of the previous fiscal year to 37,829 million yen. This was mainly due to an increase of 5,428 million yen in retained earnings.

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

No changes have been made to the consolidated financial results forecast for the full year ending March 31, 2023, announced on October 21, 2022.

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.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	4,947	5,116
Notes and accounts receivable - trade	93	49
Installment receivables	20,520	22,718
Lease receivables and investments in leases	53,994	56,531
Accounts receivable - operating loans	32,453	32,032
Accounts receivable - lease	393	324
Real estate for sale	9,490	16,494
Other	1,254	297
Allowance for doubtful accounts	(371)	(354)
Total current assets	122,774	133,209
Non-current assets		
Property, plant and equipment		
Assets for lease		
Real estate for rent, net	26,545	27,168
Other, net	7,625	5,566
Total assets for lease	34,171	32,735
Other operating assets	3,859	3,580
Own-used assets	660	569
Total property, plant and equipment	38,691	36,885
Intangible assets	406	340
Investments and other assets		
Investment securities	6,591	4,749
Other	952	1,534
Total investments and other assets	7,543	6,283
Total non-current assets	46,642	43,509
Total assets	169,417	176,719

(Million yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,252	3,386
Short-term borrowings	49,008	35,038
Current portion of bonds payable	200	100
Income taxes payable	484	2,240
Provisions	398	356
Other	4,982	5,529
Total current liabilities	57,325	46,651
Non-current liabilities		
Long-term borrowings	67,871	81,706
Provisions	25	29
Retirement benefit liability	363	357
Asset retirement obligations	348	414
Other	10,015	9,730
Total non-current liabilities	78,624	92,238
Total liabilities	135,950	138,890
Net assets		
Shareholders' equity		
Share capital	2,933	2,933
Capital surplus	835	811
Retained earnings	28,828	34,256
Treasury shares	(999)	(996)
Total shareholders' equity	31,597	37,004
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,739	483
Total accumulated other comprehensive income	1,739	483
Non-controlling interests	130	340
Total net assets	33,467	37,829
Total liabilities and net assets	169,417	176,719

(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, 2021	For the nine months ended December 31, 2022
Net sales	17,672	27,387
Cost of sales	13,180	20,080
Gross profit	4,492	7,307
Selling, general and administrative expenses	1,868	2,067
Operating profit	2,623	5,239
Non-operating income		
Dividend income	78	85
Gain on sale of investment securities	4	—
Other	10	20
Total non-operating income	93	106
Non-operating expenses		
Interest expenses	43	58
Share of loss of entities accounted for using equity method	3	—
Shareholders related costs	21	30
Other	10	25
Total non-operating expenses	78	114
Ordinary profit	2,639	5,231
Extraordinary income		
Gain on sale of investment securities	—	3,404
Gain on sales of real estate for rent	4	—
Gain on sale of shares of subsidiaries and associates	76	—
Total extraordinary income	80	3,404
Extraordinary losses		
Restructuring cost	—	139
Total extraordinary losses	—	139
Profit before income taxes	2,719	8,495
Income taxes – current	683	2,630
Income taxes – deferred	145	(82)
Total income taxes	829	2,548
Profit	1,890	5,947
Profit attributable to non-controlling interests	11	8
Profit attributable to owners of parent	1,878	5,939

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31

(Million yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Profit	1,890	5,947
Other comprehensive income		
Valuation difference on available-for-sale securities	(491)	(1,255)
Total other comprehensive income	(491)	(1,255)
Comprehensive income	1,398	4,691
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,386	4,683
Comprehensive income attributable to non-controlling interests	11	8

(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 scope of consolidation or equity method)

TOKYO23 Residential Fund 2 Specific Purpose Company was included in the scope of consolidation in the first quarter of this fiscal year as a result of equity investment, etc. In addition, KK Residence LLC was excluded from the scope of consolidation as a result of the end of effective control. The portion of the statement of income of KK Residence LLC corresponding to the period until the end of effective control is included in the scope of consolidation.

Effective as of October 1, 2022, an absorption-type merger was implemented between K.L.I.CO.,LTD, which is a consolidated subsidiary, as the company surviving the absorption-type merger and KYUD ASSET CO., LTD., which was a consolidated subsidiary, as the company absorbed in the absorption-type merger. As a result, KYUD ASSET Co., LTD. was excluded from the scope of consolidation.

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, the "Fair Value Measurement Guidance") effective from the beginning of the first quarter of this fiscal year, and will prospectively apply the new accounting policy prescribed by the Fair Value Measurement Guidance in accordance with the transitional treatment provided for in Paragraph 27-2 of the Fair Value Measurement Guidance. As a result of this change, some investment trusts that were previously recorded at acquisition cost as securities whose fair value was deemed to be extremely difficult to determine are now recorded at fair value on the consolidated balance sheets. The application of this implementation guidance has no material 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 306 million yen and 1,035,100 shares, respectively, while those as of the end of the third quarter under review were 303 million yen and 1,024,200 shares, respectively.

(Segment information, etc.)

(Segment information)

I. 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.

II. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

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	17,826	1,246	7,151	344	795	27,364
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	17,826	1,246	7,151	344	795	27,364
Segment profit (loss)	3,081	738	1,541	139	103	5,604

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	23	27,387	—	27,387
Inter-segment net sales or transfers	—	—	—	—
Total	23	27,387	—	27,387
Segment profit (loss)	(3)	5,600	(360)	5,239

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

2. The negative 360 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. Supplementary Information

Operating assets (Consolidated)

Name of segment		As of March 31, 2022		As of December 31, 2022	
		Year-end amount (Million yen)	Percentage (%)	3rd quarter-end amount (Million yen)	Percentage (%)
Lease/Installment sales	Finance leases	53,213	34.0	55,818	33.6
	Operating leases	7,625	4.9	5,566	3.4
	Total leases	60,838	38.9	61,385	37.0
	Installment sales	20,520	13.1	22,718	13.6
	Total leases and installment sales	81,359	52.0	84,103	50.6
Finance		32,453	20.8	32,032	19.3
Real estate	Operating leases	26,545	17.0	27,168	16.4
	Other	11,247	7.2	18,315	11.0
	Total real estate	37,792	24.2	45,484	27.4
Environmental solutions		4,675	3.0	4,462	2.7
Total		156,280	100.0	166,082	100.0