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



November 6, 2023

Company name: KYUSHU LEASING SERVICE CO., LTD.
 Stock exchange listing: Tokyo and Fukuoka Stock Exchanges
 Securities code: 8596
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 Scheduled date of filing quarterly securities report: November 10, 2023
 Scheduled date of commencing dividend payments: December 8, 2023
 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 Six Months Ended September 30, 2023 (April 1, 2023 - September 30, 2023)

(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	%
Six months ended September 30, 2023	16,368	(5.6)	2,661	10.5	2,640	9.0	1,799	(52.1)
Six months ended September 30, 2022	17,340	44.9	2,409	37.3	2,421	36.7	3,752	192.3

(Note) Comprehensive income: Six months ended September 30, 2023: 1,862 million yen [(24.3)%]
 Six months ended September 30, 2022: 2,461 million yen [101.5%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	79.12	—
Six months ended September 30, 2022	165.12	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	184,031	39,398	21.2
As of March 31, 2023	175,514	37,889	21.4

(Reference) Equity: As of September 30, 2023: 39,051 million yen
 As of March 31, 2023: 37,556 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, 2023	–	11.00	–	14.50	25.50
Fiscal year ending March 31, 2024	–	12.50			
Fiscal year ending March 31, 2024 (Forecast)			–	13.00	25.50

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 - 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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	32,000	(13.1)	4,000	(27.0)	4,000	(26.2)	2,600	(55.6)	114.35

(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):
- (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: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (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):

September 30, 2023:	25,952,374 shares
March 31, 2023:	25,952,374 shares
 - 2) Total number of treasury shares at the end of the period:

September 30, 2023:	3,206,639 shares
March 31, 2023:	3,214,539 shares
 - 3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):

Six months ended September 30, 2023:	22,741,139 shares
Six months ended September 30, 2022:	22,726,970 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 six months ended September 30, 2023 (from April 1 to September 30, 2023), the trend toward normalization in socioeconomic activities is steadily progressing. The business performance of domestic companies has also remained steady, showing a moderate recovery in the Japanese economy. In the lease industry to which the Company belongs, the total lease transaction volume from April to September 2023 was 2,122,700 million yen, up 9.7% year on year (source: “Lease Statistics” by JAPAN LEASING ASSOCIATION, a public interest incorporated association).

Meanwhile, the global tightening of monetary policy driven by inflation worries continues, causing a concern of slowdown in the economy outside Japan. Together with this, following a sharp rise in resource and raw material prices against the backdrop of Russia’s prolonged invasion of Ukraine and the Israeli-Palestinian conflict, it is expected that an upward trend in prices in Japan will continue for the time being. In addition, the number of corporate bankruptcies is on a rising trend along with the arrival of the due date of COVID-19 bailout loans. Future trends in the business environment must be monitored together with the movement of interest rates and foreign exchange.

While such harsh business environments are continuing, the Group’s medium-term management plan, “Co-creation 2024: Challenge for the Future,” of which the basic strategies are “Expanding business foundations” and “Raising the sophistication of corporate structure,” is now in its final year (fiscal year ending March 31, 2024).

Under the medium-term management plan, the Group has positioned the strengthening of environment-related business as the Group’s business growth driver, and is proactively accumulating operating assets and developing new customer bases. At the same time, the Group is striving to expand business operations by promoting sales activities in accordance with regional market characteristics, such as capital investments and real estate-related demand spread throughout the entire Kyushu region, including the Kumamoto area where semiconductor-related industries are increasingly accumulated. In addition, we are expanding business cooperation by, for example, providing the Company’s solutions to the customer base of Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH) in accordance with the capital and business alliance agreement with Nishi-Nippon FH.

Furthermore, the Group issued publicly offered bonds of 5,000 million yen for the first time in July 2023, aiming to build a stable and robust financial foundation through diversification of capital-raising means.

As a result of these efforts, operating assets as of September 30, 2023 were 171,800 million yen, which exceeded the target of the final year of the medium-term management plan of 166,000 million yen. We will continue striving for achieving the profit target of the final year of the medium-term management plan, which is an operating profit of 4,000 million yen, while maintaining circulation of high-quality operating assets based on consideration of a balance between risk and profitability.

Regarding consolidated financial results for the six months ended September 30, 2023, the Company posted net sales of 16,368 million yen (down 5.6% year on year). However, thanks to efforts to accumulate each segment’s operating assets in environment-related and other areas and an increase in commission income, the Company posted operating profit of 2,661 million yen (up 10.5% year on year) and ordinary profit of 2,640 million yen (up 9.0% year on year). Meanwhile, profit attributable to owners of parent was 1,799 million yen (down 52.1% year on year), due to the recording of extraordinary income from sale of investment securities in the same period of the previous fiscal year. In addition, operating assets increased by 8,589 million yen to 171,845 million yen (up 5.3% from the end of the previous fiscal year). The progress rates of operating profit and profit attributable to owners of parent toward the consolidated financial results forecast for the fiscal year ending March 31, 2024 were 66.5% and 69.2%, respectively, as of September 30, 2023.

Operating results by business segment are as follows.

1) Leasing/Installment sales

Net sales increased by 3.8% year on year to 9,760 million yen and operating profit increased by 7.5% year on year to 841 million yen, due to factors such as an increase in new leasing contracts of environment-related areas. Operating assets as of September 30, 2023 were 87,293 million yen (up 4.4% from the end of the previous fiscal year).

2) Finance

Net sales increased by 7.2% year on year to 907 million yen and operating profit increased by 11.4% year on year to 568 million yen in line with the increase in interest revenue, etc. due to accumulation of operating assets. Operating assets as of September 30, 2023 were 36,859 million yen (up 12.0% from the end of the previous fiscal year).

3) Real estate

Net sales decreased by 22.6% year on year to 4,841 million yen due to the decrease in proceeds from real estate sales. However, operating profit increased by 16.9% to 1,337 million yen, due to increases in lease revenue and intermediary fee income. Operating assets as of September 30, 2023 were 42,854 million yen (up 1.1% from the end of the previous fiscal year).

4) Fee business

Net sales increased by 4.4% year on year to 247 million yen and operating profit increased by 21.5% year on year to 125 million yen, due to steady streams of automobile-related commission income.

5) Environmental solutions

Net sales increased by 3.3% year on year to 594 million yen and operating profit increased by 3.3% year on year to 125 million yen. As a result of new acquisition of a solar power station, operating assets as of September 30, 2023 were 4,839 million yen (up 10.5% 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 six months under review increased by 8,517 million yen or 4.9% from the end of the previous fiscal year to 184,031 million yen. This was mainly due to an increase of 2,014 million yen in lease receivables and investments in leases, an increase of 1,823 million yen in installment receivables, an increase of 3,958 million yen in accounts receivable - operating loans, and an increase of 1,087 million yen in real estate for rent.

Total liabilities increased by 7,008 million yen or 5.1% from the end of the previous fiscal year to 144,633 million yen. This was mainly due to the issuance of bonds of 5,000 million yen for diversification of capital-raising means, an increase of 3,950 million yen in borrowings, and a decrease of 1,716 million yen in income taxes payable.

Total net assets increased by 1,509 million yen or 4.0% from the end of the previous fiscal year to 39,398 million yen. This was mainly due to an increase of 1,452 million yen in retained earnings.

(Status of Cash Flows)

Cash and cash equivalents during the six months ended September 30, 2023 decreased by 865 million yen from the end of the previous fiscal year to 5,230 million yen.

1) Cash Flows from Operating Activities

Net cash used in operating activities was 7,844 million yen, compared with a cash outflow of 2,961 million yen

for the six months ended September 30, 2022. The principal cash inflow factors were 2,643 million yen in profit before taxes and a decrease of 1,540 million yen in real estate for sale. The principal cash outflow factors were an increase of 3,958 million yen in accounts receivable - operating loans, 2,460 million yen in income taxes paid, and an increase of 2,331 million yen in lease receivables and investments in leases.

2) Cash Flows from Investing Activities

Net cash used in investing activities was 873 million yen, compared with a cash outflow of 41 million yen for the six months ended September 30, 2022. The principal cash inflow factor was 200 million yen in proceeds from sale and redemption of investment securities, and the principal cash outflow factor was 970 million yen in expenditures for the acquisition of subsidiary shares due to changes in the scope of consolidation.

3) Cash Flows from Financing Activities

Net cash provided by financing activities was 7,825 million yen, compared with a cash inflow of 4,354 million yen for the six months ended September 30, 2022. The principal cash inflow factors were a net increase of 4,865 million yen in bonds payable and a net increase of 3,403 million yen in long-term and short-term borrowings, and the principal cash outflow factors were 344 million yen in dividends paid and 90 million yen in repayments of lease liabilities.

(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, 2024, announced on May 10, 2023.

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

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	6,095	5,230
Notes and accounts receivable - trade	124	76
Installment receivables	22,773	24,596
Lease receivables and investments in leases	56,067	58,081
Accounts receivable - operating loans	32,900	36,859
Accounts receivable - lease	304	309
Real estate for sale	14,467	12,927
Other	471	904
Allowance for doubtful accounts	(343)	(358)
Total current assets	132,861	138,627
Non-current assets		
Property, plant and equipment		
Assets for lease		
Real estate for rent, net	25,806	26,894
Other, net	5,506	5,392
Total assets for lease	31,313	32,286
Other operating assets	3,487	3,596
Own-used assets	567	563
Total property, plant and equipment	35,369	36,446
Intangible assets	384	571
Investments and other assets		
Investment securities	5,418	6,714
Other	1,480	1,671
Total investments and other assets	6,898	8,386
Total non-current assets	42,652	45,404
Total assets	175,514	184,031

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,376	2,139
Short-term borrowings	29,545	37,026
Current portion of bonds payable	200	200
Income taxes payable	2,465	748
Provisions	437	455
Other	5,892	6,118
Total current liabilities	40,916	46,689
Non-current liabilities		
Bonds payable	1,800	6,700
Long-term borrowings	84,879	81,348
Provisions	37	38
Retirement benefit liability	331	358
Asset retirement obligations	415	435
Other	9,245	9,063
Total non-current liabilities	96,708	97,943
Total liabilities	137,624	144,633
Net assets		
Shareholders' equity		
Share capital	2,933	2,933
Capital surplus	811	811
Retained earnings	34,179	35,631
Treasury shares	(996)	(993)
Total shareholders' equity	36,927	38,382
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	628	668
Total accumulated other comprehensive income	628	668
Non-controlling interests	332	347
Total net assets	37,889	39,398
Total liabilities and net assets	175,514	184,031

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	17,340	16,368
Cost of sales	13,568	12,240
Gross profit	3,771	4,128
Selling, general and administrative expenses	1,362	1,467
Operating profit	2,409	2,661
Non-operating income		
Dividend income	78	33
Foreign exchange gains	10	27
Other	8	13
Total non-operating income	97	74
Non-operating expenses		
Interest expenses	41	33
Bond issuance costs	–	34
Shareholders related costs	30	23
Other	13	4
Total non-operating expenses	84	95
Ordinary profit	2,421	2,640
Extraordinary income		
Gain on sale of investment securities	3,029	3
Total extraordinary income	3,029	3
Profit before income taxes	5,451	2,643
Income taxes – current	1,675	743
Income taxes – deferred	13	77
Total income taxes	1,688	820
Profit	3,762	1,822
Profit attributable to non-controlling interests	9	23
Profit attributable to owners of parent	3,752	1,799

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	3,762	1,822
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,300)	40
Total other comprehensive income	(1,300)	40
Comprehensive income	2,461	1,862
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,451	1,839
Comprehensive income attributable to non-controlling interests	9	23

(3) Quarterly Consolidated Statements of Cash Flows

(Million 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	5,451	2,643
Depreciation	646	576
Increase (decrease) in allowance for doubtful accounts	(19)	15
Increase (decrease) in provisions	17	19
Increase (decrease) in retirement benefit liability	7	(5)
Interest and dividend income	(78)	(34)
Capital costs and interest expenses	400	359
Bond issuance costs	–	34
Foreign exchange losses (gains)	0	(27)
Loss (gain) on sale of investment securities	(3,029)	(3)
Decrease (increase) in installment receivables	(1,868)	(1,896)
Net decrease (increase) in lease receivables and investments in leases	(510)	(2,331)
Decrease (increase) in accounts receivable - operating loans	883	(3,958)
Decrease (increase) in real estate for sale	(4,221)	1,540
Purchase of assets for lease	(638)	(30)
Purchase of other operating assets	(0)	(295)
Decrease (increase) in distressed receivables	3	32
Increase (decrease) in trade payables	(51)	(249)
Other, net	798	(1,451)
Subtotal	(2,208)	(5,064)
Interest and dividends received	78	34
Interest paid	(398)	(354)
Income taxes paid	(432)	(2,460)
Net cash provided by (used in) operating activities	(2,961)	(7,844)
Cash flows from investing activities		
Purchase of own-used assets	(15)	(19)
Purchase of intangible assets	(53)	(23)
Purchase of investment securities	(0)	(59)
Proceeds from sale and redemption of investment securities	28	200
Expenditures for the acquisition of subsidiary shares due to changes in the scope of consolidation	–	(970)
Other, net	(0)	–
Net cash provided by (used in) investing activities	(41)	(873)

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(10,400)	5,000
Proceeds from long-term borrowings	30,690	12,200
Repayments of long-term borrowings	(15,731)	(13,796)
Proceeds from issuance of bonds	–	4,965
Redemption of bonds	(50)	(100)
Proceeds from share issuance to non-controlling shareholders	244	–
Repayments to non-controlling shareholders	(9)	(8)
Repayments of lease liabilities	(87)	(90)
Dividends paid	(249)	(344)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(50)	–
Net cash provided by (used in) financing activities	4,354	7,825
Effect of exchange rate change on cash and cash equivalents	(0)	27
Net increase (decrease) in cash and cash equivalents	1,351	(865)
Cash and cash equivalents at beginning of period	4,947	6,095
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(0)	–
Cash and cash equivalents at end of period	6,298	5,230

(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.

(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 303 million yen and 1,024,200 shares, respectively, while those as of the end of the second quarter under review were 300 million yen and 1,016,300 shares, respectively.

(Segment information, etc.)

(Segment information)

I. For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 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	9,407	846	6,257	237	575	17,324
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	9,407	846	6,257	237	575	17,324
Segment profit (loss)	783	510	1,144	103	121	2,662

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	16	17,340	—	17,340
Inter-segment net sales or transfers	—	—	—	—
Total	16	17,340	—	17,340
Segment profit (loss)	(6)	2,656	(246)	2,409

- (Notes) 1. "Others" include business segments that are not included in reportable segments, including sale of goods.
2. The negative 246 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 six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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	9,760	907	4,841	247	594	16,352
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	9,760	907	4,841	247	594	16,352
Segment profit (loss)	841	568	1,337	125	125	2,998

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	16	16,368	—	16,368
Inter-segment net sales or transfers	—	—	—	—
Total	16	16,368	—	16,368
Segment profit (loss)	(9)	2,988	(327)	2,661

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

2. The negative 327 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, 2023		As of September 30, 2023	
		Year-end amount (Million yen)	Percentage (%)	2nd quarter-end amount (Million yen)	Percentage (%)
Lease/Installment sales	Finance leases	55,327	33.9	57,304	33.4
	Operating leases	5,506	3.4	5,392	3.1
	Total leases	60,834	37.3	62,697	36.5
	Installment sales	22,773	13.9	24,596	14.3
	Total leases and installment sales	83,607	51.2	87,293	50.8
Finance		32,900	20.2	36,859	21.5
Real estate	Operating leases	25,806	15.8	27,003	15.7
	Other	16,562	10.1	15,850	9.2
	Total real estate	42,369	25.9	42,854	24.9
Environmental solutions		4,378	2.7	4,839	2.8
Total		163,256	100.0	171,845	100.0