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Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]



August 9, 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>
 Representative: Seiji Ioyama, President and CEO
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 Phone: +81-92-431-2530
 Scheduled date of filing quarterly securities report: August 10, 2022
 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 Three Months Ended June 30, 2022 (April 1, 2022 - June 30, 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	%
Three months ended								
June 30, 2022	10,031	76.4	1,138	27.9	1,126	28.3	791	13.8
June 30, 2021	5,685	(33.5)	889	(25.2)	878	(29.7)	695	(18.1)

(Note) Comprehensive income: Three months ended June 30, 2022: 773 million yen [16.3%]
 Three months ended June 30, 2021: 665 million yen [(35.4)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2022	34.81	—
June 30, 2021	30.62	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	176,644	34,169	19.2
As of March 31, 2022	169,417	33,467	19.7

(Reference) Equity: As of June 30, 2022: 33,828 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	–				
Fiscal year ending March 31, 2023 (Forecast)		9.00	–	9.50	18.50

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

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	31,000	4.9	3,500	7.7	3,500	6.1	2,200	3.4	96.80

(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):

June 30, 2022: 25,952,374 shares

March 31, 2022: 25,952,374 shares

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

June 30, 2022: 3,225,404 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):

Three months ended June 30, 2022: 22,726,970 shares

Three months ended June 30, 2021: 22,705,959 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

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended June 30, 2022, while the trend toward recovery in socioeconomic activities gained momentum as seen in the easing of movement restrictions and entry restrictions to Japan as a result of a decline in the number of new infections of the novel coronavirus disease (COVID-19), the number of new infections surged since late June, triggering a seventh wave of infections with no end in sight to the spread of infections. Furthermore, the outlook for socioeconomic activities in Japan and overseas remains uncertain due to factors including sluggish production as a result of prolonged shortages of semiconductors, a global surge in energy and raw material prices against the backdrop of Russia's invasion of Ukraine, rising interest rates in response to inflationary concerns in the United States and Europe, and the rapid depreciation of the yen.

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 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, the Company entered into a capital and business alliance agreement with Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH) on May 12, 2022. With the conclusion of the agreement, the Company will become an equity-method affiliate of Nishi-Nippon FH by the end of October, and 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.

As consolidated financial results for the three months ended June 30, 2022, the Company posted net sales of 10,031 million yen (up 76.4% year on year), operating profit of 1,138 million yen (up 27.9% year on year), ordinary profit of 1,126 million yen (up 28.3% year on year), and profit attributable to owners of parent of 791 million yen (up 13.8% year on year), due to higher lease sales and the recording of proceeds from major real estate sales at consolidated subsidiaries.

Operating results by business segment are as follows.

1) Leasing/Installment sales

Net sales increased by 11.4% year on year to 4,601 million yen and operating profit increased by 13.3% year on year to 391 million yen, due to factors such as an increase in new leasing contracts mainly of commercial facilities and higher leasing income from aircrafts acquired in the previous fiscal year. Operating assets as of June 30, 2022 were 83,227 million yen (up 2.3% from the end of the previous fiscal year).

2) Finance

Net sales increased by 16.0% year on year to 437 million yen and operating profit increased by 21.9% year on year to 257 million yen, in line with the increase in interest revenue, etc., reflecting the increase in operating assets. Operating assets as of June 30, 2022 were 33,711 million yen (up 3.9% from the end of the previous fiscal year).

3) Real estate

Net sales increased by 488.2% year on year to 4,533 million yen and operating profit increased by 32.2% year on year to 454 million yen, mainly due to the recording of proceeds from major real estate sales at consolidated subsidiaries. As a result of the acquisition of properties of real estate for sale, operating assets as of June 30, 2022 were 41,031 million yen (up 8.6% from the end of the previous fiscal year).

4) Fee business

Net sales increased by 17.2% year on year to 148 million yen and operating profit increased by 29.9% year on year to 73 million yen, due to increases in automobile-related commission income and income from the insurance agency business.

5) Environmental solutions

Net sales increased by 11.4% year on year to 304 million yen and operating profit increased by 43.9% year on year to 83 million yen, due to the revenue from the solar power station acquired in the previous fiscal year. Operating assets as of June 30, 2022 were 4,547 million yen (down 2.7% 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 three months under review increased by 7,227 million yen or 4.3% from the end of the previous fiscal year to 176,644 million yen. This was mainly due to an increase of 621 million yen in lease receivables and investments in leases, an increase of 1,290 million yen in installment receivables, an increase of 1,257 million yen in accounts receivable - operating loans, and an increase of 2,777 million yen in real estate for sale.

Total liabilities increased by 6,524 million yen or 4.8% from the end of the previous fiscal year to 142,474 million yen. This was mainly due to an increase of 5,239 million yen in borrowings.

Total net assets increased by 702 million yen or 2.1% from the end of the previous fiscal year to 34,169 million yen. This was mainly due to an increase of 541 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 May 12, 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.

(4) Material Contracts, Etc.

The Company entered into a capital and business alliance agreement with Nishi-Nippon FH on May 12, 2022. With the conclusion of the agreement, the Company will become an equity-method affiliate of Nishi-Nippon FH by the end of October.

In addition, at the meeting of the Board of Directors held on May 12, 2022, it was resolved to succeed part of the Company's business, including the real estate business, to the Company's wholly owned subsidiary, K.L.I.CO.,LTD in an absorption-type company split, and an absorption-type company split agreement was concluded on the same day. The proposal for the absorption-type company split agreement was approved and passed at the Annual General Meeting of Shareholders held on June 29, 2022.

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

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	4,947	4,951
Notes and accounts receivable - trade	93	86
Installment receivables	20,520	21,810
Lease receivables and investments in leases	53,994	54,615
Accounts receivable - operating loans	32,453	33,711
Accounts receivable - lease	393	286
Real estate for sale	9,490	12,267
Other	1,254	2,361
Allowance for doubtful accounts	(371)	(367)
Total current assets	122,774	129,723
Non-current assets		
Property, plant and equipment		
Assets for lease		
Real estate for rent, net	26,545	26,631
Other, net	7,625	7,544
Total assets for lease	34,171	34,176
Other operating assets	3,859	3,766
Own-used assets	660	651
Total property, plant and equipment	38,691	38,594
Intangible assets	406	373
Investments and other assets		
Investment securities	6,591	6,918
Other	952	1,034
Total investments and other assets	7,543	7,953
Total non-current assets	46,642	46,921
Total assets	169,417	176,644

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,252	3,503
Short-term borrowings	49,008	44,337
Current portion of bonds payable	200	150
Income taxes payable	484	322
Provisions	398	339
Other	4,982	5,241
Total current liabilities	57,325	53,895
Non-current liabilities		
Long-term borrowings	67,871	77,780
Provisions	25	26
Retirement benefit liability	363	368
Asset retirement obligations	348	379
Other	10,015	10,023
Total non-current liabilities	78,624	88,579
Total liabilities	135,950	142,474
Net assets		
Shareholders' equity		
Share capital	2,933	2,933
Capital surplus	835	811
Retained earnings	28,828	29,369
Treasury shares	(999)	(999)
Total shareholders' equity	31,597	32,115
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,739	1,713
Total accumulated other comprehensive income	1,739	1,713
Non-controlling interests	130	340
Total net assets	33,467	34,169
Total liabilities and net assets	169,417	176,644

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	5,685	10,031
Cost of sales	4,166	8,231
Gross profit	1,518	1,800
Selling, general and administrative expenses	628	661
Operating profit	889	1,138
Non-operating income		
Dividend income	25	28
Foreign exchange gains	0	7
Other	2	3
Total non-operating income	28	39
Non-operating expenses		
Interest expenses	14	19
Share of loss of entities accounted for using equity method	3	—
Shareholders related costs	21	30
Other	1	1
Total non-operating expenses	40	51
Ordinary profit	878	1,126
Extraordinary income		
Gain on sale of investment securities	—	13
Gain on sales of real estate for rent	4	—
Gain on sale of shares of subsidiaries and associates	76	—
Total extraordinary income	80	13
Profit before income taxes	958	1,140
Income taxes – current	123	316
Income taxes – deferred	134	23
Total income taxes	257	340
Profit	701	799
Profit attributable to non-controlling interests	5	8
Profit attributable to owners of parent	695	791

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	701	799
Other comprehensive income		
Valuation difference on available-for-sale securities	(36)	(25)
Total other comprehensive income	(36)	(25)
Comprehensive income	665	773
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	659	765
Comprehensive income attributable to non-controlling interests	5	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 effective from 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.

(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 first quarter under review were 306 million yen and 1,035,100 shares, respectively.

(Segment information, etc.)

(Segment information)

I. For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 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	4,130	377	770	126	273	5,678
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	4,130	377	770	126	273	5,678
Segment profit (loss)	345	211	343	56	58	1,014

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	7	5,685	—	5,685
Inter-segment net sales or transfers	—	—	—	—
Total	7	5,685	—	5,685
Segment profit (loss)	0	1,015	(125)	889

- (Notes) 1. "Others" include business segments that are not included in reportable segments, including sale of goods.
2. The negative 125 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 three months ended June 30, 2022 (from April 1, 2022 to June 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	4,601	437	4,533	148	304	10,024
Inter-segment net sales or transfers	—	—	—	—	—	—
Total	4,601	437	4,533	148	304	10,024
Segment profit (loss)	391	257	454	73	83	1,260

	Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
Net sales				
Net sales to outside customers	6	10,031	—	10,031
Inter-segment net sales or transfers	—	—	—	—
Total	6	10,031	—	10,031
Segment profit (loss)	1	1,261	(123)	1,138

- (Notes) 1. “Others” include business segments that are not included in reportable segments, including sale of goods.
 2. The negative 123 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 June 30, 2022	
		Year-end amount (Million yen)	Percentage (%)	1st quarter-end amount (Million yen)	Percentage (%)
Lease/Installment sales	Finance leases	53,213	34.0	53,871	33.2
	Operating leases	7,625	4.9	7,544	4.6
	Total leases	60,838	38.9	61,416	37.8
	Installment sales	20,520	13.1	21,810	13.4
	Total leases and installment sales	81,359	52.0	83,227	51.2
Finance		32,453	20.8	33,711	20.7
Real estate	Operating leases	26,545	17.0	26,631	16.4
	Other	11,247	7.2	14,399	8.9
	Total real estate	37,792	24.2	41,031	25.3
Environmental solutions		4,675	3.0	4,547	2.8
Total		156,280	100.0	162,517	100.0