

Financial Results for the Second Quarter of the Year Ending March 31, 2023 [J-GAAP] (Consolidated)

Company Name: AIRPORT FACILITIES CO., LTD. (AFC)
 Stock Exchange Listed on: Tokyo Stock Exchange (Prime Market)
 Company Code: 8864 URL: <https://www.afc.jp/english/>
 Representative: Toshiaki Norita, President & CEO
 Inquiries: Takahiro Hama, Executive Officer, General Manager of Accounting Dept. TEL: +81-3-3747-0251
 The Date of Filing the Quarterly Securities Report: November 1, 2022
 The Date of the Dividend Payment Start: November 25, 2022
 Preparation of Quarterly Earnings Presentation Material: Yes
 Holding of Quarterly Earnings Announcement: Yes (for analysts)

(Figures are rounded off to the nearest million yen.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 2023 (April 1, 2022 - September 30, 2022)

(1) Consolidated Business Results (Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First six months ended								
September 30, 2022	12,715	6.6	1,807	(12.8)	1,699	(13.6)	1,297	(0.8)
September 30, 2021	11,922	(2.1)	2,073	(7.8)	1,968	(8.5)	1,308	34.5

(Note) Comprehensive income: First six months ended September 30, 2022: 2,568 million yen 40.2%
 First six months ended September 30, 2021: 1,831 million yen 108.5%

	Basic earnings per share	Diluted earnings per share
First six months ended	Yen	Yen
September 30, 2022	25.95	25.89
September 30, 2021	26.20	26.11

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2022	103,186	57,511	53.2	1,097.53
As of March 31, 2022	102,468	55,306	51.4	1,055.28

(Reference) Equity capital: As of September 30, 2022: 54,918 million yen As of March 31, 2022: 52,701 million yen

2. Dividends

	Dividends per share				
	Q1	Q2	Q3	Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2022	—	7.00	—	7.00	14.00
FY ending March 31, 2023	—	7.00			
FY ending March 31, 2023 (Forecasts)			—	7.00	14.00

(Note) Changes in the latest forecasts released: No

3. Forecast of Consolidated Earnings for the Year Ending March 2023 (April 1, 2022 - March 31, 2023)

(Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	24,443	2.8	2,083	(36.4)	1,597	(46.0)	1,310	59.5	26.23

(Note) Changes in the latest forecasts released: No

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No

(2) Application of specific accounting treatments in preparing the quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes on Quarterly Consolidated Financial Statements (Application of Specific Accounting Treatments in Preparing the Quarterly Consolidated Financial Statements)” on page 9.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

1) Changes in accounting policies with revision of accounting standards, etc.: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: Yes

4) Restatement of revisions: No

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Policies) and (Changes in accounting estimates)” on page 9.

(4) Number of issued shares (common shares)

1) Number of issued shares (including treasury stock)	As of September 30, 2022:	52,979,350 shares	As of March 31, 2022:	52,979,350 shares
2) Number of treasury stock	As of September 30, 2022:	2,941,589 shares	As of March 31, 2022:	3,038,541 shares
3) Average number of shares during the period	First six months ended September 30, 2022:	49,989,263 shares	First six months ended September 30, 2021:	49,925,991 shares

* Financial Results report is outside the scope of a quarterly review by certified public accountants or an audit corporation.

* Explanation of the proper use of earnings forecasts and other special notes

The statements about future described on this report such as earnings forecasts have been made based on information currently available and some conditions that we judge rational, and therefore they do not constitute a guarantee that they will be realized. Actual earnings may differ greatly from the above forecasts for various reasons. For the assumptions for earnings forecasts and cautions regarding the use of the earnings forecasts, please refer to page 4 “1. Qualitative Information on Consolidated Financial Results for the Quarter Ended September 30, 2022 (3) Qualitative Information on Consolidated Earnings Forecast”.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended September 30, 2022

(1) Explanation about Business Results

During the six months ended September 30, 2022, the Japanese economy continued to be on a recovery trend although a downward trend was seen in certain areas due to the spread of COVID-19. Meanwhile, there is a risk that the overseas economic downturn caused mainly by global monetary tightening might put downward pressure on the Japanese economy, and there are also other factors requiring close monitoring such as effects of surging prices and supply constraints due to the weakening yen and the prolonged Ukraine crisis.

In the aviation industry, passenger demand for both domestic and international flights during Obon holiday season increased year-on-year as there were no movement restrictions and the border control was eased despite the number of COVID-19 cases hitting a record high. Subsequently, the government raised the upper limit of daily entrants in early September, and in mid-October, removed the upper limit, allowed short-term stay without a visa, resumed accepting individual travelers and launched a domestic tourism subsidy program. Passenger demand is expected to continue recovering with the easing of the border control and the progress in various initiatives aimed at the economic growth.

Under such economic conditions, the Group (the Company and its consolidated subsidiaries) recorded net sales of ¥12,715 million (up 6.6% from the same period of the previous fiscal year) mainly because there was no debt forgiveness of rent receivables from airline companies which was recorded as part of the measures under the COVID-19 crisis in the fiscal year ended March 31, 2022 and there were also a year-on-year increase in sales volume in the Area Heating & Cooling Business and a continued recovery trend in water supply and drainage usage. Operating income was ¥1,807 million (down 12.8%) due to increases in amortization related to asset retirement obligations associated with the start of the Haneda Airport 1-Chome project and in raw material costs in the Area Heating & Cooling Business. Ordinary income was ¥1,699 million (down 13.6%) due to an increase in provision for removal cost related to various constructions although there were a gain recorded in relation to the settlement of fixed real estate acquisition tax and an increase in dividend income. Profit attributable to owners of parent was ¥1,297 million (down 0.8%) mainly due to extraordinary income recorded in relation to amended tax returns of corporate tax and consumption taxes for the year ended March 31, 2022.

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥9,827 million (up 3.8% from the same period of the previous fiscal year) mainly because there was no debt forgiveness of rent receivables as part of the measures under the COVID-19 crisis, but operating income was ¥1,469 million (down 14.1%) due to an increase in amortization related to asset retirement obligations.

(ii) Area Heating & Cooling Business

Area Heating & Cooling Business operated by our consolidated subsidiary Tokyo Airport Heating & Cooling Co., Ltd. recorded net sales of ¥1,769 million (up 19.3% from the same period of the previous fiscal year) mainly because there was no debt forgiveness of rent receivables from airline companies as part of the measures under the COVID-19 crisis and sales volume in both heating and cooling increased year-on-year. On the other hand, a significant increase in raw material costs due to surging electricity/gas prices resulted in a year-on-year decrease in operating income to ¥256 million (down 27.1%).

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business showed a recovery trend in water supply and drainage usage compared to a year earlier when COVID-19 movement restrictions were in place as no movement restrictions were issued and the number of airport users increased despite the spread of COVID-19 during the summer. As a result, net sales including other businesses amounted to ¥1,118 million (up 14.4% from the same period of the previous fiscal year) and operating income amounted to ¥81 million (up 645.7%).

In terms of our efforts toward the realization of the Medium- to Long-Term Management Plan, we established “AFC Asset Management Co., LTD.,” a subsidiary to pursue one of the priority measures to expand non-asset businesses and started operation in June 2022. Also, as an effort to expand into new business domains, we signed an investment agreement with an aviation fund in early July 2022. The Group will continue to make a united effort to promote its business activities.

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of September 30, 2022 amounted to ¥103,186 million, an increase by ¥718 million compared to March 31, 2022, mainly due to recording prepaid expenses for annual usage fee of national property and an increase in operating loans receivable from new loans despite amortization of assets related to asset retirement obligations.

(Liabilities)

Liabilities as of September 30, 2022 amounted to ¥45,675 million, a decrease by ¥1,486 million from March 31, 2022, mainly due to payments of long-term debt.

(Net assets)

Net assets as of September 30, 2022 increased by ¥2,204 million compared to March 31, 2022 to ¥57,511 million mainly due to an increase in retained earnings and foreign currency translation adjustment.

As a result, equity ratio as of September 30, 2022 increased by 1.8 points to 53.2% compared to March 31, 2022.

(3) Qualitative Information on Consolidated Earnings Forecast

There is no change in the Consolidated Earnings Forecast for the Year Ending March 31, 2023 which was announced on June 9, 2022 as stated in the “Announcement on Variance Between Forecast and Actual Results for the Six Months Ended September 30, 2022” (Japanese version only) separately released today.

We will promptly make an announcement when it becomes necessary to review the forecast.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY3/22 (As of March 31, 2022)	Second Quarter of FY3/23 (As of September 30, 2022)
Assets		
Current assets		
Cash and deposits	9,612,726	7,096,821
Accounts receivable - trade	1,303,500	1,354,790
Lease receivables and investment assets	10,548,425	11,318,904
Operating loans	2,999,771	4,492,391
Raw materials and supplies	15,817	14,377
Others	103,617	2,680,772
Total current assets	24,583,859	26,958,057
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,660,935	45,722,486
Machinery, equipment and vehicles, net	5,853,495	5,553,448
Tools, furniture and fixtures, net	260,775	223,755
Land	13,386,664	13,386,664
Construction in progress	1,523,927	1,993,727
Total property, plant and equipment	68,685,798	66,880,083
Intangible assets		
Software	544,968	479,165
Others	19,310	19,059
Total intangible assets	564,279	498,225
Investments and other assets		
Investment securities	6,555,547	6,922,049
Long-term loans receivable	531	—
Deferred tax assets	1,240,345	1,145,900
Net defined benefit asset	232,963	211,195
Others	614,955	581,471
Allowance for doubtful accounts	(10,267)	(10,267)
Total investments and other assets	8,634,077	8,850,350
Total non-current assets	77,884,155	76,228,659
Total assets	102,468,014	103,186,717

(Thousands of yen)

	FY3/22 (As of March 31, 2022)	Second Quarter of FY3/23 (As of September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,778,043	830,001
Short-term loans payable	5,131,648	5,852,145
Accounts payable	1,705,873	638,715
Income taxes payable	813,465	642,150
Accrued expenses	106,714	645,798
Unearned revenue	1,095,026	2,438,055
Provision for bonuses	144,825	145,725
Provision for bonuses for directors (and other officers)	51,880	15,700
Provision for removal cost of property, plant and equipment	7,605	223,977
Others	216,114	238,935
Total current liabilities	11,051,197	11,671,204
Non-current liabilities		
Bonds payable	6,100,000	6,100,000
Long-term loans payable	19,524,613	17,560,413
Long-term guarantee deposited	6,127,603	6,155,025
Long-term accounts payable-other	256,789	184,349
Provision for retirement benefits for directors (and other officers)	—	348
Deferred tax liabilities	31,968	37,635
Provision for removal cost of property, plant and equipment	183,851	80,951
Asset retirement obligations	3,885,762	3,885,762
Total non-current liabilities	36,110,587	34,004,483
Total liabilities	47,161,785	45,675,687
Net assets		
Shareholders' equity		
Capital stock	6,826,100	6,826,100
Capital surplus	6,982,890	6,982,890
Retained earnings	38,799,813	39,743,590
Treasury stock	(1,683,721)	(1,630,008)
Total shareholders' equity	50,925,081	51,922,571
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,714,018	1,928,015
Foreign currency translation adjustment	62,452	1,067,468
Total accumulated other comprehensive income	1,776,471	2,995,484
Subscription rights to shares	76,178	50,330
Non-controlling interests	2,528,497	2,542,642
Total net assets	55,306,229	57,511,029
Total liabilities and net assets	102,468,014	103,186,717

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income**(Quarterly Consolidated Statements of Income)**

(Thousands of yen)

	First six months of FY3/22 (April 1, 2021 – September 30, 2021)	First six months of FY3/23 (April 1, 2022 – September 30, 2022)
Net sales	11,922,990	12,715,504
Cost of sales	8,736,994	9,815,318
Gross profit	3,185,996	2,900,186
Selling, general, and administrative expenses		
Directors' compensations	128,451	121,485
Salaries and bonuses	266,995	271,993
Provision for bonuses	101,728	95,140
Provision for bonuses for directors (and other officers)	28,880	15,700
Provision for retirement benefits for directors (and other officers)	—	348
Transportation and communication expenses	31,758	37,088
Depreciation	34,802	50,950
Taxes and dues	88,871	95,566
Others	430,911	404,786
Total selling, general, and administrative expenses	1,112,399	1,093,058
Operating income	2,073,597	1,807,127
Non-operating income		
Interest income	0	0
Dividends income	34,800	66,107
Commission fee	4,537	9,996
Foreign exchange gains	1,162	2,613
Others	21,962	87,211
Total non-operating income	62,464	165,929
Non-operating expenses		
Interest expenses	161,066	143,811
Removal cost of property, plant and equipment	5,332	7,264
Provision for removal cost	—	121,077
Others	1,071	1,175
Total non-operating expenses	167,470	273,328
Ordinary income	1,968,591	1,699,729
Extraordinary income		
Gain on sale of investment securities	59,580	—
Consumption taxes refund	—	315,363
Others	—	19,983
Total extraordinary income	59,580	335,347
Extraordinary loss		
Loss on retirement of non-current assets	2,332	1,954
Loss on cancellation of golf club membership	—	3,000
Total extraordinary loss	2,332	4,954
Income before income taxes	2,025,839	2,030,122
Income taxes	638,351	580,056
Income taxes for prior periods	—	100,174
Total income taxes	638,351	680,231
Profit	1,387,487	1,349,890
Profit attributable to non-controlling interests	79,404	52,474
Profit attributable to owners of parent	1,308,083	1,297,416

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First six months of FY3/22 (April 1, 2021 – September 30, 2021)	First six months of FY3/23 (April 1, 2022 – September 30, 2022)
Profit	1,387,487	1,349,890
Other comprehensive income		
Valuation difference on available-for-sale securities	109,879	213,997
Foreign currency translation adjustment	334,072	1,005,016
Total other comprehensive income	443,952	1,219,013
Comprehensive income	1,831,439	2,568,903
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,752,035	2,516,429
Comprehensive income attributable to non-controlling interests	79,404	52,474

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of the accounting standard for revenue recognition)

On April 1, 2022, the Company applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, June 17, 2021, "Implementation Guidance on Accounting Standard for Fair Value Measurement"), and the new accounting policies stipulated in the Implementation Guidance on Accounting Standard for Fair Value Measurement, etc. are applied prospectively pursuant to the transitional treatment stipulated by Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. The impact of this application on the quarterly consolidated financial statements is insignificant.

(Changes in Accounting Estimates)

(Change in useful life)

As it was decided that the disaster risk management measures in the 1-chome District of Tokyo International Airport will progress based on the Fundamental Plan for National Resilience under the Basic Act for National Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry, the useful lives of the Company's buildings, machinery and equipment on the area were shortened effective April 1, 2022 to complete depreciation of these assets within the estimated remaining useful lives.

As a result of this change, operating income, ordinary income, and income before income taxes for the six months ended September 30, 2022 decreased by ¥92 million compared to those that would have been recorded under the previous method.

(Application of Specific Accounting Treatments in Preparing the Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

Tax expenses are calculated as income before income taxes for the period multiplied by the estimated effective tax rate. The effective tax rate is reasonably estimated taking into consideration deferred tax accounting as the rate applicable to income before income taxes for the consolidated fiscal year including the period ended September 30, 2022.

(Additional Information)

(Impacts of COVID-19 on the accounting estimates)

During the six months ended September 30, 2022, there was no material change in the impact of COVID-19 on the accounting estimates described in the Annual Securities Report for the year ended March 31, 2022.