January 30, 2020

Financial Results for the Third Quarter of the Year Ending March 31, 2020 [J-GAAP] (Consolidated)

Company name: AIRPORT FACILITIES CO., LTD. (AFC)
Stock exchange listed on: Tokyo Stock Exchange (First Section)
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The date of filing the quarterly securities report: February 3, 2020
The date of the dividend payment start: -
Preparation of quarterly earnings presentation material: No
Holding of quarterly earnings announcement: No

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 2020 (April 1, 2019 - December 31, 2019)

(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	
First nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2019	18,619	2.6	3,647	10.3	3,547	25.5	2,206	21.3
December 31, 2018	18,137	6.7	3,304	2.7	2,824	(4.8)	1,818	2.8

(Note) Comprehensive income: First nine months ended December 31, 2019: 2,317 million yen (43.3 %)
First nine months ended December 31, 2018: 1,616 million yen ((43.7%))

	Basic earnings per share	Diluted earnings per share
First nine months ended	Yen	Yen
December 31, 2019	44.30	44.14
December 31, 2018	36.53	36.38

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	104,633	57,348	52.4	1,100.81
As of March 31, 2019	101,384	55,740	52.6	1,072.90

(Reference) Equity capital: As of December 31, 2019: 54,867 million yen As of March 31, 2019: 53,387 million yen

2. Dividends

	Dividends per share				
	Q1	Q2	Q3	Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2019	―	7.00	―	7.00	14.00
FY ending March 31, 2020	―	7.00	―		
FY ending March 31, 2020 (Forecasts)				7.00	14.00

(Note) Changes in the latest forecasts released: No

3. Forecast of Consolidated Earnings for the Year Ending March 2020 (April 1, 2019 - March 31, 2020)

(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	24,780	2.2	4,170	0.8	3,710	11.2	2,320	10.2	46.62

(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. : No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Restatement of revisions: No

(4) Number of issued shares (common shares)

1) Number of issued shares (including treasury stock)	As of December 31, 2019:	52,979,350 shares	As of March 31, 2019:	52,979,350 shares
2) Number of treasury stock	As of December 31, 2019:	3,136,206 shares	As of March 31, 2019:	3,219,779 shares
3) Average number of shares during the period	First nine months ended December 31, 2019:	49,799,714 shares	First nine months ended December 31, 2018:	49,758,278 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

(Remarks on forward-looking statements)

The statements about future described on this report such as earnings forecasts have been made based on information currently available and certain assumptions considered reasonable, and it is not intended to assure that we will achieve such results. Actual earnings may differ significantly 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 "1. Qualitative Information on Consolidated Financial Results for the Quarter Ended December 31, 2019 (3) Qualitative Information on Consolidated Earnings Forecast" on page 4.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended December 31, 2019

(1) Explanation about Business Results

During the nine months ended December 31, 2019, the Japanese economy continued to recover gradually supported by a pickup of personal consumption and steady growth in capital investment under the continuing monetary easing policy by the Bank of Japan, despite a consumption tax hike in October and repeated typhoons causing serious damages. The global economy also continued to show gradual recovery due to the robust U.S. economy and the trade agreement signed by the U.S. and Chinese governments easing tensions between the two countries although there were concerns over significant slowdown of the global economy at one point as the U.S.-China trade friction resulted in stagnant export and production in China and Europe. As for the future outlook, there are concerns over the impact on the Japanese economy of factors including growing tensions in the Middle East caused by the escalating U.S.-Iran conflict and the outbreak of novel coronavirus which started in China, in addition to the U.S.-China trade friction whose outlook remains uncertain, the slowdown of the Chinese economy, and a delay in improvement of Japan-Korea relations.

In the aviation industry, the number of passengers showed steady growth particularly due to a strong demand for international flights from inbound visitors from China and Southeast Asia which made up for a drop in visitors from Korea as well as the impact of cancellations of domestic flights due to Typhoon Hagibis (No. 19) in October. As a result, the number of inbound visitors in 2019 exceeded 31.8 million, marking the eighth consecutive year of growth.

In the run-up to the 2020 Tokyo Olympic and Paralympic Games to be held this summer, Tokyo International Airport is working on the functional enhancement from March 2020, including an increase in annual international arrival and departure slots by 39 thousand, to meet the government-set target number of inbound visitors in 2020 of 40 million. In addition, efforts to attract foreign visitors to regional airports are also in progress toward further demand stimulation of inbound visitors.

Amid concerns over unstable movement of crude oil prices and exchange rate fluctuations, airline companies are continuing to work on such efforts as implementing advanced equipment, expanding network, and enhancing LCC business. Furthermore, their urgent tasks include increasing training facilities for crews and the number of staffs that are currently insufficient, as well as securing aircraft equipment warehouses, employee dormitories, and in-flight meal factories, and the Company also intends to address these issues.

Under such economic conditions, the Group (the Company and its consolidated subsidiaries) recorded net sales of ¥18,619 million (up 2.6% from the same period of the previous year) due to full-year operation of the hotel in Kyoto acquired in 2018, the launch of the business that leases training planes to Civil Aviation College, and a start of leasing new facilities. Operating income was ¥3,647 million (up 10.3%) due to an absence of taxes and dues associated with the acquisition of the hotel. Also, due to an absence of bond issuance cost and provision for removal cost which were recorded in non-operating expenses in the previous fiscal year, ordinary income was ¥3,547 million (up 25.5%). Although the Company recorded nonrecurring loss related to Typhoon damage and the water supply disruptions at Tokyo International Airport during the period, its impact on the financial results was insignificant, and accordingly profit attributable to owners of parent increased to ¥2,206 million (up 21.3%), showing steady growth.

With regard to the water supply disruptions at the Tokyo International Airport Passenger Terminal No. 2 in early November, the aviation authority established a committee that is currently investigating the cause, and the Company is fully cooperating with the committee and taking adequate measures.

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥14,003 million (up 3.4% from the same period of the previous fiscal year) due to an improved tenant occupancy ratio in Tokyo International Airport, a revision of the agreements to raise rents for certain existing facilities, full-year operation of the hotel in Kyoto whose lease started in late June in 2018, start of leasing training planes to Civil Aviation College in April 2019, start of leasing the new extended hangar at Kobe Airport and an aircraft equipment warehouse completed in December. Operating income was ¥2,654 million (up 10.9%).

(ii) Area Heating & Cooling Business

Net sales of Area Heating & Cooling Business operated by our consolidated subsidiary Tokyo Airport Heating & Cooling Co., Ltd. remained almost unchanged year-on-year at ¥2,433 million (up 0.1% from the same period of the previous fiscal year). Operating income was ¥751 million (up 9.9%) due to reduction of repair expenses and raw material costs, despite an increase in depreciation of boiler equipment that was renewed in 2018.

(iii) Water Supply & Drainage Service and Other Business

Net sales of Water Supply & Drainage Service and Other Business remained almost unchanged year-on-year at ¥2,182 million (up 0.7 % from the same period of the previous fiscal year) due to a rebound in demand for water supply and drainage service at New Chitose Airport from the decline after the earthquake in September 2018 and an increase in use of exclusive lines in shared telecommunications network service, despite a decrease in water supply for constructions at Tokyo International Airport. Operating income was ¥240 million (up 5.2%).

(2) Qualitative Information on Consolidated Financial Position

(Assets)

Total assets as of December 31, 2019 amounted to ¥104,633 million, an increase by ¥3,248 million compared to March 31, 2019, due to the completion of the extension of a hangar at Kobe Airport and the construction of an aircraft equipment warehouse, an increase in construction in progress associated with the extension or reconstruction of in-flight meal factory in ARC Building at Tokyo International Airport completed in January 2020 and the construction of an aircraft sewage treatment facility (SD plant) to be completed in March 2020, and an additional investment in Haneda Innovation City in Zone 1 of the Former Haneda Airport Ground.

(Liabilities)

Liabilities as of December 31, 2019 amounted to ¥47,284 million, an increase by ¥1,639 million compared to March 31, 2019, due to an increase in accounts payable associated with acquisition of assets, in addition to an increase in long-term loans payable.

(Net assets)

Net assets as of December 31, 2019 increased by ¥1,608 million compared to March 31, 2019 to ¥57,348 million mainly due to an increase in retained earnings.

As a result, equity ratio as of December 31, 2019 decreased by 0.2 points to 52.4% compared to March 31, 2019.

(3) Qualitative Information on Consolidated Earnings Forecast

Although both sales and profits for the nine months ended December 31, 2019 exceeded the forecast, we do not revise at this point the Consolidated Earnings Forecast for the Year Ending March 31, 2020 announced in the Financial Results for the Year Ended March 31, 2019 [J-GAAP] dated May 10, 2019, because the future repair expenses, etc. are uncertain.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	FY3/19 (As of March 31, 2019)	Third quarter of FY3/20 (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	4,324,573	5,898,695
Notes and accounts receivable-trade	1,208,590	1,229,474
Securities	1,500,000	—
Lease receivables and investment assets	6,600,080	7,231,789
Operating loans	5,741,839	4,851,709
Raw materials and supplies	12,908	11,972
Others	1,456,944	786,240
Total current assets	20,844,937	20,009,881
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,359,577	46,977,364
Machinery, equipment and vehicles, net	5,395,693	5,444,898
Tools, furniture and fixtures, net	568,807	463,248
Land	14,596,026	14,902,098
Construction in progress	3,299,425	5,163,898
Total property, plant and equipment	71,219,530	72,951,508
Intangible assets		
Software	27,023	29,920
Software in progress	—	223,711
Others	14,906	14,793
Total intangible assets	41,929	268,426
Investments and other assets		
Investment securities	7,671,946	8,303,591
Long-term loans receivable	1,732	1,432
Deferred tax assets	320,447	282,469
Net defined benefit asset	203,945	174,017
Others	1,090,548	2,652,331
Allowance for doubtful accounts	(10,267)	(10,267)
Total investments and other assets	9,278,352	11,403,575
Total non-current assets	80,539,812	84,623,510
Total assets	101,384,749	104,633,392

(Thousands of yen)

	FY3/19 (As of March 31, 2019)	Third quarter of FY3/20 (As of December 31, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,532,544	633,813
Short-term loans payable	5,974,226	6,646,303
Accounts payable	1,064,205	1,862,140
Income taxes payable	557,004	615,170
Accrued expenses	109,744	92,190
Unearned revenue	1,045,001	1,675,031
Provision for bonuses	131,094	64,419
Provision for bonuses for directors (and other officers)	30,058	13,357
Provision for removal cost of property, plant and equipment	364,598	395,433
Others	384,329	346,577
Total current liabilities	11,192,806	12,344,436
Non-current liabilities		
Bonds payable	6,000,000	6,000,000
Long-term loans payable	21,729,366	22,443,607
Long-term guarantee deposited	5,915,755	5,939,687
Long-term accounts payable-other	476,128	319,253
Provision for retirement benefits for directors (and other officers)	1,044	2,088
Deferred tax liabilities	6,379	6,622
Provision for removal cost of property, plant and equipment	323,237	190,804
Others	—	37,965
Total non-current liabilities	34,451,910	34,940,028
Total liabilities	45,644,717	47,284,465
Net assets		
Shareholders' equity		
Capital stock	6,826,100	6,826,100
Capital surplus	6,982,890	6,982,890
Retained earnings	38,777,424	40,286,954
Treasury stock	(1,784,131)	(1,737,829)
Total shareholders' equity	50,802,282	52,358,114
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,817,756	2,903,807
Foreign currency translation adjustment	(232,638)	(394,019)
Total accumulated other comprehensive income	2,585,117	2,509,788
Subscription rights to shares	113,808	94,722
Non-controlling interests	2,238,823	2,386,300
Total net assets	55,740,032	57,348,926
Total liabilities and net assets	101,384,749	104,633,392

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

(Quarterly Consolidated Statements of Income)

(Thousands of yen)

	First nine months of FY3/19 (April 1, 2018 – December 31, 2018)	First nine months of FY3/20 (April 1, 2019 – December 31, 2019)
Net sales	18,137,005	18,619,289
Cost of sales	13,332,244	13,464,637
Gross profit	4,804,760	5,154,652
Selling, general, and administrative expenses		
Remuneration for directors (and other officers)	252,679	243,826
Salaries and bonuses	417,473	449,443
Provision for bonuses	39,150	40,191
Provision for bonuses for directors (and other officers)	15,029	13,357
Provision for retirement benefits for directors (and other officers)	1,044	1,044
Transportation and communication expenses	80,608	74,017
Depreciation	21,321	19,940
Taxes and dues	132,400	127,895
Others	540,352	537,744
Total selling, general, and administrative expenses	1,500,058	1,507,459
Operating income	3,304,701	3,647,192
Non-operating income		
Interest income	0	0
Dividends income	171,384	175,543
Commission fee	13,844	21,861
Foreign exchange gains	53,905	33,950
Others	60,521	37,275
Total non-operating income	299,656	268,631
Non-operating expenses		
Interest expenses	312,119	315,255
Removal cost of property, plant and equipment	31,050	48,879
Provision for removal cost	316,524	—
Bond issuance cost	119,788	—
Others	—	4,627
Total non-operating expenses	779,481	368,761
Ordinary income	2,824,876	3,547,062
Extraordinary income		
Insurance income	5,703	15,653
Others	—	6,839
Total extraordinary income	5,703	22,493
Extraordinary loss		
Loss on retirement of non-current assets	4,289	0
Nonrecurring loss	—	31,013
Loss on disaster	3,581	47,777
Total extraordinary loss	7,870	78,790
Income before income taxes	2,822,708	3,490,764
Income taxes	871,241	1,098,339
Profit	1,951,467	2,392,425
Profit attributable to non-controlling interests	133,380	185,805
Profit attributable to owners of parent	1,818,087	2,206,619

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First nine months of FY3/19 (April 1, 2018 – December 31, 2018)	First nine months of FY3/20 (April 1, 2019 – December 31, 2019)
Profit	1,951,467	2,392,425
Other comprehensive income		
Valuation difference on available-for-sale securities	(264,166)	86,051
Foreign currency translation adjustment	(70,574)	(161,380)
Total other comprehensive income	(334,740)	(75,328)
Comprehensive income	1,616,727	2,317,096
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,483,346	2,131,290
Comprehensive income attributable to non-controlling interests	133,380	185,805

(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)

Not applicable.

(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 December 31, 2019.