

Financial Results for the Third 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/>
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 The Date of Filing the Quarterly Securities Report: February 1, 2023
 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 2023 (April 1, 2022 - December 31, 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 nine months ended								
December 31, 2022	19,039	7.2	2,596	(15.1)	2,424	(15.9)	2,287	20.0
December 31, 2021	17,748	(2.1)	3,061	(9.1)	2,883	(10.8)	1,905	19.5

(Note) Comprehensive income: First nine months ended December 31, 2022: 4,031 million yen 89.7%
 First nine months ended December 31, 2021: 2,125 million yen 18.0%

	Basic earnings per share	Diluted earnings per share
First nine months ended	Yen	Yen
December 31, 2022	45.73	45.63
December 31, 2021	38.15	38.02

(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, 2022	101,669	58,623	55.0	1,119.22
As of March 31, 2022	102,468	55,306	51.4	1,055.28

(Reference) Equity capital: As of December 31, 2022: 56,003 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	25,277	6.3	1,968	(40.0)	1,522	(48.6)	2,078	152.9	41.56

(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 December 31, 2022:	52,979,350 shares	As of March 31, 2022:	52,979,350 shares
2) Number of treasury stock	As of December 31, 2022:	2,941,589 shares	As of March 31, 2022:	3,038,541 shares
3) Average number of shares during the period	First nine months ended December 31, 2022:	50,005,429 shares	First nine months ended December 31, 2021:	49,930,940 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 December 31, 2022 (3) Qualitative Information on Consolidated Earnings Forecast”.

1. Qualitative Information on Consolidated Financial Results for the Quarter Ended December 31, 2022

(1) Explanation about Business Results

During the nine months ended December 31, 2022, the Japanese economy continued to be on a gradual recovery trend despite the impact of 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 partial revision by the Bank of Japan to its monetary easing policy and its effects on surging prices, supply constraints, and fluctuations in the financial and capital markets.

In the aviation industry, while the number of visitors to Japan is taking an upturn after the government substantially eased various border controls in October 2022, the recovery in the international flights is expected to take some time due to the slow pace of recovery in the number of travelers from China and outbound tourism demand. Domestic flights showed a year-on-year increase in demand during the New Year holiday season as tourism demand was put on a recovery track with the domestic tourism subsidy program by the government and also no tight movement restrictions were imposed despite the continuing high number of COVID-19 cases. Passenger demand is expected to continue recovering with the easing of the border control and further 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 ¥19,039 million (up 7.2% 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 ¥2,596 million (down 15.1%) 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 ¥2,424 million (down 15.9%) 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 ¥2,287 million (up 20.0%) mainly due to extraordinary income recorded in relation to the filing of amended returns for corporate tax and consumption taxes for the year ended March 31, 2021 and the estimated effective tax rate reflecting the estimated decrease in tax expense as a result of the conclusion of the sales agreement for rental properties for hotels in Kyoto.

Performance by business segment is as follows:

(i) Real Estate Business

Real Estate Business recorded net sales of ¥14,767 million (up 4.5% 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 ¥2,091 million (down 17.2%) 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 ¥2,556 million (up 18.7% 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 ¥383 million (down 27.9%).

(iii) Water Supply & Drainage Service and Other Business

Water Supply & Drainage Service and Other Business continued to show a recovery trend in water supply and drainage usage compared to a year earlier with an increase in the number of airport users as no movement restrictions were issued in the current fiscal year despite the spread of COVID-19. Net sales including other businesses amounted to ¥1,715 million (up 16.6% from the same period of the previous fiscal year) and operating income amounted to ¥121 million (¥2 million for the same period of the previous fiscal year).

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 December 31, 2022 amounted to ¥101,669 million, a decrease by ¥798 million compared to March 31, 2022, mainly due to amortization related to asset retirement obligations despite recording prepaid expenses for annual usage fee of national property and an increase in operating loans receivable from new loans.

(Liabilities)

Liabilities as of December 31, 2022 amounted to ¥43,045 million, a decrease by ¥4,116 million from March 31, 2022, mainly due to payments of long-term loans payable.

(Net assets)

Net assets as of December 31, 2022 increased by ¥3,317 million compared to March 31, 2022 to ¥58,623 million mainly due to an increase in retained earnings and foreign currency translation adjustment.

As a result, equity ratio as of December 31, 2022 increased by 3.6 points to 55.0% 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 in “Announcement on Revision to Full-Year Consolidated Earnings Forecast” (Japanese version only) dated November 24, 2022 as we expect increases in raw material costs associated with heating demand in the winter and in repair expenses related to various constructions and periodic maintenance during the three months ending March 31, 2023.

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)	Third Quarter of FY3/23 (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	9,612,726	7,375,614
Accounts receivable - trade	1,303,500	1,367,283
Lease receivables and investment assets	10,548,425	11,306,545
Operating loans	2,999,771	4,599,412
Raw materials and supplies	15,817	11,569
Others	103,617	1,773,258
Total current assets	24,583,859	26,433,685
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,660,935	44,800,131
Machinery, equipment and vehicles, net	5,853,495	5,399,419
Tools, furniture and fixtures, net	260,775	206,154
Land	13,386,664	13,386,664
Construction in progress	1,523,927	1,993,727
Total property, plant and equipment	68,685,798	65,786,097
Intangible assets		
Software	544,968	445,472
Others	19,310	18,933
Total intangible assets	564,279	464,406
Investments and other assets		
Investment securities	6,555,547	7,124,136
Long-term loans receivable	531	—
Deferred tax assets	1,240,345	1,081,430
Net defined benefit asset	232,963	200,311
Others	614,955	589,321
Allowance for doubtful accounts	(10,267)	(10,267)
Total investments and other assets	8,634,077	8,984,931
Total non-current assets	77,884,155	75,235,436
Total assets	102,468,014	101,669,121

(Thousands of yen)

	FY3/22 (As of March 31, 2022)	Third Quarter of FY3/23 (As of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,778,043	779,437
Short-term loans payable	5,131,648	5,849,975
Accounts payable	1,705,873	436,510
Income taxes payable	813,465	92,588
Accrued expenses	106,714	77,392
Unearned revenue	1,095,026	1,793,392
Provision for bonuses	144,825	96,162
Provision for bonuses for directors (and other officers)	51,880	23,550
Provision for removal cost of property, plant and equipment	7,605	218,342
Others	216,114	557,719
Total current liabilities	11,051,197	9,925,068
Non-current liabilities		
Bonds payable	6,100,000	6,100,000
Long-term loans payable	19,524,613	16,673,239
Long-term guarantee deposited	6,127,603	6,166,020
Long-term accounts payable-other	256,789	184,349
Provision for retirement benefits for directors (and other officers)	—	696
Deferred tax liabilities	31,968	37,564
Provision for removal cost of property, plant and equipment	183,851	72,571
Asset retirement obligations	3,885,762	3,885,762
Total non-current liabilities	36,110,587	33,120,203
Total liabilities	47,161,785	43,045,272
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	40,382,914
Treasury stock	(1,683,721)	(1,630,008)
Total shareholders' equity	50,925,081	52,561,896
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,714,018	2,074,095
Foreign currency translation adjustment	62,452	1,367,565
Total accumulated other comprehensive income	1,776,471	3,441,660
Subscription rights to shares	76,178	50,330
Non-controlling interests	2,528,497	2,569,962
Total net assets	55,306,229	58,623,849
Total liabilities and net assets	102,468,014	101,669,121

**(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 FY3/22 (April 1, 2021 – December 31, 2021)	First nine months of FY3/23 (April 1, 2022 - December 31, 2022)
Net sales	17,748,157	19,039,511
Cost of sales	13,118,464	14,874,533
Gross profit	4,629,693	4,164,977
Selling, general, and administrative expenses		
Directors' compensations	199,602	177,699
Salaries and bonuses	473,335	483,207
Provision for bonuses	59,338	66,882
Provision for bonuses for directors (and other officers)	37,440	23,550
Provision for retirement benefits for directors (and other officers)	—	696
Transportation and communication expenses	49,332	54,657
Depreciation	62,012	76,427
Taxes and dues	127,292	98,104
Others	560,234	586,808
Total selling, general, and administrative expenses	1,568,587	1,568,032
Operating income	3,061,106	2,596,944
Non-operating income		
Interest income	0	0
Dividends income	45,291	76,668
Commission fee	5,911	13,857
Foreign exchange gains	2,048	4,765
Others	32,491	105,683
Total non-operating income	85,744	200,976
Non-operating expenses		
Interest expenses	237,440	216,130
Removal cost of property, plant and equipment	25,096	49,305
Provision for removal cost	—	107,062
Others	1,123	1,175
Total non-operating expenses	263,660	373,673
Ordinary income	2,883,190	2,424,247
Extraordinary income		
Gain on sale of investment securities	59,580	11,721
Consumption taxes refund	—	315,363
Others	4,927	21,299
Total extraordinary income	64,507	348,384
Extraordinary loss		
Loss on retirement of non-current assets	2,332	1,978
Loss on cancellation of golf club membership	—	3,000
Total extraordinary loss	2,332	4,978
Income before income taxes	2,945,365	2,767,654
Income taxes	919,853	300,680
Income taxes for prior periods	—	100,174
Total income taxes	919,853	400,855
Profit	2,025,512	2,366,799
Profit attributable to non-controlling interests	120,481	79,794
Profit attributable to owners of parent	1,905,030	2,287,005

(Quarterly Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	First nine months of FY3/22 (April 1, 2021 – December 31, 2021)	First nine months of FY3/23 (April 1, 2022 - December 31, 2022)
Profit	2,025,512	2,366,799
Other comprehensive income		
Valuation difference on available-for-sale securities	(266,230)	360,076
Foreign currency translation adjustment	366,108	1,305,112
Total other comprehensive income	99,878	1,665,189
Comprehensive income	2,125,390	4,031,988
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,004,908	3,952,194
Comprehensive income attributable to non-controlling interests	120,481	79,794

(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 nine months ended December 31, 2022 decreased by ¥138 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 December 31, 2022.

(Additional Information)

(Transfer of non-current assets)

The Company resolved at its Board of Directors meeting held on November 24, 2022 to transfer non-current assets as stated below and concluded a transfer agreement on November 30, 2022.

1. Reason for the transfer

To further improve the Company's asset efficiency and financial strength

2. Overview of the assets to be transferred

Names and locations of the assets	Current status
• THE GENERAL KYOTO Bukkoji Fuyacho	Rental properties for hotels
• THE GENERAL KYOTO Takatsuji Fuyacho	Total land area: 2,521m ²
• THE GENERAL KYOTO Bukkoji Tominokoji	Total floor area: 8,030m ²
• THE GENERAL KYOTO Takatsuji Tominokoji	
• THE GENERAL KYOTO Yamato-oji (Shimogyo-ku and Higashiyama-ku, Kyoto)	

*1 Transfer price and carrying amount is not disclosed due to the request of the transferee.

The carrying amount of the assets to be transferred is less than 30% of the Company's consolidated net assets.

*2 A trust is set up first for the assets to be transferred, and then the trust beneficiary rights will be transferred.

3. Overview of the transferee

The information on the transferee is not disclosed due to the request of the transferee. There is no important information to be noted with regard to capital, personal, transaction and related party relationships between the Company and the transferee.

4. Transfer timeline

Date of the resolution at the Board of Directors meeting: November 24, 2022

Date of agreement: November 30, 2022

Date of the asset delivery: February 28, 2023 (plan)

5. Impact on earnings

As a result of the transfer of non-current assets, gain on sale of non-current assets of ¥350 million (estimate) will be recorded as extraordinary income for the three months ending March 31, 2023.

The amount of gain on sale of non-current assets is the estimated amount calculated by deducting the carrying amount and estimated costs associated with the transfer from the transfer price.

(Impacts of COVID-19 on the accounting estimates)

During the nine months ended December 31, 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.