



Nine-month Consolidated Financial Report for the Fiscal Year ending October 31, 2019 [Japan GAAP]

September 6, 2019

Listed Company Name **Kanamoto Co., Ltd.**
 Company Code Number **9678**
 Listing Exchanges **Tokyo Stock Exchange, Sapporo Stock Exchange**
 URL <https://www.kanamoto.co.jp>
 Representative **Tetsuo Kanamoto** President and CEO
 Inquiries **Hiroyuki Isono** Director and Corporate Officer, Division
 Manager, Accounting Division
 TEL 81-11-209-1600

Scheduled date for submission of Quarterly Report September 12, 2019
 Scheduled date for commencement of dividend payments –
 Preparation of Quarterly Settlement Supplementary Explanatory Materials No
 Quarterly Earnings Briefings No

(Numbers less than one million yen have been rounded down)

1. Consolidated Operating Results for the Nine-Month Period of the Fiscal Year Ending October 31, 2019

(November 1, 2018 – July 31, 2019)

(1) Consolidated Operating Results (Cumulative)

(Percentages show the change from the prior year)

	Net Sales		Operating profit		Ordinary profit		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ending October 31, 2019: Third quarter	133,823	7.0	13,229	-1.4	13,580	-0.6	8,550	3.6
Fiscal Year ended October 31, 2018: Third quarter	125,075	7.0	13,415	10.9	13,659	9.7	8,255	5.2

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2019, Third Quarter 8,671 (-0.3%)
 Fiscal Year Ended October 31, 2018, Third Quarter 8,699 (1.9%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2019: Third quarter	220.97	—
Fiscal Year ended October 31, 2018: Third quarter	233.60	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2019: Third quarter	258,232	118,680	43.6
Fiscal Year ended October 31, 2018	241,374	102,031	39.6

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2019 Third Quarter 112,561
 Fiscal Year Ended October 31, 2018 95,680

2. Dividends

	Annual Dividends per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Full-year
Fiscal year ended October 31, 2018	Yen —	Yen 20.00	Yen —	Yen 40.00	Yen 60.00
Fiscal year ending October 31, 2019	—	25.00	—		
Fiscal Year ending October 31, 2019 (Projected)				40.00	65.00

(Note) Has the Company revised its most recently released dividend projection? No

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 2019

(November 1, 2018 – October 31, 2019)

(Percentages show the change from the prior year)

	Net Sales		Operating profit		Ordinary profit		Profit Attributable to Owners of Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	
Full year	175,700	4.5	18,400	4.5	18,700	4.3	12,000	1.2	310.12

(Note) Has the Company revised its most recently released projected consolidated operating results during the quarter?
No

4. Notes

- (1) Changes in material subsidiaries during the period under review (Changes in specific subsidiaries in conjunction with a change in the scope of consolidation): No
- | | |
|---------------------------------------|---|
| Company newly included (Company name) | — |
| Company newly excluded (Company name) | — |
- (2) Application of special accounting method in the preparation of quarterly consolidated financial statements: No
- (3) Changes in accounting principles, changes in accounting estimates and retrospective restatements
- (a) Changes in accounting policy in conjunction with revision of accounting standards: No
- (b) Changes other than the above: No
- (c) Changes in accounting estimates: No
- (d) Retrospective restatements: No
- (4) Number of shares issued (common shares)
- (a) Number of shares outstanding at the end of the period (including treasury shares)
- | | |
|--|-------------------|
| Fiscal year ending October 31, 2019 Third Quarter: | 38,742,241 shares |
| Fiscal year ended October 31, 2018: | 36,092,241 shares |
- (b) Number of shares of treasury stock at the end of the period
- | | |
|--|----------------|
| Fiscal year ending October 31, 2019 Third Quarter: | 3,259 shares |
| Fiscal year ended October 31, 2018: | 753,183 shares |
- (c) Average number of shares during the period (consolidated year-to-date)
- | | |
|--|-------------------|
| Fiscal year ending October 31, 2019 Third Quarter: | 38,695,084 shares |
| Fiscal year ended October 31, 2018 Third Quarter: | 35,339,051 shares |

Note: Quarterly earnings reports are not subject to quarterly review by certified public accountants or independent account auditors.

Note: Explanation concerning appropriate use of the projected operating results and other items to note

Note Concerning Forward-Looking Statements

The forward-looking statements, including business results forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company does not guarantee the achievement of the projections. Actual operating results may differ substantially due to a number of factors. Please refer to “1. Qualitative Information Concerning Quarterly Consolidated Operating Results (3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results” on Page 6 of the Attachments for the conditions used as assumptions for the projected operating results and matters to note before using the projected operating results.

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1. Qualitative Information Concerning Quarterly Consolidated Operating Results

(1) Qualitative Information Concerning Consolidated Operating Results

During the first nine months of Kanamoto's current consolidated fiscal year, Japan's economy maintained its gradual recovery trend as corporate operating results and the employment and income environments continued to improve. Nevertheless, the future direction of the economy remains difficult to discern because of several factors, including trade friction between the U.S. and China, the UK's impending withdrawal from the EU and geopolitical risks.

In the construction industry related to the Kanamoto Group, brisk spending on public works projects and a gradual increase in private sector construction demand can be seen, yet on the other hand conditions that demand close attention persist, including a chronic shortage of skilled construction workers and stubbornly high prices for materials and equipment.

Given such circumstances, as it began the final fiscal year of its "BULL55" long-term vision (fiscal 2015 - fiscal 2019) the Kanamoto Group moved forward aggressively with its regional strategy and capital investment, with the objectives of creating lasting corporate value and ensuring efficient earnings opportunities for the entire group, based on Kanamoto's three priority policies of "expansion of domestic base of operations", "overseas development" and "optimization of internal operational processes".

Turning to the operating results of the Kanamoto Group for the consolidated nine-month period, net sales were ¥133,823 million, up 7.0% compared with the same period of the prior consolidated fiscal year. In terms of earnings, operating income slipped 1.4% from the same period of the prior consolidated fiscal year to ¥13,229 million, reflecting higher costs in conjunction with the Group's current business development measures, ordinary income edged lower by 0.6% year-on-year to ¥13,580 million, and third quarter year-to-date profit attributable to owners of parent rose 3.6% year-on-year to ¥8,550 million.

Results for each of the Company's business segments were as follows.

< Business related to the Construction Equipment Rental Division >

In the construction-related business that is Kanamoto's primary business, numerous large-scale projects such as infrastructure construction related to the Tokyo Olympics, as well as redevelopment projects, are proceeding in major metropolitan areas, and with full-scale disaster recovery and restoration works underway as well in Hokkaido, Kyushu, and western Japan, conditions for construction equipment rental demand remained robust.

In addition, used construction equipment sales increased 11.3% from the corresponding period of the prior consolidated fiscal year, as Kanamoto sold equipment sales based on its initial plan in order to maintain an appropriate asset portfolio.

As a result of the above factors, net sales for Kanamoto's construction-related businesses increased 7.1% from the same period of the prior consolidated fiscal year to ¥119,965 million, and operating income decreased 2.3% year-on-year to ¥12,230 million.

< Other businesses >

In the Company's other businesses, steel products-related sales, sales in the information and telecommunications-related division and sales from welfare-related business all expanded steadily. Net sales rose 6.5% from the same period of the previous consolidated fiscal year to ¥13,857 million, and operating income climbed 12.1% year-on-year to ¥682 million.

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities and net assets

Total assets at the end of the third quarter under review increased by ¥16,858 million compared with the end of the prior consolidated fiscal year to ¥258,232 million. This change mainly reflected an increase of ¥6,965 million in cash and deposits, an increase of ¥1,840 million in construction machine parts and an increase of ¥6,743 million in rental equipment, respectively.

Total liabilities were ¥139,552 million, an increase of ¥209 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥5,463 million in long-term accounts payable-other and a decrease of ¥5,271 million in long-term loans payable.

Total net assets came to ¥118,680 million, ¥16,649 million higher than at the end of the prior consolidated fiscal year. This mainly reflected increases of ¥8,353 million from the issuance of new shares by way of a public offering and third-party allotment and an increase of ¥2,364 million from the disposal of treasury stock by way of a public offering, respectively, profit attributable to owners of parent for the nine-month period of ¥8,550 million, and a decrease of ¥2,382 million for dividends from surplus.

Beginning from the first quarter of the current consolidated fiscal year, the Company is applying the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan Accounting Standard Statement No. 28 dated February 16, 2018) and its related guidance, and the comparison of financial position has been made using retroactively adjusted numerical figures for the end of the prior consolidated fiscal year.

(3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results

There are no revisions to the full-year projected operating results that the Company announced in the Financial Statements Bulletin for the Fiscal Year Ended October 31, 2018 (Japan GAAP) released on December 7, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Millions of yen)

	As of October 31, 2018	As of July 31, 2019
Assets		
Current assets		
Cash and deposits	36,793	43,758
Notes and accounts receivable - trade	36,736	37,003
Electronically recorded monetary claims - operating	5,091	5,448
Securities	200	200
Merchandise and finished goods	765	1,181
Costs on uncompleted construction contracts	55	43
Raw materials and supplies	651	857
Construction machine parts	14,652	16,493
Other	1,710	1,880
Allowance for doubtful accounts	-208	-191
Total current assets	96,448	106,674
Non-current assets		
Property, plant and equipment		
Rental equipment	203,519	214,714
Accumulated depreciation	-127,242	-131,694
Rental equipment, net	76,277	83,020
Buildings and structures	35,531	36,635
Accumulated depreciation	-20,859	-21,767
Buildings and structures, net	14,671	14,867
Machinery, equipment and vehicles	7,643	7,642
Accumulated depreciation	-6,333	-6,334
Machinery, equipment and vehicles, net	1,309	1,307
Land	36,566	37,146
Other	2,227	3,056
Accumulated depreciation	-1,544	-1,651
Other, net	682	1,405
Total property, plant and equipment	129,508	137,747
Intangible assets		
Goodwill	343	237
Other	1,236	1,330
Total intangible assets	1,580	1,567
Investments and other assets		
Investment securities	9,989	8,372
Deferred tax assets	856	1,047
Other	3,367	3,251
Allowance for doubtful accounts	-375	-429
Total investments and other assets	13,837	12,242
Total non-current assets	144,926	151,557
Total assets	241,374	258,232

(Unit: Millions of yen)

	As of October 31, 2018	As of July 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,695	32,089
Short-term loans payable	1,146	1,170
Current portion of long-term loans payable	12,825	11,505
Lease obligations	945	888
Income taxes payable	1,929	2,181
Provision for bonuses	1,136	795
Accounts payable - other	22,839	22,585
Other	2,749	2,907
Total current liabilities	74,267	74,123
Non-current liabilities		
Long-term loans payable	23,087	17,816
Lease obligations	1,684	1,773
Long-term accounts payable - other	39,591	45,054
Net defined benefit liability	261	266
Asset retirement obligations	449	462
Other	—	54
Total non-current liabilities	65,075	65,429
Total liabilities	139,342	139,552
Net assets		
Shareholders' equity		
Capital stock	13,652	17,829
Capital surplus	14,916	19,324
Retained earnings	67,086	73,758
Treasury shares	-2,129	-9
Total shareholders' equity	93,526	110,903
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,148	1,773
Deferred gains or losses on hedges	0	—
Foreign currency translation adjustment	—	-120
Remeasurements of defined benefit plans	5	4
Total accumulated other comprehensive income	2,153	1,657
Non-controlling interests	6,351	6,119
Total net assets	102,031	118,680
Total liabilities and net assets	241,374	258,232

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Nine-month Period ended July 31)

(Unit: Millions of yen)

	Nine months ended July 31, 2018	Nine months ended July 31, 2019
Net sales	125,075	133,823
Cost of sales	86,900	94,552
Gross profit	38,175	39,271
Selling, general and administrative expenses	24,759	26,041
Operating profit	13,415	13,229
Non-operating income		
Interest income	13	19
Dividend income	155	164
Rent income	61	59
Other	355	396
Total non-operating income	586	639
Non-operating expenses		
Interest expenses	83	67
Foreign exchange losses	88	25
Share issuance cost	—	46
Other	170	149
Total non-operating expenses	342	289
Ordinary profit	13,659	13,580
Extraordinary income		
Gain on sales of non-current assets	6	32
Subsidy income	12	19
Gain on sales of investment securities	0	14
Total extraordinary income	18	67
Extraordinary losses		
Loss on sales and retirement of non-current assets	87	118
Loss on valuation of shares of subsidiaries and associates	—	3
Loss on sales of investment securities	157	—
Loss on valuation of investment securities	44	—
Total extraordinary losses	290	122
Profit before income taxes	13,388	13,525
Income taxes – current	4,370	4,320
Income taxes – deferred	125	32
Total income taxes	4,496	4,352
Profit	8,892	9,172
Profit attributable to non-controlling interests	636	622
Profit attributable to owners of parent	8,255	8,550

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Nine-month Period ended July 31)

(Unit: Millions of yen)

	Nine months ended July 31, 2018	Nine months ended July 31, 2019
Profit	8,892	9,172
Other comprehensive income		
Valuation difference on available-for-sale securities	-215	-379
Deferred gains or losses on hedges	-0	-0
Foreign currency translation adjustment	24	-120
Remeasurements of defined benefit plans, net of tax	-0	-0
Total other comprehensive income	-192	-501
Comprehensive income	8,699	8,671
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,068	8,053
Comprehensive income attributable to non-controlling interests	630	617

(3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Relating to the Going Concern Assumption)

The Company had no material items to report.

(Note on Significant Changes to Shareholders' Equity)

At its Board of Directors meeting held on November 12, 2018, the Company resolved to issue new shares by way of public offering and third-party allotment, dispose of treasury shares by way of public offering, and conduct a secondary offering of the Company's shares, and to issue 2,250,000 new shares of common stock by way of public offering with a payment date of November 28, 2018 to increase the capital stock and capital surplus of the Company by ¥3,546 million, respectively, and dispose of 750,000 shares of treasury stock shares by way of public offering to decrease treasury shares by ¥2,120 million and increase capital surplus by ¥243 million. The delivery of 450,000 secondary offering shares of the Company's stock was completed on November 29, 2018 and the capital stock and capital surplus of the Company were increased by ¥630 million, respectively, through the issuance of 400,000 new shares by way of third-party allotment for which the payment date was December 19, 2018.

As a result, as of July 31, 2019 the Company's capital stock was ¥17,829 million, its capital surplus was ¥19,324 million and treasury shares were -¥9 million.

(Changes to Material Subsidiaries during the Consolidated Period under Review)

The Company had no material items to report.

Although not a change corresponding to changes in specific subsidiaries, beginning from the first quarter of the current consolidated fiscal year the Company is including KG Flowtechno Co., Ltd. and KANAMOTO (CHINA) INVESTMENT CO., LTD., two non-consolidated subsidiaries, within the scope of consolidation because their material importance increased in the prior consolidated fiscal year.

(Supplemental Information)

(Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

Beginning from the first quarter of the current consolidated fiscal year, the Company is applying the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan Accounting Standard Statement No. 28 dated February 16, 2018) and its related guidance and has included deferred tax assets in the category "investments and other assets".

(Business Segment Information)

I Third quarter of the prior consolidated fiscal year (From November 1, 2017 to July 31, 2018)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment	Other Businesses (See note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	112,063	13,011	125,075
Net sales or transfers between related segments	—	—	—
Total	112,063	13,011	125,075
Segment profit	12,517	608	13,126

(Note) The "Other businesses" classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division, the Information Products Division, welfare-related businesses and other businesses.

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	12,517
Income for "Other businesses" classification	608
Other adjustments	289
Operating profit reported on the Consolidated Quarterly Statements of Income	13,415

3. Information concerning fixed asset impairment loss and goodwill by reporting segment

The Company had no material items to report.

II Third quarter of the current consolidated fiscal year (From November 1, 2018 to July 31, 2019)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment	Other Businesses (See note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	119,965	13,857	133,823
Net sales or transfers between related segments	—	—	—
Total	119,965	13,857	133,823
Segment profit	12,230	682	12,912

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division, the Information Products Division, welfare-related businesses and other businesses.

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	12,230
Income for “Other businesses” classification	682
Other adjustments	317
Operating profit reported on the Consolidated Quarterly Statements of Income	13,229

3. Information concerning fixed asset impairment loss and goodwill by reporting segment
The Company had no material items to report.