



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

March 8, 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 & Corporate Officer, Division
 Manager, Accounting Division
 TEL 81-11-209-1600
 Please send inquiries in English to takayama@kanamoto.co.jp

Scheduled date for submission of Quarterly Report March 14, 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 Three-Month Period of the Fiscal Year Ending October 31, 2019

(November 1, 2018 – January 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: First quarter	44,126	4.4	3,913	-27.1	4,010	-27.7	2,482	-27.5
Fiscal Year ended October 31, 2018: First quarter	42,264	8.5	5,370	19.6	5,543	14.3	3,422	9.4

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2019, First Quarter	2,412	(-34.7%)
Fiscal Year Ended October 31, 2018, First Quarter	3,697	(1.0%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2019: First quarter	64.30	—
Fiscal Year ended October 31, 2018: First quarter	96.84	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2019: First quarter	256,511	113,447	41.9
Fiscal Year ended October 31, 2018	241,374	102,031	39.6

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2019 First Quarter	107,578
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	—				
Fiscal Year ending October 31, 2019 (Projected)		25.00	—	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	%	Yen
Interim (Cumulative)	89,700	5.1	11,100	1.0	11,200	0.4	7,000	3.9	181.31
Full year	175,700	4.5	18,400	4.5	18,700	4.3	12,000	1.2	310.81

(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 First 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 First Quarter: | 3,183 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 First Quarter: | 38,608,623 shares |
| Fiscal year ended October 31, 2018 First Quarter: | 35,339,036 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 consolidated three-month period ended January 31, 2019, Japan's economy maintained a gradual recovery trend as the employment environment and other conditions continued to improve against the backdrop of strong corporate earnings. Nevertheless, a slowdown in the pace of sales and earnings could be sensed, particularly in industries that rely on overseas demand, because of concerns of a global economic slump triggered by the effect of prolonged trade friction between the U.S. and China and China's slackening economic growth.

In the construction industry related to the Kanamoto Group, domestic construction investment continued to expand steadily, with private sector capital investment rising and spending on public works projects based on the government's national resilience plan remained brisk. As shortages of construction material, equipment and manpower push the price of materials, labor costs and other construction expenditures sharply higher and put pressure on project profitability, however, the severity of the current business environment became starkly clear.

Given such circumstances, as it began the final fiscal year of its "BULL55" long-term vision (fiscal 2015 - fiscal 2019) the Kanamoto Group moved ahead with the three priority policies described in that plan to expand its domestic base of operations, develop its overseas business and optimize its internal operational processes, and focused on laying the foundation for its next long-term plan and building its organization.

For the consolidated first quarter of the current fiscal year, the Company reported net sales of ¥44,126 million, up 4.4% compared with the same period of the previous fiscal year. In terms of earnings, operating income decreased 27.1% from the same period of the previous consolidated fiscal year to ¥3,913 million, ordinary income declined 27.7% year-on-year to ¥4,010 million, and first quarter profit attributable to owners of parent fell 27.5% year-on-year to ¥2,482 million. This reflected the higher depreciation expense burden that resulted from an increase in capital expenditures to meet robust demand, among other factors.

Beginning from the first quarter of the current consolidated fiscal year, the Company will include KG Flowtechno Co., Ltd. and KANAMOTO (CHINA) INVESTMENT CO., LTD., which in the past were non-consolidated subsidiaries, within the scope of consolidation because their material importance has increased.

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, construction equipment rental demand was supported by transportation infrastructure construction related to the Tokyo Olympics along with other works, including large-scale redevelopment works, and remained brisk as a whole, despite the emergence of some differences among regions in construction demand. Rental unit prices, however, remained low throughout Japan.

In addition, to strengthen its support organization for restoration and reconstruction activities following the multiple natural disasters that occurred in 2018 including the Northern Osaka Prefecture Earthquake, torrential rains in western Japan, and the Hokkaido Eastern Iburi Earthquake, the Kanamoto Group worked to expand its response capabilities through steps such as redeployment of rental equipment to the stricken areas and expansion of its asset portfolio.

Used construction equipment sales, which helped boost net sales in the same period of the prior fiscal year as the Company sold large quantities of equipment, slid 69.5% year-on-year as the Company disposed of used equipment in line with its initial plan.

As a result of these factors, first quarter net sales for Kanamoto's construction-related businesses rose 4.6% from the same period of the previous consolidated fiscal year to ¥39,569 million, and operating income declined 30.0% year-on-year to ¥3,514 million.

< Other businesses >

In the Company's other businesses, steel products-related sales, information and telecommunications-related division sales and sales from welfare-related business all expanded steadily. Net sales rose 2.4% from the same period of the previous consolidated fiscal year to ¥4,556 million, and operating income climbed 18.0% year-on-year to ¥295 million.

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities and net assets

Total assets at the end of the first quarter under review increased by ¥15,137 million compared with the end of the prior consolidated fiscal year to ¥256,511 million. This change mainly reflected an increase of ¥7,171 million in cash and deposits and an increase of ¥5,712 million in rental equipment.

Total liabilities were ¥143,064 million, an increase of ¥3,721 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥2,925 million in notes and accounts payable-trade and an increase of ¥3,701 million in long-term accounts payable-other, and a decrease of ¥2,055 in long-term loans payable.

Total net assets came to ¥113,447 million, ¥11,415 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 quarter of ¥2,482 million, and a decrease of ¥1,413 million for dividends from surplus.

(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 January 31, 2019
Assets		
Current assets		
Cash and deposits	36,793	43,964
Notes and accounts receivable - trade	36,736	38,404
Electronically recorded monetary claims - operating	5,091	5,565
Securities	200	500
Merchandise and finished goods	765	1,120
Costs on uncompleted construction contracts	55	43
Raw materials and supplies	651	792
Construction machine parts	14,652	15,118
Other	1,710	2,040
Allowance for doubtful accounts	-208	-220
Total current assets	96,448	107,329
Non-current assets		
Property, plant and equipment		
Rental equipment	203,519	212,695
Accumulated depreciation	-127,242	-130,706
Rental equipment, net	76,277	81,989
Buildings and structures	35,531	35,691
Accumulated depreciation	-20,859	-21,216
Buildings and structures, net	14,671	14,475
Machinery, equipment and vehicles	7,643	7,553
Accumulated depreciation	-6,333	-6,266
Machinery, equipment and vehicles, net	1,309	1,286
Land	36,566	36,964
Other	2,227	2,368
Accumulated depreciation	-1,544	-1,586
Other, net	682	781
Total property, plant and equipment	129,508	135,498
Intangible assets		
Goodwill	343	308
Other	1,236	1,211
Total intangible assets	1,580	1,519
Investments and other assets		
Investment securities	9,989	8,488
Deferred tax assets	856	823
Other	3,367	3,268
Allowance for doubtful accounts	-375	-416
Total investments and other assets	13,837	12,164
Total non-current assets	144,926	149,182
Total assets	241,374	256,511

(Unit: Millions of yen)

	As of October 31, 2018	As of January 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	30,695	33,620
Short-term loans payable	1,146	1,579
Current portion of long-term loans payable	12,825	12,548
Lease obligations	945	925
Income taxes payable	1,929	1,183
Provision for bonuses	1,136	553
Accounts payable - other	22,839	22,767
Other	2,749	3,070
Total current liabilities	74,267	76,248
Non-current liabilities		
Long-term loans payable	23,087	21,032
Lease obligations	1,684	1,716
Long-term accounts payable - other	39,591	43,292
Net defined benefit liability	261	266
Asset retirement obligations	449	451
Other	—	56
Total non-current liabilities	65,075	66,815
Total liabilities	139,342	143,064
Net assets		
Shareholders' equity		
Capital stock	13,652	17,829
Capital surplus	14,916	19,276
Retained earnings	67,086	68,659
Treasury shares	-2,129	-8
Total shareholders' equity	93,526	105,756
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,148	1,876
Deferred gains or losses on hedges	0	—
Foreign currency translation adjustment	—	-59
Remeasurements of defined benefit plans	5	5
Total accumulated other comprehensive income	2,153	1,822
Non-controlling interests	6,351	5,868
Total net assets	102,031	113,447
Total liabilities and net assets	241,374	256,511

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Three-month Period ended January 31)

(Unit: Millions of yen)

	Three months ended January 31, 2018	Three months ended January 31, 2019
Net sales	42,264	44,126
Cost of sales	28,803	31,607
Gross profit	13,461	12,519
Selling, general and administrative expenses	8,091	8,605
Operating profit	5,370	3,913
Non-operating income		
Interest income	4	6
Dividend income	64	63
Rent income	19	20
Foreign exchange gains	51	—
Reversal of allowance for doubtful accounts	25	11
Other	134	109
Total non-operating income	299	212
Non-operating expenses		
Interest expenses	36	24
Foreign exchange losses	25	5
Share issuance cost	—	46
Other	63	39
Total non-operating expenses	126	115
Ordinary profit	5,543	4,010
Extraordinary income		
Gain on sales of non-current assets	0	24
Subsidy income	3	5
Gain on sales of investment securities	—	5
Total extraordinary income	3	35
Extraordinary losses		
Loss on sales and retirement of non-current assets	21	10
Total extraordinary losses	21	10
Profit before income taxes	5,525	4,035
Income taxes - current	1,505	1,079
Income taxes - deferred	301	210
Total income taxes	1,807	1,289
Profit	3,718	2,746
Profit attributable to non-controlling interests	295	264
Profit attributable to owners of parent	3,422	2,482

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Three-month Period ended January 31)

(Unit: Millions of yen)

	Three months ended January 31, 2018	Three months ended January 31, 2019
Profit	3,718	2,746
Other comprehensive income		
Valuation difference on available-for-sale securities	-0	-273
Deferred gains or losses on hedges	0	-0
Foreign currency translation adjustment	-19	-59
Remeasurements of defined benefit plans, net of tax	-0	-0
Total other comprehensive income	-20	-333
Comprehensive income	3,697	2,412
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,403	2,150
Comprehensive income attributable to non-controlling interests	294	262

(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 January 31, 2019 the Company's capital stock was ¥17,829 million, its capital surplus was ¥19,276 million and treasury shares were – ¥8.0 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 will include 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 will apply 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)

[Segment information]

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

1. Information concerning net sales and profit or loss of each 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	37,815	4,449	42,264
Net sales or transfers between related segments	—	—	—
Total	37,815	4,449	42,264
Segment profit	5,021	250	5,272

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and 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	5,021
Income for “Other businesses” classification	250
Other adjustments	97
Operating profit reported on the Consolidated Quarterly Statements of Income	5,370

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

The Company had no material items to report.

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

1. Information concerning net sales and profit or loss of each 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	39,569	4,556	44,126
Net sales or transfers between related segments	—	—	—
Total	39,569	4,556	44,126
Segment profit	3,514	295	3,810

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and 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	3,514
Income for “Other businesses” classification	295
Other adjustments	103
Operating profit reported on the Consolidated Quarterly Statements of Income	3,913

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

The Company had no material items to report.