

Consolidated Quarterly Financial Results for the Nine Months Ended December 31, 2020 [Japanese GAAP]

February 10, 2021

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

URL: <http://www.hokuetsucorp.com>

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Scheduled date of filing quarterly report: February 12, 2021

Scheduled date of commencement of dividend payments: –

Supplementary documents for quarterly results: None

Quarterly results briefing: None

(Figures rounded down to the nearest million yen)

1. Consolidated Business Results for the Nine Months Ended December 31, 2020

(April 1, 2020 through December 31, 2020)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2020	161,596	(19.9)	(2,890)	–	1,742	(86.4)	7,381	174.8
Nine months ended December 31, 2019	201,818	(2.1)	9,429	118.9	12,786	107.9	2,685	(26.5)

(Note) Comprehensive income: Nine months ended December 31, 2020: 7,625 million yen (387.7%)

Nine months ended December 31, 2019: 1,563 million yen (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2020	43.96	42.62
Nine months ended December 31, 2019	14.21	12.29

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	359,893	186,258	51.6
As of March 31, 2020	344,731	180,861	52.3

(Reference) Equity: As of December 31, 2020: 185,578 million yen

As of March 31, 2020: 180,183 million yen

2. Dividends

	Annual dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	–	6.00	–	6.00	12.00
Fiscal year ending March 31, 2021	–	7.00	–		
Fiscal year ending March 31, 2021 (forecast)				7.00	14.00

(Note) Revisions to dividend forecasts published most recently: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2021

(April 1, 2020 through March 31, 2021)

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	210,000	(20.6)	1,000	(91.1)	5,500	(64.9)	7,500	(7.1)	44.67

(Note) Revisions to business forecasts published most recently: None

*** Notes**

(1) Changes in significant subsidiaries during the nine months ended December 31, 2020 (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement of prior period financial statements

(i) Changes in accounting policies due to amendment of accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement of prior period financial statements: None

(4) Shares outstanding (common stock)

(i) Number of shares outstanding (treasury stock included):

As of December 31, 2020	188,053,114 shares	As of March 31, 2020	188,053,114 shares
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(ii) Number of treasury stock:

As of December 31, 2020	20,137,513 shares	As of March 31, 2020	20,140,702 shares
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(iii) Average number of shares during period:

Nine months ended December 31, 2020	167,919,491 shares	Nine months ended December 31, 2019	189,056,306 shares
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*** Consolidated Quarterly Financial Results are exempted from quarterly review performed by a certified public accountant or an audit corporation.**

*** Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution regarding forward-looking statements)

The forward-looking statements such as forecasts of financial results contained in this material are based on information available to the Company at the time of the publication of this document and certain assumptions that the Company considers to be reasonable, and may differ materially from the actual results due to various factors. Refer to "1. Qualitative Information on Consolidated Operating Results for the Nine-Month Period; (3) Qualitative Information Concerning Consolidated Earnings Forecasts" on page 3 of the accompanying materials for matters related to results forecasts.

*** This document is an excerpt translation of the original in Japanese and is for reference purposes only. In case of any discrepancy between this document and the original in Japanese, the latter shall take precedence.**

1. Qualitative Information on Consolidated Operating Results for the Nine-Month Period

(1) Qualitative Information Concerning Consolidated Operating Results

During the current nine-month period, net sales amounted to 161,596 million yen (down 19.9% year on year), the operating loss was 2,890 million yen (compared to operating profit of 9,429 million yen in the same period of the previous fiscal year), and ordinary profit was 1,742 million yen (down 86.4% year on year), reflecting a sharp decline in demand in the overall industry as a result of the spread of the novel coronavirus disease (COVID-19). Profit attributable to owners of parent came to 7,381 million yen (up 174.8% year on year) associated with a gain on sales of investment securities due to the transfer of all shares of Japan Brazil Pulp and Paper Resources Development Co., Ltd. owned by the Company.

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 15,162 million yen from the end of the previous fiscal year, to 359,893 million yen. This was attributable primarily to increases of 9,843 million yen in cash and deposits, 4,207 million yen in notes and accounts receivable - trade and 9,455 million yen in investment securities, which more than offset decreases of 7,290 million yen in merchandise and finished goods and 1,571 million yen in property, plant and equipment due mainly to depreciation.

Total liabilities rose 9,765 million yen from the end of the previous fiscal year, to 173,635 million yen. This was attributable primarily to an increase of 16,842 million yen in interest-bearing liabilities, which more than offset decreases of 4,586 million yen in notes and accounts payable - trade and 1,165 million yen in provision.

Net assets increased 5,396 million yen from the end of the previous fiscal year, to 186,258 million yen. This chiefly reflected increases of 5,220 million yen in retained earnings due in part to profit attributable to owners of parent and 973 million yen in valuation difference on available-for-sale securities, which more than offset a decrease of 946 million yen in foreign currency translation adjustment.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

No change has been made to the full-year financial forecasts announced on September 30, 2020.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2020	As of December 31, 2020
(Assets)		
Current assets		
Cash and deposits	21,383	31,226
Notes and accounts receivable - trade	50,078	54,286
Electronically recorded monetary claims - operating	6,427	5,660
Merchandise and finished goods	29,200	21,909
Work in process	2,429	2,062
Raw materials and supplies	22,722	21,274
Other	5,445	7,286
Allowance for doubtful accounts	(6)	(6)
Total current assets	137,679	143,699
Non-current assets		
Property, plant and equipment		
Buildings and structures	84,722	85,183
Accumulated depreciation	(52,954)	(53,909)
Buildings and structures, net	31,767	31,274
Machinery, vehicles, tools, furniture and fixtures	429,962	435,777
Accumulated depreciation	(366,006)	(372,650)
Machinery, vehicles, tools, furniture and fixtures, net	63,955	63,126
Other, net	31,667	31,417
Total property, plant and equipment	127,390	125,818
Intangible assets	2,984	2,731
Investments and other assets		
Investment securities	70,366	79,822
Other	8,734	10,244
Allowance for doubtful accounts	(2,425)	(2,423)
Total investments and other assets	76,675	87,642
Total non-current assets	207,051	216,193
Total assets	344,731	359,893

(Million yen)

	As of March 31, 2020	As of December 31, 2020
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	19,360	14,773
Electronically recorded obligations - operating	6,317	5,757
Short-term loans	19,338	19,726
Commercial papers	7,000	15,000
Current portion of bonds payable	–	20,000
Income taxes payable	1,086	577
Provision	3,574	2,407
Other	14,853	14,643
Total current liabilities	71,531	92,886
Non-current liabilities		
Bonds payable	30,000	10,000
Long-term loans	48,460	57,202
Provision	1,376	1,378
Retirement benefit liability	7,266	7,484
Asset retirement obligations	2,441	2,141
Other	2,792	2,541
Total non-current liabilities	92,337	80,748
Total liabilities	163,869	173,635
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,341	45,341
Retained earnings	100,879	106,100
Treasury shares	(9,708)	(9,704)
Total shareholders' equity	178,533	183,757
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,159	3,133
Deferred gains or losses on hedges	21	(29)
Foreign currency translation adjustment	337	(608)
Remeasurements of defined benefit plans	(868)	(674)
Total accumulated other comprehensive income	1,650	1,821
Share acquisition rights	81	94
Non-controlling interests	596	585
Total net assets	180,861	186,258
Total liabilities and net assets	344,731	359,893

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
(Nine-month period)

	(Million yen)	
	For the nine-month ended December 31, 2019	For the nine-month ended December 31, 2020
Net sales	201,818	161,596
Cost of sales	162,120	137,279
Gross profit	39,698	24,316
Selling, general and administrative expenses	30,268	27,207
Operating profit (loss)	9,429	(2,890)
Non-operating income		
Interest income	69	20
Dividends income	981	746
Share of profit of entities accounted for using equity method	3,610	4,172
Others	1,216	1,711
Total non-operating income	5,877	6,651
Non-operating expenses		
Interest expenses	493	331
Foreign exchange losses	1,157	549
Leave allowance	-	464
Others	870	672
Total non-operating expenses	2,520	2,018
Ordinary profit	12,786	1,742
Extraordinary income		
Gain on sales of non-current assets	31	48
Gain on sales of investment securities	856	5,323
Gain on change in equity	10	267
Gain on reversal of asset retirement obligations	-	327
Insurance claim income	89	315
Others	-	1
Total extraordinary income	988	6,282
Extraordinary losses		
Loss on sales and retirement of non-current assets	888	878
Impairment loss	6,354	3
Loss on disaster	684	-
Loss on tax purpose reduction entry of non-current assets	21	17
Loss on sales of investment securities	0	3
Loss on valuation of investment securities	15	1,229
Business restructuring expenses	-	792
Loss on sales of equity investment of subsidiary	666	-
Total extraordinary losses	8,631	2,925
Profit (loss) before income taxes	5,143	5,100
Income taxes - current	1,904	873
Refund of income taxes	-	(1,071)
Income taxes - deferred	547	(2,161)
Total income taxes	2,451	(2,358)
Profit	2,691	7,459
Profit attributable to non-controlling interests	6	77
Profit attributable to owners of parent	2,685	7,381

Quarterly Consolidated Statements of Comprehensive Income
(Nine-month period)

(Million yen)

	For the nine-month ended December 31, 2019	For the nine-month ended December 31, 2020
Profit	2,691	7,459
Other comprehensive income		
Valuation difference on available-for-sale securities	95	1,000
Deferred gains or losses on hedges	(1)	(39)
Foreign currency translation adjustment	(218)	(950)
Remeasurements of defined benefit plans, net of tax	(82)	100
Share of other comprehensive income of entities accounted for using equity method	(920)	55
Total other comprehensive income	(1,128)	166
Comprehensive income	1,563	7,625
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,560	7,552
Comprehensive income attributable to non-controlling interests	3	72

(3) Notes to Quarterly Consolidated Financial Statements

(Notes to Going Concern Assumption)

Not applicable.

(Notes on Any Significant Change in the Value of Shareholders' Equity)

Not applicable.

(Significant Subsequent Events)

Transfer of non-current assets

The Company's Board of Directors resolved at its meeting held on December 23, 2020 to transfer non-current assets the Company owned, and the Company entered into a sales contract on January 29, 2021.

(1) Reason for the transfer

The Company has decided to transfer non-current assets it owns for the purpose of using its management resources effectively and strengthening its financial position.

(2) Overview of assets to be transferred

- (i) Location 11-1, Yokoami 1-chome, Sumida-ku, Tokyo
- (ii) Contents of assets Land (685.94 m²) and building
- (iii) Use before transfer Lease property

(Note) We will refrain from disclosing the transfer price and the book value of the assets at the request of the transferee, but the transfer price is a fair and reasonable price reflecting the market price through bidding. A gain on sales is an amount obtained by deducting the book value and expenses for transfer from the transfer price.

(3) Overview of the transferee

While the transferee is a corporation in Japan, we will refrain from disclosing it at the request of the transferee. There is no matter to specially mention as a capital relationship, a personal relationship and a business relationship between the Company and the transferee, and the transferee does not fall under a related party of the Company.

(4) Schedule of the transfer

- (i) Date of resolution at the Board of Directors meeting December 23, 2020
- (ii) Date of contract January 29, 2021
- (iii) Scheduled date of transfer April 2, 2021

(5) Impact on profit and loss

The Company is expected to record extraordinary income of about 2.7 billion yen in the next fiscal year associated with the transfer of non-current assets.