

Consolidated Quarterly Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]

November 12, 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: November 12, 2021

Scheduled date of commencement of dividend payments: December 2, 2021

Supplementary documents for quarterly results: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Figures rounded down to the nearest million yen)

1. Consolidated Business Results for the Six Months Ended September 30, 2021 (April 1, 2021 through September 30, 2021)

(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	%
Six months ended September 30, 2021	126,390	22.3	10,801	–	14,850	–	16,119	766.8
Six months ended September 30, 2020	103,304	(24.4)	(3,253)	–	(678)	–	1,859	(71.6)

(Note) Comprehensive income: Six months ended September 30, 2021: 19,999 million yen (–%)
Six months ended September 30, 2020: 1,265 million yen (-72.0%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2021	95.96	95.88
Six months ended September 30, 2020	11.07	9.78

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	366,240	214,045	58.3
As of March 31, 2021	363,075	195,419	53.6

(Reference) Equity: As of September 30, 2021: 213,396 million yen
As of March 31, 2021: 194,702 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, 2021	–	7.00	–	7.00	14.00
Fiscal year ending March 31, 2022	–	7.00			
Fiscal year ending March 31, 2022 (forecast)			–	17.00	24.00

(Note) Revisions to dividend forecasts published most recently: Yes

Breakdown of year-end dividends for the fiscal year ending March 31, 2022 (forecast) Ordinary dividend: 7.00 yen Special dividend: 10.00 yen

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2022 (April 1, 2021 through March 31, 2022)

(% 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	260,000	16.9	18,000	957.6	25,000	156.2	21,000	48.2	124.99

(Note) Revisions to business forecasts published most recently: Yes

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2021 (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 to accounting standards: Yes

(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 September 30, 2021	188,053,114 shares	As of March 31, 2021	188,053,114 shares
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(ii) Number of treasury stock:

As of September 30, 2021	19,999,729 shares	As of March 31, 2021	20,131,789 shares
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(iii) Average number of shares during period:

Six months ended September 30, 2021	167,990,241 shares	Six months ended September 30, 2020	167,921,057 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 First Half; (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 First Half

(1) Qualitative Information Concerning Consolidated Operating Result

Demand declined significantly across the industry in the previous fiscal year under the effects of COVID-19. However, signs of a recovery appeared in the first six months of the current year. Sales volumes increased for paper and white paperboard in particular. As a result, net sales for the first six months of the current year amounted to 126,390 million yen (up 22.3% year on year). Operating profit came to 10,801 million yen (compared to an operating loss of 3,253 million yen a year ago), ordinary profit totaled 14,850 million yen (compared to an ordinary loss of 678 million yen), and profit attributable to owners of parent was 16,119 million yen (up 766.8% year on year).

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 31, 2020) and related implementation guidance at the beginning of the first quarter of the current fiscal year. The application of the Standard affected its financial conditions and operating results. More information is provided in (4) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies) under 2. Quarterly Consolidated Financial Statements and Key Notes.

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 3,165 million yen from the end of the previous fiscal year, to 366,240 million yen. Significant factors included increases in notes and accounts receivable - trade, and contract assets of 3,457 million yen, merchandise and finished goods of 2,505 million yen, raw materials and supplies of 2,683 million yen and investment securities of 3,544 million yen, which more than offset decreases in cash and deposits of 2,921 million yen, non-trade accounts receivable included in "Other" of current assets of 1,928 million yen, income taxes receivable of 1,395 million yen and property, plant and equipment of 2,766 million yen due in part to depreciation.

Total liabilities decreased 15,461 million yen from the end of the previous year, to 152,194 million yen. This was primarily due to a decrease in interest-bearing debt of 19,629 million yen.

Net assets rose 18,626 million yen from the end of the previous fiscal year, to 214,045 million yen. This mainly reflected increases in retained earnings of 14,814 million yen due to profit attributable to owners of parent and foreign currency translation adjustment of 3,374 million yen.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

Considering steady overseas sales of pulp and other factors, full-year financial forecasts, including net sales, operating profit, ordinary profit and profit attributable to owners of parent, are expected to exceed the previous forecast.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2021	As of September 30, 2021
(Assets)		
Current assets		
Cash and deposits	29,846	26,924
Notes and accounts receivable - trade	49,653	—
Notes and accounts receivable - trade, and contract assets	—	53,111
Electronically recorded monetary claims - operating	5,701	5,616
Merchandise and finished goods	22,374	24,880
Work in process	2,378	2,271
Raw materials and supplies	22,712	25,395
Other	7,355	4,374
Allowance for doubtful accounts	(3)	(3)
Total current assets	140,020	142,571
Non-current assets		
Property, plant and equipment		
Buildings and structures	85,263	83,995
Accumulated depreciation	(53,994)	(52,927)
Buildings and structures, net	31,268	31,068
Machinery, vehicles, tools, furniture and fixtures	438,380	440,595
Accumulated depreciation	(374,249)	(375,358)
Machinery, vehicles, tools, furniture and fixtures, net	64,130	65,236
Other, net	31,049	27,377
Total property, plant and equipment	126,448	123,682
Intangible assets	2,668	2,587
Investments and other assets		
Investment securities	86,829	90,374
Other	9,528	7,078
Allowance for doubtful accounts	(2,420)	(54)
Total investments and other assets	93,937	97,398
Total non-current assets	223,055	223,669
Total assets	363,075	366,240

(Million yen)

	As of March 31, 2021	As of September 30, 2021
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	17,571	17,792
Electronically recorded obligations - operating	5,898	6,557
Short-term loans	22,928	38,559
Current portion of bonds payable	20,000	10,000
Income taxes payable	720	5,144
Provision	3,375	3,382
Other	14,522	14,209
Total current liabilities	85,016	95,645
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term loans	59,142	33,765
Provision	1,096	1,244
Retirement benefit liability	6,940	6,280
Asset retirement obligations	2,256	2,260
Other	3,202	2,998
Total non-current liabilities	82,639	56,548
Total liabilities	167,656	152,194
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,341	45,341
Retained earnings	112,891	127,705
Treasury shares	(9,702)	(9,638)
Total shareholders' equity	190,550	205,429
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,343	4,807
Deferred gains or losses on hedges	(18)	9
Foreign currency translation adjustment	(949)	2,425
Remeasurements of defined benefit plans	775	724
Total accumulated other comprehensive income	4,151	7,967
Share acquisition rights	102	60
Non-controlling interests	614	589
Total net assets	195,419	214,045
Total liabilities and net assets	363,075	366,240

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

	(Million yen)	
	For the six -month ended September 30, 2020	For the six -month ended September 30, 2021
Net sales	103,304	126,390
Cost of sales	88,812	95,527
Gross profit	14,491	30,862
Selling, general and administrative expenses	17,745	20,061
Operating profit (loss)	(3,253)	10,801
Non-operating income		
Interest income	16	11
Dividends income	523	480
Share of profit of entities accounted for using equity method	2,297	2,796
Other	989	1,265
Total non-operating income	3,828	4,552
Non-operating expenses		
Interest expenses	226	203
Foreign exchange losses	322	-
Leave allowance	354	1
Rental expenses	120	141
Other	228	157
Total non-operating expenses	1,253	503
Ordinary profit (loss)	(678)	14,850
Extraordinary income		
Gain on sales of non-current assets	17	6,980
Gain on sales of investment securities	137	0
Gain on change in equity	267	-
Gain on reversal of asset retirement obligations	327	-
Insurance claim income	252	33
Gain on reversal of retirement benefit obligations	-	77
Total extraordinary income	1,002	7,092
Extraordinary losses		
Loss on sales and retirement of non-current assets	658	515
Impairment loss	2	-
Loss on tax purpose reduction entry of non-current assets	12	31
Loss on sales of investment securities	3	-
Loss on valuation of investment securities	753	-
Business restructuring expenses	799	-
Provision for loss related to the Anti-Monopoly Act	-	360
Total extraordinary losses	2,230	907
Profit (loss) before income taxes	(1,906)	21,035
Income taxes - current	393	5,096
Refund of income taxes	(391)	-
Income taxes - deferred	(3,821)	(210)
Total income taxes	(3,819)	4,886
Profit	1,912	16,149
Profit attributable to non-controlling interests	52	30
Profit attributable to owners of parent	1,859	16,119

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

(Million yen)

	For the six -month ended September 30, 2020	For the six -month ended September 30, 2021
Profit	1,912	16,149
Other comprehensive income		
Valuation difference on available-for-sale securities	454	559
Deferred gains or losses on hedges	(9)	23
Foreign currency translation adjustment	(1,421)	3,407
Remeasurements of defined benefit plans, net of tax	55	(32)
Share of other comprehensive income of entities accounted for using equity method	274	(108)
Total other comprehensive income	(646)	3,849
Comprehensive income	1,265	19,999
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,227	19,935
Comprehensive income attributable to non-controlling interests	38	63

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the six -month ended September 30, 2020	For the six -month ended September 30, 2021
Cash flows from operating activities		
Profit (loss) before income taxes	(1,906)	21,035
Depreciation	8,074	6,235
Impairment loss	2	–
Amortization of goodwill	61	66
Insurance claim income	(252)	(33)
Increase (decrease) in net defined benefit liability	311	(797)
Interest and dividend income	(540)	(491)
Interest expenses	226	203
Share of profit of entities accounted for using equity method	(2,297)	(2,796)
Loss on tax purpose reduction entry of non-current assets	12	31
Loss (gain) on sales and retirement of non-current assets	640	(6,465)
Business restructuring expenses	799	–
Reversal of retirement benefit obligations	–	(77)
Decrease (increase) in notes and accounts receivable - trade	8,830	(2,542)
Decrease (increase) in inventories	2,788	(3,728)
Decrease (increase) in consumption taxes refund receivable	95	(248)
Increase (decrease) in notes and accounts payable - trade	(5,118)	601
Increase (decrease) in accrued consumption taxes	(422)	(793)
Other	(913)	(482)
Subtotal	10,393	9,717
Interest and dividend income received	903	914
Interest paid	(162)	(170)
Income taxes paid	(503)	2,262
Proceeds from insurance income	239	2
Net cash provided by (used in) operating activities	10,870	12,725
Cash flows from investing activities		
Payments for purchases of investment securities	(7,064)	(756)
Proceeds from sales of investment securities	201	6
Payments for purchases of property, plant and equipment	(7,563)	(6,047)
Proceeds from sales of property, plant and equipment	21	11,285
Payments of loans receivable	(151)	(106)
Collection of loans receivable	119	122
Proceeds from sale of businesses	–	1,500
Other	(559)	(521)
Net cash provided by (used in) investing activities	(14,996)	5,481

(Million yen)

	For the six -month ended September 30, 2020	For the six -month ended September 30, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term loans	1,459	(5,953)
Net increase (decrease) in commercial papers	8,000	–
Proceeds from long-term loans	10,000	–
Repayments of long-term loans	(2,336)	(4,202)
Redemption of bonds	–	(10,000)
Dividends paid	(1,010)	(1,179)
Dividends paid to non-controlling interests	(84)	(89)
Payments for purchases of treasury stock	(0)	(0)
Other	(63)	(82)
Net cash provided by (used in) financing activities	15,963	(21,507)
Translation (loss) gain on cash and cash equivalents	(352)	377
Net increase (decrease) in cash and cash equivalents	11,486	(2,921)
Cash and cash equivalents at beginning of period	21,383	29,846
Cash and cash equivalents at end of period	32,869	26,924

(4) 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.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company began applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 issued on March 31, 2020, hereinafter the "Revenue Recognition Standard") and related implementation guidance at the beginning of the first quarter of the current fiscal year. Accordingly, the Company recognizes the amount expected to be received in exchange for promised goods or services as revenues at points where control over such goods and services moves to customers.

Previously, the Company had recognized the gross amount as revenues with regard to certain revenues from transactions. With the application of the Revenue Recognition Standard, the Company adopted the method of recognizing the net amount as revenues from transactions judged to be made as an agent based on the assessment of the roles of the Company in the provision of goods to customers. The Company had previously presented a portion of compensation paid to customers as selling, general and administrative expenses. With the application of the Revenue Recognition Standard, the Company adopted the presentation method of transaction prices with the compensation portion deducted.

The Company applies the Revenue Recognition Standard in accordance with transitional treatment set forth in the proviso in Paragraph 84 of the Revenue Recognition Standard. The Company began applying the new accounting policies to the balance of retained earnings at the beginning of the first quarter, adding the amount of cumulative effect of retrospective application to the beginning balance of the first quarter or subtracting such amount from the same balance. However, adopting the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Company does not apply the new accounting policies retroactively to contracts prior to the beginning of the first quarter wherein almost all revenues are recognized in accordance with the previous treatment. Further, applying the method prescribed in Subparagraph (1), Paragraph 86 of the Revenue Recognition Accounting Standard, the Company performs account processing for contract changes made prior to the beginning of the first quarter based on contract terms after the reflection of all contract changes, adding the amount of the cumulative effects of such changes to retained earnings at the beginning of the first quarter or subtracting the amount from the same retained earnings.

As a result, the effect of the application of the above accounting standard on the profit and loss of the first six months of the current fiscal year is insignificant. They also had an immaterial impact on the balance of retained earnings at the beginning of the first quarter.

The Company decided to present notes and accounts receivable - trade, which had been stated under current assets in the consolidated balance sheet for the previous fiscal year, by including them in notes and accounts receivable - trade, and contract assets from the first quarter because it began applying the Revenue Recognition Accounting Standard and related implementation guidance. The Company did not revise its results for the previous fiscal year using a new presentation method in accordance with transitional treatment stipulated in Paragraph 89-2 of the same Accounting Standard.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the "Fair Value Measurement Standard") and related implementation guidance at the beginning of the current first quarter. In accordance with the transitional treatment set forth in Section 19 of the Fair Value Measurement Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019), the Company applies new accounting policies prescribed in the Fair Value Measurement Standard and related implementation guidance prospectively. Their application produces no impact on quarterly consolidated financial statements.