

Consolidated Quarterly Financial Results for the Nine Months Ended December 31, 2021 [Japanese GAAP]

February 10, 2022

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

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Scheduled date of filing quarterly report: February 14, 2022

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, 2021

(April 1, 2021 through December 31, 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	%
Nine months ended December 31, 2021	193,984	20.0	16,473	–	23,113	–	22,580	205.9
Nine months ended December 31, 2020	161,596	(19.9)	(2,890)	–	1,742	(86.4)	7,381	174.8

(Note) Comprehensive income: Nine months ended December 31, 2021: 24,707 million yen (224.0%)

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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2021	134.40	134.28
Nine months ended December 31, 2020	43.96	42.62

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2021	373,491	217,585	58.1
As of March 31, 2021	363,075	195,419	53.6

(Reference) Equity: As of December 31, 2021: 216,904 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: None

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: None

*** Notes**

- (1) Changes in significant subsidiaries during the nine months ended December 31, 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 December 31, 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 December 31, 2021	20,000,338 shares	As of March 31, 2021	20,131,789 shares
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 - (iii) Average number of shares during period:

Nine months ended December 31, 2021	168,009,043 shares	Nine months ended December 31, 2020	167,919,491 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 4 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

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 current fiscal year. Sales volumes increased for paper and white paperboard in particular. As a result, net sales for the first nine months of the current fiscal year amounted to 193,984 million yen (up 20.0% year on year). Operating profit came to 16,473 million yen (compared to an operating loss of 2,890 million yen a year ago), ordinary profit totaled 23,113 million yen (compared to an ordinary profit of 1,742 million yen), and profit attributable to owners of parent was 22,580 million yen (up 205.9% 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 (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies) under 2. Consolidated Quarterly Financial Statements and Key Notes.

The performance of major segments is as follows:

(i) Pulp and paper business

In the pulp and paper business, 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 current fiscal year. Sales volumes increased for paper and white paperboard in particular, which resulted in increases in sales and profits.

As a result, the results of the pulp and paper business were as follows.

Net sales	177,491 million yen	(up 23.7% year on year)
Operating profit	15,406 million yen	(compared to an operating loss of 3,753 million yen a year ago)

(ii) Packaging/Paper processing business

In the packaging/paper processing business, sales and profits decreased mainly due to a fall in orders received for liquid containers as a result of their shape changes.

As a result, the results of the packaging/paper processing business were as follows.

Net sales	10,512 million yen	(down 12.7% year on year)
Operating profit	15 million yen	(down 84.6% year on year)

(iii) Other businesses

In other businesses, including wood material business, used paper wholesale business, engineering business, and logistics business, external orders increased but sales decreased primarily due to the termination of certain business operations following the withdrawal decision made in August 2020. In terms of profitability, an increase in profits was recorded, mainly reflecting the effect of a range of cost reduction initiatives.

As a result, the results of other businesses were as follows.

Net sales	5,981 million yen	(down 1.1% year on year)
Operating profit	648 million yen	(up 134.8% year on year)

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 10,416 million yen from the end of the previous fiscal year, to 373,491 million yen. Significant factors included increases in notes and accounts receivable - trade, and contract assets of 17,728 million yen, electronically recorded monetary claims - operating of 1,575 million yen, merchandise and finished goods of 2,955 million yen, raw materials and supplies of 3,251 million yen and investment securities of 3,147 million yen, which more than offset decreases in cash and deposits of 11,398 million yen, non-trade accounts receivable of 1,733 million yen, income taxes receivable of 1,394 million yen, which are included in "Other" of current assets, and property, plant and equipment of 3,574 million yen due in part to depreciation.

Total liabilities decreased 11,750 million yen from the end of the previous year, to 155,905 million yen. This was primarily due to a decrease in interest-bearing debt of 15,637 million yen, which more than offset an increase in income taxes payable of 5,149 million yen.

Net assets rose 22,166 million yen from the end of the previous fiscal year, to 217,585 million yen. This mainly reflected increases in retained earnings of 20,098 million yen due to profit attributable to owners of parent and foreign currency translation adjustment of 2,606 million yen.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

No change has been made to the full-year financial forecasts announced on November 12, 2021.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2021	As of December 31, 2021
(Assets)		
Current assets		
Cash and deposits	29,846	18,448
Notes and accounts receivable - trade	49,653	–
Notes and accounts receivable - trade, and contract assets	–	67,382
Electronically recorded monetary claims - operating	5,701	7,277
Merchandise and finished goods	22,374	25,330
Work in process	2,378	1,976
Raw materials and supplies	22,712	25,963
Other	7,355	4,901
Allowance for doubtful accounts	(3)	(3)
Total current assets	140,020	151,276
Non-current assets		
Property, plant and equipment		
Buildings and structures	85,263	84,255
Accumulated depreciation	(53,994)	(53,444)
Buildings and structures, net	31,268	30,810
Machinery, vehicles, tools, furniture and fixtures	438,380	441,271
Accumulated depreciation	(374,249)	(377,478)
Machinery, vehicles, tools, furniture and fixtures, net	64,130	63,792
Other, net	31,049	28,270
Total property, plant and equipment	126,448	122,874
Intangible assets	2,668	2,446
Investments and other assets		
Investment securities	86,829	89,976
Other	9,528	6,965
Allowance for doubtful accounts	(2,420)	(48)
Total investments and other assets	93,937	96,894
Total non-current assets	223,055	222,215
Total assets	363,075	373,491

(Million yen)

	As of March 31, 2021	As of December 31, 2021
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	17,571	18,570
Electronically recorded obligations - operating	5,898	6,862
Short-term loans	22,928	38,853
Commercial papers	–	4,000
Current portion of bonds payable	20,000	–
Income taxes payable	720	5,869
Provision	3,375	2,222
Other	14,522	13,392
Total current liabilities	85,016	89,772
Non-current liabilities		
Bonds payable	10,000	20,000
Long-term loans	59,142	33,694
Provision	1,096	1,211
Retirement benefit liability	6,940	6,364
Asset retirement obligations	2,256	2,191
Other	3,202	2,671
Total non-current liabilities	82,639	66,133
Total liabilities	167,656	155,905
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,341	45,341
Retained earnings	112,891	132,989
Treasury shares	(9,702)	(9,638)
Total shareholders' equity	190,550	210,712
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,343	3,832
Deferred gains or losses on hedges	(18)	16
Foreign currency translation adjustment	(949)	1,657
Remeasurements of defined benefit plans	775	684
Total accumulated other comprehensive income	4,151	6,191
Share acquisition rights	102	68
Non-controlling interests	614	613
Total net assets	195,419	217,585
Total liabilities and net assets	363,075	373,491

(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, 2020	For the nine-month ended December 31, 2021
Net sales	161,596	193,984
Cost of sales	137,279	147,530
Gross profit	24,316	46,453
Selling, general and administrative expenses	27,207	29,979
Operating profit (loss)	(2,890)	16,473
Non-operating income		
Interest income	20	19
Dividends income	746	754
Share of profit of entities accounted for using equity method	4,172	4,186
Other	1,711	2,416
Total non-operating income	6,651	7,376
Non-operating expenses		
Interest expenses	331	293
Foreign exchange losses	549	-
Leave allowance	464	6
Rental expenses	182	196
Other	489	240
Total non-operating expenses	2,018	737
Ordinary profit (loss)	1,742	23,113
Extraordinary income		
Gain on sales of non-current assets	48	6,981
Gain on sales of investment securities	5,323	0
Gain on change in equity	267	-
Gain on reversal of asset retirement obligations	327	-
Insurance claim income	315	34
Gain on reversal of retirement benefit obligations	-	77
Other	1	-
Total extraordinary income	6,282	7,093
Extraordinary losses		
Loss on sales and retirement of non-current assets	878	665
Impairment loss	3	-
Loss on disaster	-	35
Loss on tax purpose reduction entry of non-current assets	17	31
Loss on sales of investment securities	3	-
Loss on valuation of investment securities	1,229	18
Business restructuring expenses	792	-
Provision for loss related to the Anti-Monopoly Act	-	360
Total extraordinary losses	2,925	1,110
Profit before income taxes	5,100	29,096
Income taxes - current	873	6,358
Refund of income taxes	(1,071)	-
Income taxes - deferred	(2,161)	108
Total income taxes	(2,358)	6,466
Profit	7,459	22,629
Profit attributable to non-controlling interests	77	49
Profit attributable to owners of parent	7,381	22,580

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

(Million yen)

	For the nine-month ended December 31, 2020	For the nine-month ended December 31, 2021
Profit	7,459	22,629
Other comprehensive income		
Valuation difference on available-for-sale securities	1,000	(344)
Deferred gains or losses on hedges	(39)	29
Foreign currency translation adjustment	(950)	2,644
Remeasurements of defined benefit plans, net of tax	100	(64)
Share of other comprehensive income of entities accounted for using equity method	55	(187)
Total other comprehensive income	166	2,077
Comprehensive income	7,625	24,707
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,552	24,620
Comprehensive income attributable to non-controlling interests	72	87

(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.

(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, adjusting the amount of cumulative effect of retrospective application to the beginning balance of the first quarter. 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, adjusting the amount of the cumulative effects of such changes to retained earnings at the beginning of the first quarter.

As a result, the effect of the application of the above accounting standard on the profit and loss of the first nine 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 reclassify items 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.