

Consolidated Financial Results for the Year Ended March 31, 2024 [Japanese GAAP]

May 15, 2024

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

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

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Scheduled date of ordinary general meeting of shareholders: June 27, 2024

Scheduled date of commencement of dividend payments: June 28, 2024

Scheduled date of filing annual securities reports: June 27, 2024

Supplementary documents for financial results: Yes

Results briefing: Yes (for institutional investors and analysts)

(Figures rounded down to the nearest million yen)

1. Consolidated financial results for the year ended March 31, 2024 (April 1, 2023 through March 31, 2024)

(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	%
Year ended March 31, 2024	297,056	(1.4)	15,267	(11.7)	17,766	54.9	8,396	0.9
Year ended March 31, 2023	301,204	15.1	17,288	(15.5)	11,471	(61.1)	8,325	(60.7)

(Note) Comprehensive income: Year ended March 31, 2024: 30,283 million yen (124.5%)

Year ended March 31, 2023: 13,488 million yen (44.0%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2024	49.94	49.90	3.5	4.4	5.1
Year ended March 31, 2023	49.54	49.48	3.8	3.0	5.7

(Reference) Investment income by equity method: Year ended March 31, 2024: 1,289 million yen

Year ended March 31, 2023: -8,609 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2024	415,629	252,401	60.5	1,496.55
As of March 31, 2023	388,444	225,950	58.0	1,339.89

(Reference) Equity: As of March 31, 2024: 251,646 million yen

As of March 31, 2023: 225,209 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the year
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2024	22,320	(15,494)	(3,801)	22,140
Year ended March 31, 2023	1,746	(12,753)	(2,099)	18,063

2. Dividends

	Annual dividend per share					Total dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividend to net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Year ended March 31, 2023	—	9.00	—	9.00	18.00	3,035	36.3	1.4
Year ended March 31, 2024	—	9.00	—	9.00	18.00	3,037	36.0	1.3
Year ending March 31, 2025 (forecast)	—	11.00	—	11.00	22.00		26.4	

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2025 (April 1, 2024 through March 31, 2025)

(% 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
2Q (Accumulated)	150,000	(0.1)	8,000	(33.9)	8,000	(41.9)	6,000	(36.2)	35.68
Full year	310,000	4.4	17,000	11.3	19,000	6.9	14,000	66.7	83.26

*** Notes**

(1) Changes in significant subsidiaries during the year (changes in specified subsidiaries accompanying changes in the scope of consolidation): Yes

New - None

Excluded - 2 companies

Xing Hui Investment Holdings Co., Ltd.

Jiangmen Xinghui Paper Mill Co., Ltd.

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

(i) Changes in accounting policies due to amendment to 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

(3) Shares outstanding (common stock)

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

As of March 31, 2024 188,053,114 shares As of March 31, 2023 188,053,114 shares

(ii) Number of treasury stock at year-end:

As of March 31, 2024 19,902,054 shares As of March 31, 2023 19,972,637 shares

(iii) Average number of shares during the year:

For the year ended March 31, 2024 168,124,865 shares For the year ended March 31, 2023 168,064,868 shares

(Reference) Overview of non-consolidated financial results

1. Non-consolidated financial results for the year ended March 31, 2024 (April 1, 2023 through March 31, 2024)

(1) Non-consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Net profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2024	194,279	3.8	10,457	251.1	14,484	28.2	3,653	(50.9)
Year ended March 31, 2023	187,131	13.6	2,978	(59.1)	11,298	(13.7)	7,448	1.1

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2024	21.66	21.64
Year ended March 31, 2023	44.16	44.11

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2024	288,146	141,206	49.0	836.41
As of March 31, 2023	278,051	135,469	48.7	802.67

(Reference) Equity: As of March 31, 2024: 141,128 million yen

As of March 31, 2023: 135,378 million yen

*** The summary of financial results is exempt from audits conducted by certified public accountants 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. For assumptions of business forecasts and a note about the use of business forecasts, please refer to page 5 “1. Summary of Operating Results (4) Future outlook.”

*** 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. Summary of Operating Results

(1) Summary of operating results during the year

(Operating results during the year)

During the current fiscal year, net sales and operating profit decreased due to the impact of declining international pulp sales prices although price revisions in domestic paper sales implemented in the previous fiscal year did have an effect. Ordinary profit increased due to improved share of profit of entities accounted for using equity method. Profit attributable to owners of parent increased, reflecting the recording of extraordinary losses associated with the partial transfer of shares of Xing Hui Investment Holdings Co., Ltd., a consolidated subsidiary of the Company, and a related decrease in total corporate taxes. The Group's consolidated financial results for the current fiscal year were as follows:

Net sales	297,056 million yen	(down 1.4% year on year)
Operating profit	15,267 million yen	(down 11.7% year on year)
Ordinary profit	17,766 million yen	(up 54.9% year on year)
Profit attributable to owners of parent	8,396 million yen	(up 0.9% year on year)

The performance of major segments is as follows:

(i) Pulp and paper business

(Million yen)

	Previous year	Current year	Difference
Net sales	279,109	272,972	(6,136)
Operating profit	16,092	13,681	(2,410)

In the pulp and paper business, sales and profit declined due to a fall in pulp sales prices and the soaring prices of raw materials and fuels, despite the effect of price revisions in domestic paper sales. By product type, sales of paper increased due to price revisions implemented in the previous fiscal year although the sales volumes of products for domestic sales decreased due to a decline in demand caused by the digitalization of advertising media and mail order catalogs, as well as the suspension of operations at the Niigata Mill because of lightning strikes and earthquakes.

Sales of paperboard also exceeded the level achieved in the previous fiscal year due to price revisions implemented in the previous fiscal year. By grade, the sales volumes of special white paperboard and coated duplex board (with gray-back) decreased due to sluggish demand for packaging applications affected by declined personal consumption spending, but the sales volume of high-grade white paperboard increased as demand for point-of-purchase (POP) store ad applications recovered in some areas and demand for food applications remained strong. The sales volume of containerboard base paper decreased due to sluggish demand.

Regarding performance materials, demand for chip carrier tape base paper for transporting electronic components recovered in functional paper, and sales of special paper and communication paper increased as a result of our efforts to revise prices, in addition to our focus on expanding sales of crimped postcard paper and products for food packaging materials applications for convenience stores.

Sales of pulp decreased due to a fall in sales prices, although the sales volume surpassed the figure in the previous fiscal year due to the resolution of the freight cars supply shortage in the previous year that affected overseas subsidiaries.

(ii) Packaging/Paper processing business

(Million yen)

	Previous year	Current year	Difference
Net sales	13,740	15,697	1,957
Operating profit (loss)	(3)	282	285

In the packaging/paper processing business, sales and profit grew due to the effect of price revisions and increased orders received by the paper containers and packaging materials business, despite factors increasing costs such as soaring imported base paper prices.

(iii) Other businesses

(Million yen)

	Previous year	Current year	Difference
Net sales	8,355	8,387	31
Operating profit	694	866	171

In other businesses, including the wood material business, construction business, logistics business and used paper wholesale business, sales and profits increased due to a rise in external orders, especially in the wood material business.

(2) Summary of financial conditions during the fiscal year

(Million yen)

	End of previous year	End of current year	Change
Total assets	388,444	415,629	27,185
Net assets	225,950	252,401	26,451
Equity ratio	58.0%	60.5%	2.6%
Net assets per share	1,339.89 yen	1,496.55 yen	156.66 yen
Interest-bearing debt at year-end	103,725	104,362	636

Total assets increased 27,185 million yen from the end of the previous fiscal year, to 415,629 million yen. This was attributable primarily to increases of 4,076 million yen in cash and deposits, 1,157 million yen in notes and accounts receivable-trade and contract assets, 1,423 million yen in merchandise and finished goods, 1,665 million yen in raw materials and supplies, 9,654 million yen in investment securities, and 6,919 million yen in assets for retirement benefits.

Total liabilities rose 733 million yen from the end of the previous fiscal year, to 163,228 million yen. This was primarily due to an increase in interest-bearing debt of 636 million yen.

Net assets rose 26,451 million yen from the end of the previous fiscal year, to 252,401 million yen. This mainly reflected increases in retained earnings of 4,928 million yen due to profit attributable to owners of parent, and valuation difference on available-for-sale securities of 6,733 million yen, foreign currency translation adjustment of 10,483 million yen and remeasurements of defined benefit plans of 4,749 million yen.

(3) Summary of cash flow during the fiscal year

(Million yen)

	Previous year	Current year	Change
Cash flows from operating activities	1,746	22,320	20,573
Cash flows from investing activities	(12,753)	(15,494)	(2,741)
Cash flows from financing activities	(2,099)	(3,801)	(1,701)
Effect of exchange rate change on cash and cash equivalents	893	1,052	159
Net increase (decrease) in cash and cash equivalents	(12,212)	4,076	16,289
Cash and cash equivalents at beginning of period	30,275	18,063	(12,212)
Cash and cash equivalents at end of the year	18,063	22,140	4,076

Cash and cash equivalents as of the end of current year increased 4,076 million yen year on year, to 22,140 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 22,320 million yen (inflow of 1,746 million yen in the previous fiscal year).

Major inflows were profit before income taxes of 5,869 million yen, depreciation of 12,864 million yen, loss on sale of shares of subsidiaries and associates of 4,469 million yen, loss on waiver of debt of subsidiaries and associates of 2,603 million yen, an increase in allowance for doubtful accounts of 2,733 million yen, and interest and dividend income received of 2,283 million yen. Major outflows were an increase in

inventories of 3,079 million yen and income taxes paid of 5,301 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 15,494 million yen (up 21.5% year on year).

A major factor was the purchase of property, plant and equipment of 13,494 million yen.

(Cash flow from financing activities)

Net cash used in financing activities amounted to 3,801 million yen (up 81.0% year on year).

Major outflows were a decrease in commercial paper of 3,000 million yen, repayments of long-term borrowings of 8,700 million yen, redemption of bonds of 10,000 million yen and dividends paid of 3,035 million yen. Major inflows were proceeds from long-term loans of 7,000 million yen and proceeds from issuance of bonds of 15,000 million yen.

(4) Future outlook

(i) Forecast on financial results for the next fiscal year

Although the Japanese economy is expected to gradually recover due to the normalization of economic activity and an improvement in the employment and income environment thanks to the effects of various policies, the future remains uncertain given factors such as fluctuations in the foreign exchange and financial markets, prolonged geopolitical risks, and the continued rise of the prices of raw materials and fuels.

In these circumstances, the business environment surrounding the pulp and paper industry is expected to be difficult due to the continued decline of demand for domestic paper and the soaring prices of imported raw materials. Although the Group expects to see the prices of raw materials and fuels rise due to the continued appreciation of the dollar and a decline in the domestic paper sales volume, the Group plans to increase sales volumes by recovering pulp sales prices and strengthening the export business.

The following business forecast was prepared by considering these circumstances comprehensively.

The following forecast was based on information currently available to the Company at the time of the release of these materials. Actual result may differ from the above forecast due to various factors.

	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
Year ending March 31, 2025 (forecast)	310,000	17,000	19,000	14,000	83.26
Year ended March 31, 2024 (actual)	297,056	15,267	17,766	8,396	49.94
% change from the previous corresponding period	4.4%	11.3%	6.9%	66.7%	

(ii) Forecast on dividends for the next fiscal year

The Company continues to make investments for growth to boost its corporate value consistently and from a long-term perspective. With this in mind, it established the basic guidelines for capital policy with an emphasis on the implementation of continuous and stable dividend payments based on the capital policy of maintaining a balance between financial soundness, capital efficiency and shareholder returns.

Comprehensively considering our achievement of certain results in various management measures in our outlook for the next fiscal year based on our Long-term Management Vision and Medium-term Management Plan 2026, our dividend forecast for the next fiscal year is for an interim dividend of 11 yen per share and a year-end dividend of 11 yen per share, giving a total annual dividend of 22 yen per share.

2. Our Basic Philosophy on the Selection of Accounting Standards

Taking into account the period comparability of consolidated financial statements, the Group currently prepares consolidated financial statements based on Japanese GAAP. With respect to the International Financial Reporting Standards (IFRSs) the Company will address the issue appropriately with consideration to the various circumstances in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Million yen)

	As of March 31, 2023	As of March 31, 2024
(Assets)		
Current assets		
Cash and deposits	18,063	22,140
Notes and accounts receivable - trade, and contract assets	75,827	76,984
Electronically recorded monetary claims - operating	8,752	8,844
Merchandise and finished goods	28,458	29,881
Work in process	2,792	3,252
Raw materials and supplies	32,415	34,080
Other	4,469	4,709
Allowance for doubtful accounts	(4)	(15)
Total current assets	170,775	179,879
Non-current assets		
Property, plant and equipment		
Buildings and structures	87,761	86,500
Accumulated depreciation	(56,135)	(57,231)
Buildings and structures, net	31,625	29,268
Machinery, equipment and vehicles	439,463	445,517
Accumulated depreciation	(381,854)	(386,003)
Machinery, equipment and vehicles, net	57,609	59,513
Tools, furniture and fixtures	6,841	7,357
Accumulated depreciation	(5,511)	(5,809)
Tools, furniture and fixtures, net	1,330	1,547
Land	17,981	17,746
Leased assets	184	192
Accumulated depreciation	(134)	(147)
Leased assets, net	49	45
Right-of-use assets	2,803	2,304
Accumulated depreciation	(762)	(882)
Right-of-use assets, net	2,040	1,421
Construction in progress	3,991	4,533
Forestland	2,431	2,435
Total property, plant and equipment	117,060	116,511
Intangible assets	2,467	2,540
Investments and other assets		
Investment securities	22,272	31,926
Shares of subsidiaries and associates	63,643	65,936
Long-term loans	223	2,946
Asset for retirement benefits	4,316	11,235
Deferred tax assets	1,779	1,513
Other	6,189	6,145
Allowance for doubtful accounts	(283)	(3,006)
Total investments and other assets	98,141	116,698
Total non-current assets	217,669	235,750
Total assets	388,444	415,629

(Million yen)

	As of March 31, 2023	As of March 31, 2024
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,283	22,900
Electronically recorded obligations - operating	7,820	7,578
Short-term loans	17,058	25,889
Commercial papers	10,000	7,000
Current portion of bonds payable	10,000	—
Lease obligations	301	357
Income taxes payable	2,919	845
Accrued consumption taxes	144	1,384
Contract liabilities	538	357
Provision for bonuses	2,771	2,999
Provision for directors' bonuses	62	68
Provision for environmental measures	39	38
Provision for loss on disaster	107	351
Provision for reforestation	225	251
Notes payable - facilities	1,406	1,801
Other	11,186	10,370
Total current liabilities	85,865	82,197
Non-current liabilities		
Bonds payable	10,000	25,000
Long-term loans	54,938	44,718
Lease obligations	1,427	1,395
Deferred tax liabilities	2,224	1,979
Provision for environmental measures	1,267	1,371
Provision for reforestation	325	393
Retirement benefit liability	3,806	3,755
Asset retirement obligations	2,410	2,226
Other	228	189
Total non-current liabilities	76,629	81,030
Total liabilities	162,494	163,228
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,342	44,953
Retained earnings	135,489	140,417
Treasury shares	(9,625)	(9,593)
Total shareholders' equity	213,226	217,798
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,418	11,152
Deferred gains or losses on hedges	79	(21)
Foreign currency translation adjustment	5,907	16,390
Remeasurements of defined benefit plans	1,576	6,326
Total accumulated other comprehensive income	11,982	33,847
Share acquisition rights	91	78
Non-controlling interests	649	676
Total net assets	225,950	252,401
Total liabilities and net assets	388,444	415,629

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the year ended March 31, 2023	For the year ended March 31, 2024
Net sales	301,204	297,056
Cost of sales	237,186	236,908
Gross profit	64,018	60,148
Selling, general and administrative expenses	46,729	44,880
Operating profit	17,288	15,267
Non-operating income		
Interest income	128	788
Dividends income	1,402	825
Share of profit of entities accounted for using equity method	—	1,289
Foreign exchange gains	2,238	—
Other	1,024	1,160
Total non-operating income	4,793	4,062
Non-operating expenses		
Interest expenses	796	841
Share of loss of entities accounted for using equity method	8,609	—
Rental expenses	210	210
Other	993	513
Total non-operating expenses	10,610	1,564
Ordinary profit	11,471	17,766
Extraordinary income		
Gain on sales of non-current assets	845	934
Gain on sales of investment securities	233	9
Gain on contribution of securities to retirement benefit trust	1,416	—
Subsidy income	6	31
Insurance claim income	689	79
Total extraordinary income	3,192	1,054
Extraordinary losses		
Loss on sales and retirement of non-current assets	899	1,221
Impairment loss	—	403
Loss on disaster	—	1,484
Loss on tax purpose reduction entry of non-current assets	6	30
Loss on sale of shares of subsidiary	—	4,469
Loss on waiver of debt of subsidiary	—	2,603
Provision of allowance for doubtful accounts	—	2,735
Other	—	1
Total extraordinary losses	905	12,950
Profit before income taxes	13,757	5,869
Income taxes - current	6,364	1,691
Income taxes - deferred	(1,010)	(4,332)
Total income taxes	5,354	(2,641)
Profit	8,403	8,510
Profit attributable to non-controlling interests	78	113
Profit attributable to owners of parent	8,325	8,396

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended March 31, 2023	For the year ended March 31, 2024
Profit	8,403	8,510
Other comprehensive income		
Valuation difference on available-for-sale securities	719	6,171
Deferred gains or losses on hedges	(104)	(8)
Foreign currency translation adjustment	847	7,957
Remeasurements of defined benefit plans, net of tax	152	4,463
Share of other comprehensive income of entities accounted for using equity method	3,470	3,189
Total other comprehensive income	5,085	21,773
Comprehensive income:	13,488	30,283
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,394	30,261
Comprehensive income attributable to non-controlling interests	93	22

(4) Consolidated Statement of Cash Flows

(Million yen)

	For the year ended March 31, 2023	For the year ended March 31, 2024
Cash flows from operating activities		
Profit before income taxes	13,757	5,869
Depreciation	11,854	12,864
Impairment loss	—	403
Amortization of goodwill	141	155
Insurance claim income	(689)	(79)
Increase (decrease) in net defined benefit liability	233	(81)
Interest and dividend income	(1,530)	(1,613)
Interest expenses	796	841
Share of loss (profit) of entities accounted for using equity method	8,609	(1,289)
Loss (gain) on sale of investment securities	(233)	(9)
Loss on tax purpose reduction entry of non-current assets	6	30
Net loss (gain) on sales and retirement of non-current assets	53	287
Loss (gain) on contribution of securities to retirement benefit trust	(1,416)	—
Decrease (increase) in trade receivables	(15,973)	(29)
Decrease (increase) in inventories	(5,960)	(3,079)
Decrease (increase) in consumption taxes refund receivable	252	648
Increase (decrease) in notes and accounts payable - trade	2,074	1,407
Increase (decrease) in accrued consumption taxes	(290)	1,237
Loss on sale of shares of subsidiary	—	4,469
Loss on waiver of debt of subsidiary	—	2,603
Increase (decrease) in allowance for doubtful accounts	(4)	2,733
Other	(780)	(1,243)
Subtotal	10,899	26,128
Interest and dividend income received	2,338	2,283
Interest paid	(730)	(868)
Income taxes paid	(7,450)	(5,301)
Proceeds from insurance income	689	79
Payments for deposit money	(4,000)	—
Net cash provided by (used in) operating activities	1,746	22,320
Cash flows from investing activities		
Payments for purchases of investment securities	(432)	(1,122)
Proceeds from sales of investment securities	415	51
Payments for purchases of property, plant and equipment	(12,515)	(13,494)
Payments for retirement of property, plant and equipment	(715)	(1,057)
Proceeds from sales of property, plant and equipment	1,047	1,545
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	—	(872)
Payments of loans receivable	(92)	(44)
Collection of loans receivable	45	19
Other	(506)	(519)
Net cash provided by (used in) investing activities	(12,753)	(15,494)

	(Million yen)	
	For the year ended March 31, 2023	For the year ended March 31, 2024
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(8,427)	(691)
Net increase (decrease) in commercial papers	7,000	(3,000)
Proceeds from long-term loans	31,380	7,000
Repayments of long-term loans	(27,324)	(8,700)
Proceeds from issuance of bonds	—	15,000
Redemption of bonds	—	(10,000)
Dividends paid	(4,380)	(3,035)
Dividends paid to non-controlling interests	(89)	(99)
Other	(258)	(274)
Net cash provided by (used in) financing activities	(2,099)	(3,801)
Translation (loss) gain on cash and cash equivalents	893	1,052
Net increase (decrease) in cash and cash equivalents	(12,212)	4,076
Cash and cash equivalents at beginning of period	30,275	18,063
Cash and cash equivalents at end of the year	18,063	22,140