

Consolidated Quarterly Financial Results for the Six Months Ended September 30, 2019 [Japanese GAAP]

November 13, 2019

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

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

Representative: Sekio Kishimoto, President & CEO

Contact: Tomonari Maruyama, General Manager, Accounting Department

TEL: +81-3-3245-4500

Scheduled date of filing quarterly report: November 14, 2019

Scheduled date of commencement of dividend payments: December 3, 2019

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, 2019 (April 1, 2019 through September 30, 2019)

(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, 2019	136,714	1.4	7,301	276.9	9,557	118.7	6,544	145.3
Six months ended September 30, 2018	134,819	1.8	1,937	(57.5)	4,370	(37.1)	2,667	(50.2)

(Note) Comprehensive income: Six months ended September 30, 2019: 4,515 million yen (173.3%)
Six months ended September 30, 2018: 1,652 million yen (-74.5%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2019	34.62	33.22
Six months ended September 30, 2018	14.12	13.54

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	356,012	195,930	54.8
As of March 31, 2019	368,082	192,861	52.2

(Reference) Equity: As of September 30, 2019: 195,246 million yen
As of March 31, 2019: 192,104 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, 2019	–	6.00	–	6.00	12.00
Fiscal year ending March 31, 2020	–	6.00			
Fiscal year ending March 31, 2020 (forecast)			–	6.00	12.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 through March 31, 2020)

(% 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	270,000	(2.1)	11,000	8.6	14,000	7.6	9,500	3.8	50.25

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

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2019 (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, 2019	209,263,814 shares	As of March 31, 2019	209,263,814 shares
--------------------------	--------------------	----------------------	--------------------

(ii) Number of treasury stock:

As of September 30, 2019	20,195,058 shares	As of March 31, 2019	20,213,382 shares
--------------------------	-------------------	----------------------	-------------------

(iii) Average number of shares during period:

Six months ended September 30, 2019	189,055,612 shares	Six months ended September 30, 2018	188,986,098 shares
-------------------------------------	--------------------	-------------------------------------	--------------------

*** 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 Results

During the current six months, net sales amounted to 136,714 million yen (up 1.4% year on year) and operating profit amounted to 7,301 million yen (up 276.9% year on year), due primarily to the price revision of paper from January 2019 and increased sales in overseas subsidiaries. Ordinary profit rose to 9,557 million yen (up 118.7% year on year) and profit attributable to owners of parent came to 6,544 million yen (up 145.3% year on year).

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets decreased 12,070 million yen from the end of the previous fiscal year, to 356,012 million yen. Major factors included decreases in notes and accounts receivable of 10,872 million yen, and raw materials and supplies of 3,184 million yen, offsetting an increase in merchandise and finished goods of 2,068 million yen.

Total liabilities fell 15,138 million yen from the end of the previous fiscal year, to 160,082 million yen. This was primarily due to a decrease in interest-bearing debt of 11,828 million yen.

Net assets rose 3,068 million yen from the end of the previous fiscal year, to 195,930 million yen. This chiefly reflected an increase in retained earnings of 5,161 million yen, due mainly to recording profit attributable to owners of parent despite a decline in valuation difference on available-for-sale securities of 2,006 million yen.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

Given the softening of the global pulp market, the full-year consolidated earnings forecasts are expected to fall below the previous forecasts in net sales, operating profit, ordinary profit, and profit attributable to owners of parent.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2019	As of September 30, 2019
(Assets)		
Current assets		
Cash and deposits	15,202	15,395
Notes and accounts receivable - trade	67,708	56,836
Electronically recorded monetary claims - operating	6,228	6,101
Merchandise and finished goods	26,012	28,081
Work in process	2,247	2,098
Raw materials and supplies	26,679	23,495
Other	6,075	5,039
Allowance for doubtful accounts	(55)	(52)
Total current assets	150,098	136,996
Non-current assets		
Property, plant and equipment		
Buildings and structures	83,736	84,647
Accumulated depreciation	(50,949)	(51,883)
Buildings and structures, net	32,787	32,763
Machinery, vehicles, tools, furniture and fixtures	427,956	431,138
Accumulated depreciation	(354,882)	(360,475)
Machinery, vehicles, tools, furniture and fixtures, net	73,074	70,663
Other, net	29,018	31,600
Total property, plant and equipment	134,880	135,027
Intangible assets	2,907	3,105
Investments and other assets		
Investments in securities	73,287	73,066
Other	9,335	10,243
Allowance for doubtful accounts	(2,427)	(2,428)
Total investments and other assets	80,195	80,882
Total non-current assets	217,983	219,015
Total assets	368,082	356,012

(Million yen)

	As of March 31, 2019	As of September 30, 2019
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,409	19,017
Electronically recorded obligations - operating	6,632	6,612
Short-term borrowings	25,655	24,437
Commercial papers	10,500	—
Income taxes payable	2,531	787
Provision	3,413	3,368
Other	14,152	14,828
Total current liabilities	84,293	69,051
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	43,331	41,414
Provision	1,386	1,453
Retirement benefit liability	12,014	12,189
Asset retirement obligations	2,376	2,467
Other	1,818	3,506
Total non-current liabilities	90,926	91,030
Total liabilities	175,220	160,082
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,348	45,345
Retained earnings	105,599	110,760
Treasury shares	(9,933)	(9,924)
Total shareholders' equity	183,034	188,202
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,876	6,870
Deferred gains or losses on hedges	(1)	0
Foreign currency translation adjustment	(388)	(331)
Remeasurements of defined benefit plans	583	504
Total accumulated other comprehensive income	9,070	7,043
Share acquisition rights	104	114
Non-controlling interests	651	569
Total net assets	192,861	195,930
Total liabilities and net assets	368,082	356,012

(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, 2018	For the six -month ended September 30, 2019
Net sales	134,819	136,714
Cost of sales	112,660	109,248
Gross profit	22,158	27,466
Selling, general and administrative expenses	20,221	20,164
Operating profit	1,937	7,301
Non-operating income		
Interest income	38	47
Dividends income	594	685
Share of profit of entities accounted for using equity method	1,110	2,578
Foreign exchange gains	951	-
Others	1,120	839
Total non-operating income	3,814	4,151
Non-operating expenses		
Interest expenses	406	339
Foreign exchange losses	-	941
Environmental expenses	669	-
Others	304	614
Total non-operating expenses	1,380	1,895
Ordinary profit	4,370	9,557
Extraordinary income		
Gain on sales of non-current assets	214	27
Gain on sales of investment in securities	0	153
Gain on change in equity	241	-
Gain on transfer of business	87	-
Insurance claim income	24	46
Total extraordinary income	567	226
Extraordinary losses		
Loss on sales and retirement of non-current assets	734	697
Impairment loss	5	0
Loss on disaster	322	561
Loss on tax purpose reduction entry of non-current assets	16	-
Loss on valuation of investment securities	-	16
Total extraordinary losses	1,078	1,275
Profit before income taxes	3,859	8,508
Income taxes - current	1,397	1,781
Income taxes - deferred	(162)	176
Total income taxes	1,235	1,957
Profit	2,624	6,551
Profit (loss) attributable to non-controlling interests	(43)	7
Profit attributable to owners of parent	2,667	6,544

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

(Million yen)

	For the six -month ended September 30, 2018	For the six -month ended September 30, 2019
Profit	2,624	6,551
Other comprehensive income		
Valuation difference on available-for-sale securities	1,527	(856)
Deferred gains or losses on hedges	35	(1)
Foreign currency translation adjustment	(3,013)	47
Remeasurements of defined benefit plans, net of tax	(60)	(54)
Share of other comprehensive income of entities accounted for using equity method	540	(1,170)
Total other comprehensive income	(971)	(2,035)
Comprehensive income	1,652	4,515
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,711	4,517
Comprehensive income attributable to non-controlling interests	(58)	(1)

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the six -month ended September 30, 2018	For the six -month ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	3,859	8,508
Depreciation	9,119	9,302
Impairment loss	5	0
Amortization of goodwill	67	63
Insurance income	(24)	(46)
Increase (decrease) in net defined benefit liability	111	105
Interest and dividend income	(632)	(732)
Interest expenses	406	339
Equity in (income) losses of affiliates	(1,110)	(2,578)
Loss on tax purpose reduction of property, plant and equipment	16	-
Loss (gain) on sales or disposal of property, plant and equipment	520	670
Decrease (increase) in notes and accounts receivable - trade	4,333	11,016
Decrease (increase) in inventories	(1,605)	1,288
Decrease (increase) in consumption taxes refund receivable	529	115
Increase (decrease) in notes and accounts payable - trade	(526)	(2,368)
Increase (decrease) in accrued consumption taxes	181	(86)
Other	901	1,291
Subtotal	16,153	26,890
Interest and dividend income received	881	969
Interest paid	(381)	(317)
Income taxes paid	(2,287)	(4,135)
Proceeds from insurance income	-	162
Net cash provided by (used in) operating activities	14,365	23,570
Cash flows from investing activities		
Payments for purchases of investment securities	(2,824)	(26)
Proceeds from sales of investment securities	-	342
Payments for purchases of property, plant and equipment	(6,158)	(6,037)
Proceeds from sales of property, plant and equipment	627	31
Payments of loans receivable	(112)	(114)
Collection of loans receivable	57	123
Other	(667)	(2,645)
Net cash provided by (used in) investing activities	(9,078)	(8,327)
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(3,033)	(1,990)
Net increase (decrease) in commercial papers	(11,000)	(10,500)
Proceeds from long-term loans	12,200	1,000
Repayments of long-term loans	(2,826)	(1,900)
Dividends paid	(1,136)	(1,137)
Dividends paid to non-controlling interests	(77)	(80)
Payments for purchases of treasury stock	(0)	(0)
Other	(46)	(65)
Net cash provided by (used in) financing activities	(5,921)	(14,674)
Translation (loss) gain on cash and cash equivalents	(235)	(375)
Net increase (decrease) in cash and cash equivalents	(869)	192
Cash and cash equivalents at beginning of period	14,281	15,202
Cash and cash equivalents at end of period	13,412	15,395

(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)

Overseas consolidated subsidiaries that have adopted IFRS commenced the application of IFRS 16: Lease in the first quarter of the current fiscal year. Therefore, the lessee shall recognize assets and liabilities for all leases in the balance sheet, in principle. In applying IFRS 16, practical expedient is followed and the cumulative effect of initially applying IFRS 16 at the date of application is recognized as an adjustment to retained earnings at the beginning of the first quarter of the current fiscal year.

As a result, "Other, net" in property, plant and equipment, "Other" in current liabilities, and "Other" in non-current liabilities at the end of the second quarter of the current fiscal year rose 2,196 million yen, 215 million yen, and 1,613 million yen, respectively. "Other" in current assets, "Other" in investments and other assets declined 109 million yen and 598 million yen, respectively. The impact on profit in the first half of the current fiscal year is immaterial. In addition, retained earnings at the beginning of the current fiscal year was decreased by 248 million yen.