

Consolidated Quarterly Financial Results for the Nine Months Ended December 31, 2019 [Japanese GAAP]

February 13, 2020

Company: **Hokuetsu Corporation**

Stock Exchange Listing: Tokyo

Stock Code: 3865

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Scheduled date of filing quarterly report: February 14, 2020

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, 2019 (April 1, 2019 through December 31, 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	%
Nine months ended December 31, 2019	201,818	(2.1)	9,429	118.9	12,786	107.9	2,685	(26.5)
Nine months ended December 31, 2018	206,121	2.7	4,307	(47.2)	6,150	(43.0)	3,654	(47.6)

(Note) Comprehensive income: Nine months ended December 31, 2019: 1,563 million yen (–%)
Nine months ended December 31, 2018: -1,305 million yen (–%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2019	14.21	12.29
Nine months ended December 31, 2018	19.34	18.94

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2019	368,506	191,833	51.9
As of March 31, 2019	368,082	192,861	52.2

(Reference) Equity: As of December 31, 2019: 191,140 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	268,000	(2.8)	11,000	8.6	15,000	15.2	8,000	(12.6)	42.32

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

*** Notes**

(1) Changes in significant subsidiaries during the nine months ended December 31, 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 December 31, 2019	209,263,814 shares	As of March 31, 2019	209,263,814 shares
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(ii) Number of treasury stock:

As of December 31, 2019	20,234,824 shares	As of March 31, 2019	20,213,382 shares
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(iii) Average number of shares during period:

Nine months ended December 31, 2019	189,056,306 shares	Nine months ended December 31, 2018	188,997,630 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 nine-month period under review, net sales decreased to 201,818 million yen (down 2.1% year on year), reflecting the weak domestic demand and declining sales prices abroad, partially offset by the price revision of paper that was implemented in January 2019. Operating profit during the period came to 9,429 million yen (up 118.9% year on year), with ordinary profit rising to 12,786 million yen (up 107.9% year on year), reflecting the price revision of paper and a range of successful cost reduction initiatives. Meanwhile, profit attributable to owners of parent decreased to 2,685 million yen (down 26.5% year on year), due to the impairment loss on non-current assets at Jiangmen Xinghui Paper Mill Co., Ltd.

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 424 million yen from the end of the previous fiscal year, to 368,506 million yen. Major factors included increases in cash and deposits of 7,310 million yen and investments in securities of 5,656 million yen, partially offset by decreases in raw materials and supplies of 4,363 million yen and property, plant and equipment of 7,480 million yen, due mainly to depreciation.

Total liabilities rose 1,452 million yen from the end of the previous fiscal year, to 176,672 million yen. This was primarily due to an increase in interest-bearing debt of 2,669 million yen.

Net assets fell 1,027 million yen from the end of the previous fiscal year, to 191,833 million yen. This chiefly reflected a decrease in valuation difference on available-for-sale securities of 816 million yen.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

Given the financial results for the nine-month period under review and the business outlook, the full-year consolidated earnings forecasts for the fiscal year ending March 31, 2020 announced on November 13, 2019 have been revised as follows:

	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
Previous forecasts (A)	270,000	11,000	14,000	9,500	50.25
Latest forecasts (B)	268,000	11,000	15,000	8,000	42.32
Change in amount (B-A)	(2,000)	–	1,000	(1,500)	
Change in percentage	(0.7)	–	7.1	(15.8)	
(Reference) Actual results (for fiscal year ended March 31, 2019)	275,807	10,130	13,015	9,155	48.44

The above forecasts 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.

2. Consolidated Quarterly Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2019	As of December 31, 2019
(Assets)		
Current assets		
Cash and deposits	15,202	22,512
Notes and accounts receivable - trade	67,708	66,167
Electronically recorded monetary claims - operating	6,228	6,734
Merchandise and finished goods	26,012	27,051
Work in process	2,247	2,034
Raw materials and supplies	26,679	22,315
Other	6,075	5,627
Allowance for doubtful accounts	(55)	(53)
Total current assets	150,098	152,390
Non-current assets		
Property, plant and equipment		
Buildings and structures	83,736	84,253
Accumulated depreciation	(50,949)	(52,412)
Buildings and structures, net	32,787	31,840
Machinery, vehicles, tools, furniture and fixtures	427,956	427,804
Accumulated depreciation	(354,882)	(363,151)
Machinery, vehicles, tools, furniture and fixtures, net	73,074	64,653
Other, net	29,018	30,905
Total property, plant and equipment	134,880	127,399
Intangible assets	2,907	2,962
Investments and other assets		
Investments in securities	73,287	78,944
Other	9,335	9,242
Allowance for doubtful accounts	(2,427)	(2,432)
Total investments and other assets	80,195	85,754
Total non-current assets	217,983	216,116
Total assets	368,082	368,506

(Million yen)

	As of March 31, 2019	As of December 31, 2019
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,409	21,013
Electronically recorded obligations - operating	6,632	6,895
Short-term borrowings	25,655	25,458
Commercial papers	10,500	11,000
Income taxes payable	2,531	530
Provision	3,413	2,251
Other	14,152	15,478
Total current liabilities	84,293	82,628
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	43,331	44,083
Provision	1,386	1,392
Retirement benefit liability	12,014	12,296
Asset retirement obligations	2,376	2,435
Other	1,818	3,835
Total non-current liabilities	90,926	94,044
Total liabilities	175,220	176,672
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,348	45,346
Retained earnings	105,599	105,768
Treasury shares	(9,933)	(9,939)
Total shareholders' equity	183,034	183,195
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,876	8,059
Deferred gains or losses on hedges	(1)	9
Foreign currency translation adjustment	(388)	(604)
Remeasurements of defined benefit plans	583	479
Total accumulated other comprehensive income	9,070	7,944
Share acquisition rights	104	118
Non-controlling interests	651	574
Total net assets	192,861	191,833
Total liabilities and net assets	368,082	368,506

(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, 2018	For the nine-month ended December 31, 2019
Net sales	206,121	201,818
Cost of sales	171,157	162,120
Gross profit	34,964	39,698
Selling, general and administrative expenses	30,656	30,268
Operating profit	4,307	9,429
Non-operating income		
Interest income	58	69
Dividends income	923	981
Share of profit of entities accounted for using equity method	771	3,610
Others	1,851	1,216
Total non-operating income	3,604	5,877
Non-operating expenses		
Interest expenses	596	493
Foreign exchange losses	95	1,157
Environmental expenses	679	-
Others	390	870
Total non-operating expenses	1,761	2,520
Ordinary profit	6,150	12,786
Extraordinary income		
Gain on sales of non-current assets	222	31
Gain on sales of investment in securities	0	856
Gain on change in equity	256	10
Gain on transfer of business	87	-
Insurance claim income	50	89
Others	1	-
Total extraordinary income	617	988
Extraordinary losses		
Loss on sales and retirement of non-current assets	955	888
Impairment loss	5	6,354
Loss on disaster	348	684
Loss on tax purpose reduction entry of non-current assets	34	21
Loss on sales of investment securities	-	0
Loss on valuation of investment securities	-	15
Loss on sales of equity investment of subsidiary	-	666
Total extraordinary losses	1,343	8,631
Profit before income taxes	5,424	5,143
Income taxes - current	2,512	1,904
Income taxes - deferred	(565)	547
Total income taxes	1,946	2,451
Profit	3,478	2,691
Profit (loss) attributable to non-controlling interests	(176)	6
Profit attributable to owners of parent	3,654	2,685

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

(Million yen)

	For the nine-month ended December 31, 2018	For the nine-month ended December 31, 2019
Profit	3,478	2,691
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,938)	95
Deferred gains or losses on hedges	26	(1)
Foreign currency translation adjustment	(1,349)	(218)
Remeasurements of defined benefit plans, net of tax	(89)	(82)
Share of other comprehensive income of entities accounted for using equity method	(433)	(920)
Total other comprehensive income	(4,784)	(1,128)
Comprehensive income	(1,305)	1,563
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,077)	1,560
Comprehensive income attributable to non-controlling interests	(228)	3

(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)

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 third quarter of the current fiscal year rose 2,124 million yen, 214 million yen, and 1,444 million yen, respectively. "Other" in current assets, "Other" in investments and other assets declined 108 million yen and 574 million yen, respectively. The impact on profit in the nine-month period under review is immaterial. In addition, retained earnings at the beginning of the current fiscal year was decreased by 248 million yen.