

Consolidated Quarterly Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]

November 10, 2023

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 13, 2023

Scheduled date of commencement of dividend payments: December 4, 2023

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, 2023 (April 1, 2023 through September 30, 2023)

(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, 2023	150,174	10.3	12,094	202.5	13,772	185.2	9,403	379.9
Six months ended September 30, 2022	136,187	7.8	3,997	(63.0)	4,828	(67.5)	1,959	(87.8)

(Note) Comprehensive income: Six months ended September 30, 2023: 21,722 million yen (190.8%)
Six months ended September 30, 2022: 7,469 million yen (-62.6%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	55.94	55.89
Six months ended September 30, 2022	11.66	11.65

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	415,781	245,575	58.9
As of March 31, 2023	388,444	225,950	58.0

(Reference) Equity: As of September 30, 2023: 244,897 million yen
As of March 31, 2022: 225,209 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
Year ended March 31, 2023	–	9.00	–	9.00	18.00
Year ending March 31, 2024	–	9.00			
Year ending March 31, 2024 (forecast)			–	9.00	18.00

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

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2024 (April 1, 2023 through March 31, 2024)

(% 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	310,000	2.9	13,000	(24.8)	14,000	22.0	9,000	8.1	53.55

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

*** Notes**

(1) Changes in significant subsidiaries during the six months ended September 30, 2023 (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: None

(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, 2023	188,053,114 shares	As of March 31, 2023	188,053,114 shares
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(ii) Number of treasury stock:

As of September 30, 2023	19,907,594 shares	As of March 31, 2023	19,972,637 shares
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(iii) Average number of shares during period:

Six months ended September 30, 2023	168,104,892 shares	Six months ended September 30, 2022	168,054,212 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 Results

During the first six months of the current fiscal year, net sales, operating profit, ordinary profit and profit attributable to owners of parent came to 150,174 million yen (up 10.3% year on year), 12,094 million yen (up 202.5% year on year), 13,772 million yen (up 185.2% year on year) and 9,403 million yen (up 379.9% year on year), respectively, reflecting the implementation of price increases, despite soaring raw material and fuel prices.

The performance of major segments is as follows:

(i) Pulp and paper business

In the pulp and paper business, both sales and profits increased, mainly reflecting the implementation of price increases, despite soaring raw material and fuel prices.

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

Net sales	138,265 million yen (up 10.5% year on year)
Operating profit	11,375 million yen (up 227.9% year on year)

(ii) Packaging/Paper processing business

In the packaging/paper processing business, both sales and profits increased, mainly reflecting higher selling prices due to price increases and a rise in the sales volume.

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

Net sales	7,810 million yen (up 17.4% year on year)
Operating profit	116 million yen (compared to operating loss of 99 million yen a year ago)

(iii) Other businesses

In other businesses, including the wood material business, construction business, logistics business and used paper wholesale business, sales decreased due to a decline in external orders in sales of pallets in particular. Even so, in terms of profitability, profits rose due to the effect of a range of cost reduction measures.

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

Net sales	4,098 million yen (down 6.2% year on year)
Operating profit	456 million yen (up 8.1% year on year)

(2) Qualitative Information Concerning Consolidated Financial Position

Total assets increased 27,336 million yen from the end of the previous fiscal year, to 415,781 million yen. Significant factors included increases of 7,479 million yen in cash and deposits, 4,978 million yen in merchandise and finished goods, 4,152 million yen in notes and accounts receivable - trade, and contract assets, 3,253 million yen in property, plant and equipment, and 4,096 million yen in investment securities.

Total liabilities rose 7,710 million yen from the end of the previous fiscal year, to 170,205 million yen. This was primarily due to increases of 3,544 million yen in notes and accounts payable - trade and 2,966 million yen in interest-bearing debt.

Net assets rose 19,625 million yen from the end of the previous fiscal year, to 245,575 million yen. This mainly reflected increases in retained earnings of 7,769 million yen due to profit attributable to owners of parent, and valuation difference on available-for-sale securities of 3,247 million yen and foreign currency translation adjustment of 9,190 million yen.

(3) Qualitative Information Concerning Consolidated Earnings Forecasts

Based on the results of the first half of the current fiscal year and the outlook for business trends in the second half, the Company has revised the forecast of full-year consolidated financial results for the year ending March 31, 2024, which was announced on May 12, 2023, to 13,000 million yen in operating profit.

The forecast of financial results is 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. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	As of March 31, 2023	As of September 30, 2023
(Assets)		
Current assets		
Cash and deposits	18,063	25,542
Notes and accounts receivable - trade, and contract assets	75,827	79,979
Electronically recorded monetary claims - operating	8,752	8,819
Merchandise and finished goods	28,458	33,436
Work in process	2,792	3,266
Raw materials and supplies	32,415	33,486
Other	4,469	3,304
Allowance for doubtful accounts	(4)	(5)
Total current assets	170,775	187,830
Non-current assets		
Property, plant and equipment		
Buildings and structures	87,761	88,842
Accumulated depreciation	(56,135)	(57,463)
Buildings and structures, net	31,625	31,379
Machinery, vehicles, tools, furniture and fixtures	446,305	452,805
Accumulated depreciation	(387,365)	(391,643)
Machinery, vehicles, tools, furniture and fixtures, net	58,939	61,162
Other, net	26,495	27,772
Total property, plant and equipment	117,060	120,314
Intangible assets	2,467	2,481
Investments and other assets		
Investment securities	22,272	26,369
Shares of subsidiaries and associates	63,643	66,589
Other	12,508	12,477
Allowance for doubtful accounts	(283)	(281)
Total investments and other assets	98,141	105,154
Total non-current assets	217,669	227,950
Total assets	388,444	415,781

(Million yen)

	As of March 31, 2023	As of September 30, 2023
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	21,283	24,828
Electronically recorded obligations - operating	7,820	7,982
Short-term loans	17,058	13,504
Commercial papers	10,000	–
Current portion of bonds payable	10,000	10,000
Income taxes payable	2,919	2,616
Provision	3,206	3,156
Other	13,577	13,695
Total current liabilities	85,865	75,783
Non-current liabilities		
Bonds payable	10,000	25,000
Long-term loans	54,938	56,197
Provision	1,593	1,862
Retirement benefit liability	3,806	3,812
Asset retirement obligations	2,410	2,437
Other	3,880	5,111
Total non-current liabilities	76,629	94,421
Total liabilities	162,494	170,205
Net assets		
Shareholders' equity		
Share capital	42,020	42,020
Capital surplus	45,342	44,967
Retained earnings	135,489	143,258
Treasury shares	(9,625)	(9,594)
Total shareholders' equity	213,226	220,651
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,418	7,666
Deferred gains or losses on hedges	79	(32)
Foreign currency translation adjustment	5,907	15,098
Remeasurements of defined benefit plans	1,576	1,513
Total accumulated other comprehensive income	11,982	24,245
Share acquisition rights	91	71
Non-controlling interests	649	607
Total net assets	225,950	245,575
Total liabilities and net assets	388,444	415,781

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

Quarterly Consolidated Statements of Income

(First six-month period)

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	136,187	150,174
Cost of sales	110,750	116,231
Gross profit	25,437	33,942
Selling, general and administrative expenses	21,439	21,847
Operating profit	3,997	12,094
Non-operating income		
Interest income	34	301
Dividends income	554	487
Share of profit of entities accounted for using equity method	–	1,121
Foreign exchange gains	2,479	30
Other	538	426
Total non-operating income	3,607	2,368
Non-operating expenses		
Interest expenses	333	386
Share of loss of entities accounted for using equity method	2,002	–
Other	441	304
Total non-operating expenses	2,777	690
Ordinary profit	4,828	13,772
Extraordinary income		
Gain on sales of non-current assets	35	104
Gain on sales of investment securities	–	8
Insurance claim income	–	49
Total extraordinary income	35	162
Extraordinary losses		
Loss on sales and retirement of non-current assets	527	730
Loss on disaster	–	312
Total extraordinary losses	527	1,043
Profit before income taxes	4,335	12,892
Income taxes - current	2,366	3,331
Income taxes - deferred	(11)	113
Total income taxes	2,354	3,444
Profit	1,981	9,447
Profit attributable to non-controlling interests	22	44
Profit attributable to owners of parent	1,959	9,403

Quarterly Consolidated Statements of Comprehensive Income
(First six-month period)

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	1,981	9,447
Other comprehensive income		
Valuation difference on available-for-sale securities	789	2,976
Deferred gains or losses on hedges	(29)	0
Foreign currency translation adjustment	4,973	6,799
Remeasurements of defined benefit plans, net of tax	(59)	(136)
Share of other comprehensive income of entities accounted for using equity method	(185)	2,634
Total other comprehensive income	5,488	12,274
Comprehensive income	7,469	21,722
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,414	21,666
Comprehensive income attributable to non-controlling interests	55	56

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	4,335	12,892
Depreciation	6,042	6,235
Amortization of goodwill	68	74
Insurance claim income	–	(49)
Increase (decrease) in net defined benefit liability	118	(20)
Interest and dividend income	(589)	(789)
Interest expenses	333	386
Share of loss (profit) of entities accounted for using equity method	2,002	(1,121)
Net loss (gain) on sales and retirement of non-current assets	492	626
Decrease (increase) in trade receivables	(2,490)	(2,288)
Decrease (increase) in inventories	(7,728)	(4,724)
Decrease (increase) in consumption taxes refund receivable	538	770
Increase (decrease) in notes and accounts payable - trade	2,340	3,380
Increase (decrease) in accrued consumption taxes	(200)	222
Other	(926)	(1,281)
Subtotal	4,338	14,312
Interest and dividend income received	1,106	1,178
Interest paid	(323)	(413)
Income taxes paid	(4,660)	(3,757)
Proceeds from insurance income	–	49
Payments for deposit money	(3,000)	–
Net cash provided by (used in) operating activities	(2,540)	11,369
Cash flows from investing activities		
Payments for purchases of investment securities	(411)	(35)
Proceeds from sales of investment securities	0	39
Payments for purchases of property, plant and equipment	(5,362)	(5,077)
Proceeds from sales of property, plant and equipment	49	108
Payments of loans receivable	(90)	(29)
Collection of loans receivable	36	11
Other	(614)	(835)
Net cash provided by (used in) investing activities	(6,393)	(5,817)

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(472)	(1,002)
Net increase (decrease) in commercial papers	20,000	(10,000)
Proceeds from long-term loans	8,729	4,000
Repayments of long-term loans	(19,152)	(6,212)
Proceeds from issuance of bonds	–	15,000
Dividends paid	(2,862)	(1,498)
Dividends paid to non-controlling interests	–	(99)
Other	(57)	(26)
Net cash provided by (used in) financing activities	6,183	161
Translation (loss) gain on cash and cash equivalents	1,881	1,766
Net increase (decrease) in cash and cash equivalents	(868)	7,479
Cash and cash equivalents at beginning of period	30,275	18,063
Cash and cash equivalents at end of period	29,407	25,542

(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.