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Announcement of Non-operating Expenses (Equity-method Loss) and Revisions to Forecast for the Fiscal Year Ending March 20, 2022

ALINCO INCORPORATED has recorded a non-operating expense in the first nine months of the fiscal year ending in March 20, 2022 (March 21 to December 20, 2021) as follows for the share of loss of entities accounted for using the equity method. This loss involves the results of operations of equity-method affiliate PT. KAPURINDO SENTANA BAJA (KAPURINDO), which is located in Indonesia.

In addition, based on results of operations during the first nine months of the current fiscal year, ALINCO has revised as follows the forecast for consolidated results of operations for the fiscal year ending on March 20, 2022 that was announced on April 30, 2021.

1. Non-operating expenses (share of loss of entities accounted for using equity method)

(1) Summary

An equity-method loss of 835 million yen has been recorded as a non-operating expense in association with the results of operations of equity-method affiliate KAPURINDO. This includes a loss of 8 million yen that was recorded in the first half of the current fiscal year.

(2) Reason for the loss

By making investments in KAPURINDO, ALINCO has been involved in Indonesia with the business of renting scaffolding and other construction materials for use at private sector building and civil engineering projects and power plant construction projects. Currently, the outlook for the Indonesian economy and public-sector finances is extremely unclear because of the extended impact of the pandemic. Activity at many construction sites has been temporarily suspended and other construction projects have been delayed or postponed. Due to this situation, there are overdue payments at a number of the major customers of KAPURINDO.

As a result, ALINCO believes there are doubts about the ability of KAPURINDO to repay long-term loans received from ALINCO. The decision was therefore made to record an equity-method loss in accordance with the Implementation Guidance for Equity-method Accounting.

This equity-method loss is not an additional cash expenditure. Furthermore, ALINCO expects that construction activity in Indonesia will return to normal and work will start at construction projects that have been postponed. Based on this outlook, ALINCO believes that this equity-method loss is not a significant issue concerning the ability to continue business operations.

(3) Effect on sales and earnings

In the “Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 20, 2022 (Nine Months Ended December 20, 2021) (Japanese GAAP)” disclosed today, non-operating expenses (equity-method loss) was recorded and, in light of recent trends, ALINCO has revised the consolidated forecast for the fiscal year ending on March 20, 2022.

2. Revisions to consolidated forecasts for the fiscal year ending March 20, 2022 (March 21, 2021 – March 20, 2022)

(1) Revisions to forecasts for consolidated sales and earnings

(Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Net income per share (Yen)
Previously announced forecasts (A)	56,030	2,990	3,080	2,010	104.06
Revised forecasts (B)	56,030	1,200	1,000	410	21.16
Change (B-A)	0	(1,790)	(2,080)	(1,600)	
Change (%)	0.0	(59.9)	(67.5)	(79.6)	
(Reference) Actual results for the previous fiscal year (Fiscal year ended March 20, 2021)	53,341	2,554	2,874	1,664	85.32

(2) Reason for revisions

There is no change in the sales forecast because of sales of the new ring lock ALBATROSS system (“ALBATROSS”) to new customers and additional purchases of ALBATROSS by existing customers.

However, in terms of profit, the operating profit is expected to be lower than the previous forecast due to several cost-increasing reasons. Prices of steel, aluminum and other raw materials used for ALINCO products have increased faster than expected since the beginning of the fiscal year. In addition, the yen’s depreciation and higher freight rates have raised procurement cost of materials from suppliers in other countries. There have been measures to improve profit margins by raising prices to reflect higher expenses. However, the benefits of price increases have been limited because costs of raw materials continued to climb and the yen continued to weaken.

In addition to the reasons for the revision in operating profit, ordinary profit and profit attributable to owners of parent are also expected to be lower than the previous forecast due to the equity-method loss explained earlier in this release. (More information is in the next paragraph concerning major items affecting the forecast revisions.)

For these reasons, the forecasts for consolidated sales and earnings have been revised as shown in the above table.

(3) Outlook

Orders for ALBATROSS and related products are expected to remain strong. In addition, we plan on more price hikes in order to reflect the continuously rising costs of raw materials and depreciation of the yen in order to improve profit margins and consolidated results of operations.

There is no revision to the year-end dividend forecast of 20 yen. ALINCO’s basic policy is to maintain a stable dividend. In addition, there is no revision because the equity-method loss that is the major reason for these forecast revisions is a one-time event and ALINCO believes that price increases to reflect higher expenses for business operations will start producing benefits. As an interim dividend of 20 yen was paid on November 24, 2021, ALINCO is forecasting a fiscal year dividend of 40 yen.

Major components of year-on-year changes in sales and earnings

(Millions of yen)

	Previously announced forecasts	Revised forecasts	Vs. previously announced forecasts	Major components of changes (Figures in parentheses are estimates)
Operating profit	2,990	1,200	(1,790)	<ul style="list-style-type: none"> · Rising costs of raw materials including steel and aluminum (-900) · Rising procurement cost from overseas (-160) · Rising procurement cost due to the depreciation of yen (-630)
Ordinary profit	3,080	1,000	(2,080)	<ul style="list-style-type: none"> · Equity-method loss (-835) · Foreign exchange gain due to hedging effect of foreign exchange contract, etc. (+200) · Increase in gain on sales of scrap (+200)
Profit attributable to owners of parent	2,010	410	(1,600)	<ul style="list-style-type: none"> · Subsidy income received involving construction of Fukuchiyama Logistic Center and gain on sale of stock held for business relationships (+240) · Lower taxes due to decline in earnings (+240)

(Note) Forecasts of future performance in these materials are based on information available to ALINCO's management at the time the materials were prepared. Actual results may differ materially from the forecasts for a number of reasons.