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MEMBERSHIP

January 31, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Under Japanese GAAP)

Company name: Hokuetsu Industries Co., Ltd.
 Listing: Tokyo Stock Exchange
 Securities code: 6364
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 Scheduled date to commence dividend payments: —
 Scheduled date to file quarterly securities report: February 10, 2023
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2022	36,135	35.3	4,492	74.8	4,199	50.0	2,878	51.3
December 31, 2021	26,703	11.8	2,569	56.9	2,798	61.2	1,901	69.3

Note: Comprehensive income For the nine months ended December 31, 2022: ¥3,371 million [87.6%]
 For the nine months ended December 31, 2021: ¥1,797 million [50.3%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	101.49	—
December 31, 2021	66.08	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	51,137	33,462	65.1	1,180.93
March 31, 2022	45,827	31,303	68.0	1,097.97

Reference: Equity

As of December 31, 2022: ¥33,310 million

As of March 31, 2022: ¥31,161 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	–	10.00	–	20.00	30.00
Fiscal year ending March 31, 2023	–	15.00	–		
Fiscal year ending March 31, 2023 (Forecast)				20.00	35.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2023	44,500	21.4	5,250	47.1	5,400	33.2	3,672	33.6	129.38

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022	30,165,418 shares
As of March 31, 2022	30,165,418 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2022	1,958,182 shares
As of March 31, 2022	1,784,261 shares

(iii) Average number of shares outstanding during the period

Nine months ended December 31, 2022	28,358,705 shares
Nine months ended December 31, 2021	28,779,309 shares

Note: The number of treasury shares at the end of the period includes the Company's shares (369,200 shares for the nine months ended December 31, 2022 and 345,900 shares for the fiscal year ended March 31, 2022) held by "Custody Bank of Japan, Ltd. (Trust Account E)." The Company's shares held by "Custody Bank of Japan, Ltd. (Trust Account E)" are included in treasury shares, which is deducted from the average number of shares outstanding during the period (344,650 shares for the nine months ended December 31, 2022 and 324,880 shares for the nine months ended December 31, 2021).

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters
(Caution regarding forward-looking statements and others)

The forward-looking statements, including earnings forecasts, contained in this material are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Moreover, actual business and other results may differ from the forecast due to various factors going forward. Please refer to "1. Qualitative information on financial results for the period under review, (3) Explanation of consolidated earnings forecasts and other forward-looking statements" on page 3 for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

(How to obtain supplementary material on quarterly financial results)

Supplementary material on quarterly financial results will be posted on the Company's website on Monday, February 13, 2023.

Attachment: Table of contents

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1. Qualitative information on financial results for the period under review

(1) Explanation of operating results

During the nine months ended December 31, 2022 (April 1, 2022 to December 31, 2022), although the Japanese economy has been gradually recovering in the age of living with COVID-19, corporate performance and household economies were significantly affected, as prices continued to rise due to higher resource prices around the world and the prolonged weakening yen, etc. The outlook remained uncertain for exchange rates, mainly due to changes in dynamics of the abrupt depreciation of the yen, as a result of the expansion of fluctuation ranges for long-term interest rates by the Bank of Japan. In the global economy, there were concerns of an economic slowdown, as the outlook continued to be uncertain mainly due to impact of geopolitical risks such as rising tensions between the U.S. and China, and the prolonged situation with Ukraine, and as countries in Europe and the Americas applied monetary tightening in order to control inflation.

Amid such circumstances, the Group has been working on its growth strategy to become a company that “pursues new value every time and contributes to society and industry” as stated in its medium-term management plan “Medium-Term Vision 2024.” The Group also has been striving to improve production capacity to respond to the rapid increase in orders in regions where the economies are recovering, while promoting efforts to improve profits through company-wide efficiency drives and cost-cutting initiatives.

All of which has elicited the following results for the nine months ended December 31, 2022:

	Nine months ended December 31, 2021 (Millions of yen)	Nine months ended December 31, 2022 (Millions of yen)	Year-on-year changes (%)
Net sales	26,703	36,135	35.3
[Domestic sales]	[15,859]	[19,610]	[23.6]
[International sales]	[10,843]	[16,525]	[52.4]
Operating profit	2,569	4,492	74.8
Ordinary profit	2,798	4,199	50.0
Profit attributable to owners of parent	1,901	2,878	51.3

Group operations are divided into two business segments, the status of each of which is as follows:

(Construction Machinery Business)

The key areas of this segment are engine compressors, engine generators and scissors lifters.

From a sales perspective, shipments of scissors lifters increased significantly against the backdrop of a strong demand for construction works, such as projects for renovation work and new buildings for hotels, etc., on a recovery trend due to demand for inbound travel and the National Travel Discount program in Japan, and continued redevelopment projects in major cities, etc. In overseas, although there were some factors that reduced sales, such as the continued suspension of shipments to Russia and the impact of a resurgence of COVID-19 in multiple regions in China, sales increased significantly due to a significant increase in orders from North America, a trend that continued from the previous fiscal year, and economic recovery triggered by the easing of restrictions related to COVID-19 in Southeast Asia. From a profit perspective, despite the rise in costs of steel and other materials, and transportation, which has been ongoing since the latter half of the previous fiscal year, the increase in sales, the enhancement of plant operation rate, as well as the effect of the record weak yen in sales for North America led an increase in profits year on year.

	Nine months ended December 31, 2021 (Millions of yen)	Nine months ended December 31, 2022 (Millions of yen)	Year-on-year changes (%)
Net sales	21,533	29,622	37.6
Segment profit	2,560	4,225	65.0

(Industrial Machinery Business)

The key areas of this segment are motor compressors, emergency generators, components and services.

From a sales perspective, despite sluggish shipments of emergency generators, shipments of our mainstay motor compressors remained strong due to the recovery of capital investment sentiment as well as our push to capture Japanese market share in order to achieve the targets set forth in the medium-term management plan “Medium-Term Vision 2024.” In addition, with the effect of OEM supply to KOBELCO COMPRESSORS CORPORATION, which started in the latter half of the previous fiscal year, and favorable sales of large generators, overall sales increased year on year. From a profit perspective, although there was an abrupt rise in raw material costs, the success in improving profits by increasing the price of some products and through large generators resulted in an increase in profits year on year.

	Nine months ended December 31, 2021 (Millions of yen)	Nine months ended December 31, 2022 (Millions of yen)	Year-on-year changes (%)
Net sales	5,169	6,513	26.0
Segment profit	749	1,096	46.3

(2) Explanation of financial position

(Assets, liabilities and net assets)

At the close of the third quarter under review, total assets of ¥51,137 million meant an increase of ¥5,310 million compared to the end of the previous fiscal year.

Current assets increased by ¥4,563 million to ¥37,055 million, mainly due to increases in cash and deposits, as well as in notes and accounts receivable - trade, and contract assets, and raw materials and supplies thanks to the growth of production and sales.

Non-current assets rose by ¥746 million to ¥14,082 million, mainly due to an increase in property, plant and equipment resulting from the construction of a branch in China and an increase in investments in capital of subsidiaries and associates resulting from the application of the equity method.

The increase in current liabilities, rising by ¥2,098 million to ¥14,036 million, was mainly due to increases in notes and accounts payable - trade and electronically recorded obligations - operating thanks to the growth of production, and an increase in short-term borrowings due to raising working capital.

The increase in non-current liabilities, rising by ¥1,053 million to ¥3,638 million, was mainly due to an increase in bonds payable resulting from SDGs private placement bond issues and an increase in long-term borrowings due to raising capital expenditures.

Net assets increased by ¥2,158 million to ¥33,462 million, mainly due to an increase in retained earnings and an increase in foreign currency translation adjustment resulting from the weaker yen in exchange rates.

Consequently, the equity ratio at the end of the third quarter under review decreased by 2.9 points to 65.1% compared with the end of the previous fiscal year.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The full-year consolidated earnings forecasts have not been revised from the earnings forecasts announced on October 28, 2022.

The Company will disclose information on any changes in the future in an appropriate manner.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	10,943,932	11,560,271
Notes and accounts receivable - trade, and contract assets	15,045,324	18,452,629
Merchandise and finished goods	4,044,849	4,251,610
Work in process	207,934	221,441
Raw materials and supplies	1,223,282	1,476,595
Other	1,082,865	1,093,751
Allowance for doubtful accounts	(56,172)	(668)
Total current assets	32,492,016	37,055,630
Non-current assets		
Property, plant and equipment		
Buildings and structures	8,859,613	9,234,613
Accumulated depreciation	(4,443,267)	(4,636,675)
Buildings and structures, net	4,416,346	4,597,937
Machinery, equipment and vehicles	8,656,006	8,707,258
Accumulated depreciation	(6,391,950)	(6,655,195)
Machinery, equipment and vehicles, net	2,264,055	2,052,062
Land	2,006,579	2,210,199
Construction in progress	168,639	502,672
Other	1,564,706	1,650,542
Accumulated depreciation	(1,430,233)	(1,480,391)
Other, net	134,473	170,151
Total property, plant and equipment	8,990,094	9,533,024
Intangible assets	65,228	145,260
Investments and other assets		
Investment securities	2,984,889	3,012,609
Investments in capital of subsidiaries and associates	528,753	661,944
Deferred tax assets	561,703	430,441
Other	210,492	310,721
Allowance for doubtful accounts	(5,876)	(11,933)
Total investments and other assets	4,279,963	4,403,783
Total non-current assets	13,335,285	14,082,067
Total assets	45,827,302	51,137,698

Hokuetsu Industries Co., Ltd. (6364)
Consolidated Financial Results for the Nine Months Ended December 31, 2022

(Thousands of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,237,599	4,974,162
Electronically recorded obligations - operating	4,052,298	4,827,264
Short-term borrowings	100,000	672,000
Current portion of bonds payable	-	60,000
Income taxes payable	904,937	590,654
Provision for bonuses	683,160	539,775
Provision for bonuses for directors (and other officers)	50,240	30,366
Provision for product warranties	18,600	22,260
Other	1,892,029	2,320,462
Total current liabilities	11,938,864	14,036,945
Non-current liabilities		
Bonds payable	-	210,000
Long-term borrowings	-	778,000
Deferred tax liabilities	2,440	2,457
Provision for share awards	174,896	187,014
Provision for share awards for directors (and other officers)	124,106	119,121
Retirement benefit liability	2,049,661	2,096,968
Asset retirement obligations	114,438	126,227
Other	119,457	118,580
Total non-current liabilities	2,585,000	3,638,369
Total liabilities	14,523,865	17,675,315
Net assets		
Shareholders' equity		
Share capital	3,416,544	3,416,544
Capital surplus	3,887,594	3,887,594
Retained earnings	24,278,736	26,151,421
Treasury shares	(1,354,354)	(1,556,557)
Total shareholders' equity	30,228,520	31,899,002
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	999,897	1,148,840
Foreign currency translation adjustment	20,966	338,066
Remeasurements of defined benefit plans	(87,775)	(75,150)
Total accumulated other comprehensive income	933,088	1,411,756
Non-controlling interests	141,827	151,623
Total net assets	31,303,436	33,462,382
Total liabilities and net assets	45,827,302	51,137,698

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income (cumulative)

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	26,703,360	36,135,866
Cost of sales	19,807,132	26,652,288
Gross profit	6,896,227	9,483,578
Selling, general and administrative expenses		
Packing and transportation costs	567,451	913,312
Provision of allowance for doubtful accounts	(29,551)	(49,372)
Provision for product warranties	2,430	3,660
Remuneration, salaries and allowances for directors (and other officers)	1,716,853	1,807,074
Provision for bonuses	229,950	251,708
Provision for bonuses for directors (and other officers)	40,110	30,366
Retirement benefit expenses	80,505	87,158
Provision for share awards	11,365	9,290
Provision for share awards for directors (and other officers)	20,265	21,079
Other	1,686,864	1,917,207
Total selling, general and administrative expenses	4,326,243	4,991,483
Operating profit	2,569,984	4,492,095
Non-operating income		
Interest income	4,361	9,825
Dividend income	45,215	68,819
Share of profit of entities accounted for using equity method	67,571	70,738
Foreign exchange gains	71,078	-
Other	67,296	18,175
Total non-operating income	255,523	167,559
Non-operating expenses		
Interest expenses	6,815	6,333
Foreign exchange losses	-	432,253
Other	20,070	22,015
Total non-operating expenses	26,885	460,602
Ordinary profit	2,798,622	4,199,051
Extraordinary income		
Gain on disposal of non-current assets	5,141	374
Gain on sale of investment securities	2,050	9,371
Total extraordinary income	7,192	9,746
Extraordinary losses		
Loss on disposal of non-current assets	14,590	8,103
Total extraordinary losses	14,590	8,103
Profit before income taxes	2,791,223	4,200,694
Income taxes - current	837,052	1,247,306
Income taxes - deferred	38,663	60,520
Total income taxes	875,716	1,307,827
Profit	1,915,507	2,892,867
Profit attributable to non-controlling interests	13,722	14,735
Profit attributable to owners of parent	1,901,785	2,878,131

Quarterly consolidated statement of comprehensive income (cumulative)

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	1,915,507	2,892,867
Other comprehensive income		
Valuation difference on available-for-sale securities	(223,475)	148,943
Foreign currency translation adjustment	60,372	249,616
Remeasurements of defined benefit plans, net of tax	10,569	12,625
Share of other comprehensive income of entities accounted for using equity method	34,499	67,482
Total other comprehensive income	(118,033)	478,668
Comprehensive income	1,797,473	3,371,535
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,783,751	3,356,800
Comprehensive income attributable to non-controlling interests	13,722	14,735

(3) Notes to quarterly consolidated financial statements

(Notes on the going-concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

(Purchase of treasury shares)

The Company purchased 150,600 treasury shares based on a resolution of the Board of Directors meeting held on November 7, 2022. As a result, treasury shares increased ¥173,994 thousand during the nine months ended December 31, 2022 and amounted to ¥1,556,557 thousand as of December 31, 2022.

(Additional information)

(Transactions of delivering the Company's own shares to employees, etc. through trusts)

The Company concludes transactions as part of efforts to deliver its own shares to employees, etc. through trust for the purpose of providing benefits to employees. As regards to how such trust agreements are usually accounted for, the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30, March 26, 2015), has been applied and the relevant accounting treatment implemented in accordance with the relevant guidelines.

i) Transaction overview

The Company issues points to its employees based on their individual contributions and other factors, and when they acquire entitlements under certain conditions, they will receive shares in the Company equivalent to the points thus granted. The shares to be provided to employees are acquired ahead of time using money set up in advance in a trust, then segregated and managed as trust assets.

ii) Company shares remaining in trust

The Company's shares remaining in the trust are recorded as treasury shares under net assets at their book value in the trust (excluding the incidental expenses incurred). The book value and number of such treasury shares were ¥202,876 thousand and 200,400 shares for the previous fiscal year and ¥227,784 thousand and 225,700 shares in the third quarter under review.

(Performance-linked share-based remuneration scheme for officers)

The Company has entered into transactions to issue its shares through a trust to directors (excluding those appointed as audit committee members and outside directors), executive officers and directors appointed as audit committee members (excluding outside directors) (hereinafter referred to as "Officers") for the purpose of providing incentives to the Officers. As regards how such trust agreements are usually accounted for, the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts (ASBJ PITF No. 30, March 26, 2015), has been applied and the relevant accounting treatment implemented in accordance with the relevant guidelines.

i) Transaction overview

The Company will award certain points to the Officers according to the monthly remuneration amount, achievement level, etc. for the relevant fiscal year, and will provide the Company's shares according to the accumulated points when the officer retires. The shares to be provided to the Officers are acquired ahead of time using money set up in advance in a trust, then segregated and managed as trust assets.

ii) Company shares remaining in trust

The Company's shares remaining in the trust are recorded as treasury shares under net assets at their book value in the trust (excluding the incidental expenses incurred). The book value and number of such treasury shares were ¥144,890 thousand and 145,500 shares for the previous fiscal year and ¥148,166 thousand and 143,500 shares in the third quarter under review.

(Segment information)

Nine months ended December 31, 2021

i) Information on net sales and profit or loss by reportable segment, and disaggregation of revenue

(Thousands of yen)

	Construction Machinery Business	Industrial Machinery Business	Total
Net sales			
Finished goods	20,293,031	3,568,038	23,861,070
Components	751,237	787,503	1,538,741
Services	489,477	814,070	1,303,548
Revenue from contracts with customers	21,533,747	5,169,613	26,703,360
Other revenue	-	-	-
Sales to external customers	21,533,747	5,169,613	26,703,360
Transactions with other segments	-	-	-
Total	21,533,747	5,169,613	26,703,360
Segment profit	2,560,429	749,068	3,309,498

ii) Differences between the total amount of profit or loss in reportable segments and the amount recorded on the quarterly consolidated statement of income, and details thereof (Reconciliation)

(Thousands of yen)

Profit	Amount
Total for reportable segments	3,309,498
Corporate expenses (Note)	(739,513)
Operating profit on the quarterly consolidated statement of income	2,569,984

Note: Corporate expenses mainly comprise general and administrative expenses and R&D expenses outside the scope of the reportable segments.

iii) Information on impairment loss of non-current assets and goodwill by reportable segments

Not applicable.

Nine months ended December 31, 2022

i) Information on net sales and profit or loss by reportable segment, and disaggregation of revenue

(Thousands of yen)

	Construction Machinery Business	Industrial Machinery Business	Total
Net sales			
Finished goods	28,113,200	4,798,082	32,911,282
Components	815,257	833,051	1,648,309
Services	693,547	882,726	1,576,273
Revenue from contracts with customers	29,622,006	6,513,860	36,135,866
Other revenue	—	—	—
Sales to external customers	29,622,006	6,513,860	36,135,866
Transactions with other segments	—	—	—
Total	29,622,006	6,513,860	36,135,866
Segment profit	4,225,380	1,096,037	5,321,418

ii) Differences between the total amount of profit or loss in reportable segments and the amount recorded on the quarterly consolidated statement of income, and details thereof (Reconciliation)

(Thousands of yen)

Profit	Amount
Total for reportable segments	5,321,418
Corporate expenses (Note)	(829,323)
Operating profit on the quarterly consolidated statement of income	4,492,095

Note: Corporate expenses mainly comprise general and administrative expenses and R&D expenses outside the scope of the reportable segments.

iii) Information on impairment loss of non-current assets and goodwill by reportable segments

Not applicable.