

Translation

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

February 10, 2023

Company name: HOKUTO CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 1379 URL <https://www.hokto-kinoko.co.jp>
 Representative: President Masayoshi Mizuno
 Executive Director, Administration
 Inquiries: Department Director Tomio Takato TEL 026-259-5955
 Scheduled date to file Quarterly Securities Report: February 10, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: No

(Amounts less than one million yen are rounded down)

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

(1) Consolidated operating results (cumulative)

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	53,859	2.5	(3,080)	–	(2,082)	–	(1,703)	–
Nine months ended December 31, 2021	52,539	–	1,440	(67.4)	1,965	(55.0)	1,253	(57.1)

Note: Comprehensive income
 Nine months ended December 31, 2022 ¥(1,550) million [–%]
 Nine months ended December 31, 2021 ¥832 million [(75.5)%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2022	(53.90)		–	
Nine months ended December 31, 2021	39.77		34.65	

Note: As the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ended March 31, 2022, each figure for the nine months ended December 31, 2021 is the figure after the application of the said standard, etc. The percentage of year-on-year change is not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	103,052	51,173	49.7
As of March 31, 2022	104,933	54,509	51.9

Reference: Equity
 As of December 31, 2022 ¥51,173 million
 As of March 31, 2022 ¥54,509 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	–	10.00	–	50.00	60.00
Year ending March 31, 2023	–	10.00	–		
Year ending March 31, 2023 (Forecast)				50.00	60.00

Note: Revisions to the cash dividend forecasts most recently announced: None

3. Forecast of consolidated financial results for the 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		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	73,600	3.8	(2,630)	–	(1,670)	–	(1,590)	–	(50.29)

Note: Revisions to the earnings forecasts most recently announced: Yes

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2022
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of December 31, 2022	33,359,040 shares	As of March 31, 2022	33,359,040 shares
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Number of treasury shares at the end of the period

As of December 31, 2022	1,720,930 shares	As of March 31, 2022	1,782,109 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022	31,605,725 shares	Nine months ended December 31, 2021	31,513,637 shares
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* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of forecasts of financial results, and other special matters

(Cautions on forward-looking statements, etc.)

Forward-looking statements, including the earnings forecasts stated in this document, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual results may differ materially from the forecasts due to various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to '(3) Information regarding consolidated earnings forecasts and other forward-looking statements' in '1. Qualitative Information Regarding Financial Results for the Nine Months Ended December 31, 2022,' on page 3 of the attached materials.

1. Qualitative Information Regarding Financial Results for the Nine Months Ended December 31, 2022

(1) Explanation of Operating Results

The Japanese economy during the first nine months ended December 31, 2022 showed signs of gradual recovery as economic activities gradually began to normalize due to the relaxation of government restrictions on activities related to the COVID-19 pandemic. However, the outlook remained uncertain due to the protracted situation in Ukraine, soaring prices of resources and raw materials, and rising prices of commodities due to the weak yen.

In this economic environment, the Group believes that its priority is the safety of all consumers and employees, and it carried out business activities primarily in the mushroom business to deliver deliciousness and health to more and more people through research & development, production, and sales of mushrooms, which are a health food, while taking into account measures to prevent the spread of COVID-19. Furthermore, the Group formulated and carried out from April 2021 a new Medium-Term Management Plan with the Management Vision to “Expand the market and consumption, with delivering health through mushrooms as our mission” and to “Achieve both generation of profit and social responsibility as a company.”

As a result of the above, the operating results of the Group for the nine months ended December 31, 2022 were net sales of ¥53,859 million (up 2.5% from the same period of the previous fiscal year), operating loss of ¥3,080 million (operating profit of ¥1,440 million in the same period of the previous fiscal year), ordinary loss of ¥2,082 million (ordinary profit of ¥1,965 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥1,703 million (profit attributable to owners of parent of ¥1,253 million in the same period of the previous fiscal year).

Production output for the nine months ended December 31, 2022 consists of 37,024t of Bunashimeji, including Bunapi (up 5.5% from the same period of the previous fiscal year), 14,081t of Eryngii (down 2.0% from the same period of the previous fiscal year), and 12,346t of Maitake (up 19.4% from the same period of the previous fiscal year).

Performance in each business segment for the nine months ended December 31, 2022 was as follows.

[Mushroom business in Japan]

The production division performed even more thorough hygiene control, worked to improve quality and for stable cultivation, and provided mushrooms safely and securely, while continuing to take into account measures to prevent the spread of COVID-19.

The R&D division worked to strengthen the quality control system, develop new high value-added products, improve existing mushrooms, and pursue pharmacological effects and functionality of mushrooms. It conducted a joint research project with Metagen, Inc. (Head Office: Tsuruoka, Yamagata Prefecture, President, CEO and CGDO Shinji Fukuda, Ph.D.). The research results were accepted by the scientific journal *Frontiers in Nutrition*, which made it apparent that eating mushrooms continuously for four weeks increased short-chain fatty acids in the intestines, showed an increasing trend in IgA antibodies, and improved immune function in humans.

The sales division advocated for “Kinkatsu through mushrooms” (the lifestyle habit of incorporating mushrooms into daily meals) with the three pillars of health, beauty and sports in order to stimulate mushroom demand and carried out sales activities with a commitment to freshness. For the nine months ended December 31, 2022, the temperature was lower than usual for October, and vegetable market prices rose at times due to the short supply of fruits and vegetables. However, from the beginning of November, favorable weather and warmer temperatures resulted in favorable growth of fruit and vegetable crops, and vegetable prices remained low, while mushroom prices continued to be low compared to last year. Conversely, sales volume increased due to the operation of the Mie Mushroom Centers.

As a result, net sales for the mushroom business in Japan as a whole were ¥34,118 million (up 0.6% from the same period of the previous fiscal year).

[Mushroom business outside Japan]

At HOKTO KINOKO COMPANY, our local subsidiary in the U.S., despite the effect of a price increase implemented at the end of November, sales were sluggish due to a decline in sales volume caused by production defects in some products. However, operating profit was largely in line with the plan, as price increases gradually took hold from December onward. At Taiwan Hokuto Corporation, a local subsidiary in Taiwan, sales in the retail market as a whole were sluggish due to a decline in opportunities for self-catering due to the relaxation of COVID-19 restrictions on activities and increased demand from domestic tourism and the restaurant industry. In October, the weather was cooler earlier than previous years, and sales of mushrooms were strong. However, the hot weather continued from mid-November, and the status of sales changed quickly after the cold wave hit from mid-December onward. Although inquiries in the traditional market also increased with the influx of cold weather, net sales fell slightly short of the plan. At our Malaysian subsidiary HOKTO MALAYSIA SDN. BHD., while inflation is rising across ASEAN countries and prices of essential products are soaring, there is a growing tendency to buy less of non-essential products and to purchase inexpensive products from China, which also affected the Company's mushroom sales. Consequently, both net sales and operating profit fell short of the plan.

As a result, net sales for the mushroom business outside Japan as a whole were ¥4,734 million (up 3.4% from the same period of the previous fiscal year).

[Processed products business]

Regarding the processed foods business, the Company has been selling processed mushroom products such as boiled and frozen mushrooms, and has been working to cultivate the market by launching nationwide sales of a new "Itamenoko" seasonings for vegetable stir-fry to enjoy with mushrooms, in October. In the restaurant divisions, sales of products for delicatessen and home meal service were strong, and in terms of sales of processed products for the commercial fruit and vegetable market were also steady, mainly for dried and boiled products and pre-packaged shiitake mushroom rice products. Meanwhile, convenience stores struggled. We launched dried shiitake mushrooms, etc., in the mail-order business, and sales were strong, mainly through our e-commerce website. Furthermore, at the subsidiary Arden Corporation, net sales outpaced projections due to continued strong orders from major customers in the OEM business.

As a result, net sales for the processed products business were ¥6,183 million (up 4.9% from the same period of the previous fiscal year).

[Chemical products business]

The First Business Department, whose main business is packaging materials, net sales and profits were secured by raising the prices of various products, and also strengthened proposal-based marketing to solve customers' issues. At the Second Business Department, which primarily produces and sells agricultural materials and our own products, the improvement of the product quality of its own products and sales expansion were the main focus. In addition, amid the shortage of rice bran, bran, and other production materials, the division focused on stable supply of raw materials to mushroom farmers.

As a result, net sales for the chemical products business were ¥8,822 million (up 8.1% from the same period of the previous fiscal year).

(2)Explanation of financial position

Positions of assets, liabilities and net assets, and the factors thereof as of December 31, 2022 are as follows.

(Assets)

Current assets as of December 31, 2022 amounted to ¥28,412 million, up ¥1,312 million from the previous fiscal year end. This was due mainly to an increase of ¥2,612 million in notes and accounts receivable - trade and a decrease of ¥1,677 million in cash and deposits. Non-current assets amounted to ¥74,639 million, down ¥3,192 million from the previous fiscal year end. This was due mainly to a decrease of ¥3,959 million in property, plant and equipment.

As a result, total assets amounted to ¥103,052 million, down ¥1,880 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of December 31, 2022 amounted to ¥31,424 million, up ¥9,667 million from the previous fiscal year end. This was due mainly to an increase of ¥4,137 million in short-term borrowings and an increase of ¥4,633 million in current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥20,454 million, down ¥8,212 million from the previous fiscal year end. This was due mainly to a decrease of ¥7,871 million in long-term borrowings.

As a result, total liabilities amounted to ¥51,879 million, up ¥1,455 million from the previous fiscal year end.

(Net assets)

Total net assets as of December 31, 2022 amounted to ¥51,173 million, down ¥3,335 million from the previous fiscal year end. This was due mainly to a decrease of ¥3,611 million in retained earnings associated with the recording of ¥1,703 million in loss attributable to owners of parent and the payment of dividend of ¥1,908 million.

As a result, the equity ratio was 49.7% (51.9% at the end of the previous fiscal year).

(3)Information regarding consolidated earnings forecasts and other forward-looking statements

Although it is difficult to forecast mushroom demand and prices, the earnings forecasts are based on information currently available to the Company, and certain assumptions deemed reasonable. For details, please refer to the “Notice Concerning Revisions to Full-Year Financial Results Forecasts” released today.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	12,481	10,803
Notes and accounts receivable - trade	5,916	8,529
Merchandise and finished goods	1,975	2,487
Work in process	4,173	4,771
Raw materials and supplies	945	1,266
Other	1,635	588
Allowance for doubtful accounts	(27)	(34)
Total current assets	27,100	28,412
Non-current assets		
Property, plant and equipment		
Buildings and structures	69,934	70,508
Accumulated depreciation	(32,339)	(34,130)
Buildings and structures, net	37,595	36,378
Machinery, equipment and vehicles	66,786	67,695
Accumulated depreciation	(50,418)	(54,131)
Machinery, equipment and vehicles, net	16,368	13,564
Land	14,418	14,468
Other	2,292	2,374
Accumulated depreciation	(1,899)	(1,970)
Other, net	392	404
Total property, plant and equipment	68,774	64,814
Intangible assets		
Goodwill	46	18
Other	204	214
Total intangible assets	250	232
Investments and other assets		
Investment securities	5,664	6,087
Retirement benefit asset	1,040	1,086
Other	2,118	2,575
Allowance for doubtful accounts	(14)	(156)
Total investments and other assets	8,807	9,592
Total non-current assets	77,832	74,639
Total assets	104,933	103,052

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,763	6,874
Short-term borrowings	4,951	9,089
Income taxes payable	1,002	108
Provision for bonuses	1,016	614
Other	9,022	14,738
Total current liabilities	21,757	31,424
Non-current liabilities		
Long-term borrowings	17,753	9,882
Bonds with share acquisition rights	9,719	9,719
Retirement benefit liability	382	388
Asset retirement obligations	240	246
Other	572	217
Total non-current liabilities	28,666	20,454
Total liabilities	50,423	51,879
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	45,888	42,277
Treasury shares	(3,318)	(3,195)
Total shareholders' equity	53,798	50,309
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,038	1,337
Foreign currency translation adjustment	(205)	(372)
Remeasurements of defined benefit plans	(122)	(100)
Total accumulated other comprehensive income	710	863
Total net assets	54,509	51,173
Total liabilities and net assets	104,933	103,052

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	52,539	53,859
Cost of sales	39,629	44,969
Gross profit	12,910	8,889
Selling, general and administrative expenses	11,470	11,969
Operating profit (loss)	1,440	(3,080)
Non-operating income		
Dividend income	125	151
Rental income from land and buildings	74	65
Foreign exchange gains	298	711
Subsidy income	42	38
Other	50	122
Total non-operating income	591	1,088
Non-operating expenses		
Interest expenses	59	71
Other	6	20
Total non-operating expenses	65	91
Ordinary profit (loss)	1,965	(2,082)
Extraordinary income		
Gain on sale of non-current assets	1	2
Other	0	–
Total extraordinary income	1	2
Extraordinary losses		
Loss on retirement of non-current assets	1	2
Other	0	0
Total extraordinary losses	1	2
Profit (loss) before income taxes	1,965	(2,082)
Income taxes - current	426	303
Income taxes - deferred	285	(683)
Total income taxes	712	(379)
Profit (loss)	1,253	(1,703)
Profit (loss) attributable to owners of parent	1,253	(1,703)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit (loss)	1,253	(1,703)
Other comprehensive income		
Valuation difference on available-for-sale securities	(628)	298
Foreign currency translation adjustment	171	(167)
Remeasurements of defined benefit plans, net of tax	35	21
Total other comprehensive income	(420)	153
Comprehensive income	832	(1,550)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	832	(1,550)
Comprehensive income attributable to non-controlling interests	—	—

(3)Notes to quarterly consolidated financial statements

Notes on assumptions for going concern

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.