

Consolidated Financial Results for the Three Months Ended March 31, 2023 [Japanese GAAP]



May 15, 2023

Company name: Okura Industrial Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4221

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Scheduled date of filing quarterly securities report: May 15, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary explanatory materials on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2023 (January 1, 2023 - March 31, 2023)

(1) Consolidated Operating Results (% indicates changes 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	%
Three months ended								
March 31, 2023	19,970	8.5	1,038	24.0	1,168	23.3	826	18.2
March 31, 2022	18,412	–	837	–	948	–	698	–

(Note) Comprehensive income: Three months ended March 31, 2023: ¥1,384 million [104.0%]

Three months ended March 31, 2022: ¥678 million [–%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended				
March 31, 2023	69.22		–	
March 31, 2022	58.57		–	

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the fiscal year ended December 31, 2022. Changes in the amounts for the fiscal year ended December 31, 2022 from the previous corresponding period are not presented.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2023	88,922	55,960	62.9
As of December 31, 2022	90,234	55,591	61.6

(Reference) Equity: As of March 31, 2023: ¥55,938 million

As of December 31, 2022: ¥55,570 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	–	0.00	–	85.00	85.00
Fiscal year ending December 31, 2023	–				
Fiscal year ending December 31, 2023 (Forecast)		0.00	–	85.00	85.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023 - December 31, 2023)

(% indicates changes 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
First half	39,700	3.6	2,200	0.2	2,350	(7.5)	1,650	(9.9)	138.24
Full year	81,000	4.8	4,500	19.3	4,800	12.3	3,500	(7.6)	293.23

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):

March 31, 2023:	12,414,870 shares
December 31, 2022:	12,414,870 shares
 - 2) Total number of treasury shares at the end of the period:

March 31, 2023:	479,095 shares
December 31, 2022:	478,949 shares
 - 3) Average number of shares during the period:

Three months ended March 31, 2023:	11,935,859 shares
Three months ended March 31, 2022:	11,928,916 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

Forward-looking statements such as financial results forecast in this document are based on information currently available and certain assumptions that Company regards as reasonable. Actual results may significantly differ from such estimates due to various factors.

For details on the earnings forecasts of the Company, please see “Qualitative Information on Quarterly Financial Results” on page 2 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended March 31, 2023, the Japanese economy remained generally flat; economic activity continued to normalize led by recoveries in domestic demand and inbound tourism amid a gradual lifting of COVID-19-related restrictions on economic activity, but soaring resource prices largely due to Russia's incursion into Ukraine and rising electricity utility charges weighed on the economy. Although there are expectations that domestic economic activity will further normalize once COVID-19 is downgraded to Class 5 (the same level as seasonal influenza,) the economic outlook remains uncertain as it is still difficult to foresee the future due to concerns about the situation in Ukraine and inflation, among other variables.

Under these circumstances, the Group posted net sales of 19,970 million yen for the three months ended March 31, 2023 (up 8.5% year on year) as the transfer of rising costs resulting from higher raw material prices to product prices progressed in the Plastic Film Division, and orders for optical films for large LCD panels picked up in the New Materials Division, despite a decline in sales volume of general packaging films and industrial-use process films

In terms of profit, the increase in net sales as well as our cost reduction efforts through productivity improvement resulted in operating profit of 1,038 million yen (up 24.0% year on year) and ordinary profit of 1,168 million yen (up 23.3% year on year). Profit attributable to owners of parent was 826 million yen (up 18.2% year on year).

Operating results by segment are as follows.

[Plastic Film]

The sales volume of general packaging films mainly for food usage as well as shrink films for bundle packaging decreased, as it also did for industrial-use process films, affected by inventory adjustments due to the decline of the market. However, as the transfer of the increases in raw material prices to product prices had progressed, net sales amounted to 13,307 million yen (up 7.9% year on year). Operating profit was 1,087 million yen (up 48.6% year on year), mainly due to the increase in net sales and our cost reduction efforts through productivity improvement.

[New Materials]

Orders received for optical films for large LCD panels showed signs of recovery as the inventory adjustments peaked out, and functional materials for automobiles and other applications remained strong, resulting in net sales of 3,151 million yen (up 14.4% year on year). Operating profit was 214 million yen (down 45.9% year on year) due to the increase in electricity utility charges and a decrease in sales volume of products for smartphones with higher profit margins despite concentrated efforts to improve yields and productivity.

[Housing Materials]

Due to changes in market conditions, demand for housing materials was dampened by a fall in new housing starts and distributors' inventory adjustments related to forms. However, thanks to our continued efforts to expand sales of particleboard products, net sales amounted to 3,154 million yen (up 3.5% year on year). Operating profit was 223 million yen (up 12.4% year on year) due in part to a reduction in procurement costs of raw materials and the continued stable production of particleboards, despite the ongoing impact of rising electricity utility charges.

[Other]

In the hotel business, sales partially recovered thanks to the effect of programs to support local tourism businesses, including discounts for prefectural residents, and the information processing system development business remained robust. As a result, overall net sales of other businesses were 357 million yen (up 26.6% year on year). Operating profit amounted to 96 million yen (up 95.2% year on year) due in part to the increase in net sales and reduction of fixed costs.

(2) Explanation of Financial Position

Total assets at the end of the first quarter of the fiscal year under review decreased by 1,311 million yen compared to the end of the previous fiscal year to 88,922 million yen. This was mainly due to a decrease in trade receivables of 2,365 million yen, an increase in investment securities of 825 million yen, an increase in property, plant and equipment of 782 million yen, and a decrease in other current assets of 510 million yen.

On the other hand, liabilities decreased by 1,680 million yen compared to the end of the previous fiscal year to 32,962 million yen, mainly due to a decrease in trade payables of 2,233 million yen, an increase in accounts payable - other of 921 million yen, an increase in provision for bonuses of 629 million yen, a decrease in other current liabilities of 511 million yen, and a decrease in income taxes payable of 381 million yen.

Net assets increased by 369 million yen from the end of the previous fiscal year to 55,960 million yen, mainly due to an increase in valuation difference on available-for-sale securities of 546 million yen and a decrease in retained earnings of 188 million yen.

As a result of the above, the equity ratio increased by 1.3 percentage points from the end of the previous fiscal year to 62.9%.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There have been no changes to the consolidated financial results forecast announced on February 10, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	8,448	8,198
Notes and accounts receivable - trade	20,797	19,429
Electronically recorded monetary claims - operating	8,325	7,328
Merchandise and finished goods	5,694	5,304
Work in process	1,263	1,438
Raw materials and supplies	4,611	4,972
Real estate for sale	206	244
Other	1,292	782
Allowance for doubtful accounts	(0)	—
Total current assets	50,640	47,699
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	11,981	11,833
Machinery, equipment and vehicles, net	7,415	7,691
Land	6,276	6,276
Construction in progress	2,868	3,460
Other, net	428	491
Total property, plant and equipment	28,970	29,753
Intangible assets	642	642
Investments and other assets		
Investment securities	9,141	9,967
Deferred tax assets	234	255
Other	605	604
Total investments and other assets	9,981	10,827
Total non-current assets	39,594	41,223
Total assets	90,234	88,922

(Million yen)

	As of December 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,213	15,980
Short-term borrowings	1,549	1,521
Current portion of long-term borrowings	483	486
Accounts payable - other	4,306	5,227
Income taxes payable	797	415
Provision for bonuses	–	629
Other	4,159	3,647
Total current liabilities	29,509	27,908
Non-current liabilities		
Long-term borrowings	343	187
Deferred tax liabilities	0	75
Retirement benefit liability	3,968	3,964
Other	821	826
Total non-current liabilities	5,133	5,053
Total liabilities	34,643	32,962
Net assets		
Shareholders' equity		
Share capital	8,619	8,619
Capital surplus	9,071	9,071
Retained earnings	35,094	34,905
Treasury shares	(829)	(829)
Total shareholders' equity	51,956	51,767
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,507	4,053
Foreign currency translation adjustment	220	227
Remeasurements of defined benefit plans	(114)	(110)
Total accumulated other comprehensive income	3,613	4,170
Non-controlling interests	20	22
Total net assets	55,591	55,960
Total liabilities and net assets	90,234	88,922

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three months ended March 31

(Million yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Net sales	18,412	19,970
Cost of sales	15,214	16,499
Gross profit	3,198	3,470
Selling, general and administrative expenses		
Sales commission	13	18
Transportation and storage costs	686	670
Salaries	515	505
Provision for bonuses	164	165
Remuneration for directors (and other officers)	75	86
Retirement benefit expenses	29	30
Depreciation	50	49
Research and development expenses	280	292
Provision of allowance for doubtful accounts	(0)	(0)
Other	544	611
Total selling, general and administrative expenses	2,360	2,431
Operating profit	837	1,038
Non-operating income		
Interest income	0	3
Dividend income	55	79
Foreign exchange gains	49	9
Subsidy income	10	37
Miscellaneous income	26	31
Total non-operating income	141	161
Non-operating expenses		
Interest expenses	7	4
Commission expenses	18	23
Miscellaneous losses	5	2
Total non-operating expenses	31	31
Ordinary profit	948	1,168
Extraordinary income		
Gain on sale of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on sale and retirement of non-current assets	15	21
Total extraordinary losses	15	21
Profit before income taxes	932	1,147
Income taxes - current	417	495
Income taxes - deferred	(182)	(174)
Total income taxes	234	320
Profit	698	826
Profit (loss) attributable to non-controlling interests	(0)	0
Profit attributable to owners of parent	698	826

Quarterly Consolidated Statements of Comprehensive Income

Three months ended March 31

(Million yen)

	For the three months ended March 31, 2022	For the three months ended March 31, 2023
Profit	698	826
Other comprehensive income		
Valuation difference on available-for-sale securities	(45)	546
Foreign currency translation adjustment	24	7
Remeasurements of defined benefit plans, net of tax	0	3
Total other comprehensive income	(19)	557
Comprehensive income	678	1,384
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	677	1,383
Comprehensive income attributable to non-controlling interests	1	1

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

[Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement]

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan (ASBJ) Guidance No. 31, June 17, 2021; hereinafter referred to as the "Implementation Guidance on Fair Value Measurement Accounting Standard") from the beginning of the first quarter of the fiscal year under review, applying new accounting policies defined in the Implementation Guidance on Fair Value Measurement Accounting Standard over the future in accordance with the transitional treatment as provided for in Paragraph 27-2 of the Implementation Guidance on Fair Value Measurement Accounting Standard. The application has no impact on the Company's quarterly consolidated financial statements.

(Additional information)

[Application of the Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System]

The Company and its consolidated subsidiaries in Japan have transitioned from the consolidated taxation system to the group tax sharing system from the first quarter of the fiscal year under review. Accordingly, income taxes, local income taxes, and tax effect accounting are accounted for and disclosed in accordance with the "Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 42, August 12, 2021; hereinafter referred to as the "ASBJ PITF No. 42"). Based on Paragraph 32 (1) of the ASBJ PITF No. 42, the Company has concluded that there is no impact from the changes in accounting policies resulting from the application of the ASBJ PITF No. 42.

(Disposal of treasury shares through third-party allotment)

The Board of Directors resolved at the meeting held on March 23, 2023 to introduce a special incentive scheme (the "Scheme") under which the common shares issued by the Company (the "Company's Shares") will be granted to members of the Group's Employee Stock Ownership Association as a special incentive.

The Board of Directors also resolved at the meeting to dispose of treasury shares (the "Treasury Share Disposal") through third-party allotment in conjunction with the introduction of the Scheme.

1. Outline of the disposal

(1) Date of disposal	July 3, 2023
(2) Class and number of shares to be disposed of	168,825 shares of common shares of the Company (Note)
(3) Disposal price	1,945 yen per share
(4) Total value of disposal	328,364,625 yen (Note)
(5) Method of disposal	Third-party allotment
(6) Scheduled allottee	The Group's Employee Stock Ownership Association (the "Stock Ownership Association")
(7) Other	The Treasury Share Disposal shall be subject to effectuation of registration under the Financial Instruments and Exchange Act.

(Note) The "number of shares to be disposed of" and the "total value of disposal" are calculated assuming that 75 shares of the Company's Shares will be granted to each of 2,251 employees of the Group ("Employees"), the maximum number of employees eligible for the Scheme. Following a resolution at the Stock Ownership

Board Meeting held on March 23, 2023, the Stock Ownership Association will hold a promotion for Employees with a sufficient notice period and invite prospective members to join the Stock Ownership Association. Accordingly, the number of shares to be disposed of (the number of shares to be offered) and the total value of disposal (the total value to be paid in) will be determined after the completion of the promotion. The number of shares to be disposed of (the number of shares to be offered) and the total value of disposal (the total value to be paid in) will be announced as soon as they are determined.

2. Purpose of and reasons for the disposal

The Group grants an incentive to members of the Stock Ownership Association with the aim of helping Employees build their assets and motivate themselves to work by holding the Company's Shares. We will further promote this concept to grant a special incentive to all members and to allot treasury shares to the Stock Ownership Association for the contribution of said special incentive.

The Scheme is designed to raise Employees' awareness of participating in management and to increase their motivation to enhance the Company's medium- to long-term shareholder value. We believe that the Scheme will encourage Employees who have not yet joined to join the Stock Ownership Association, allowing more Employees to share medium- to long-term shareholder value with our shareholders.

(Segment information, etc.)

I For the three months ended March 31, 2022 (January 1, 2022 to March 31, 2022)

Information on the amount of net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
	Plastic Film	New Materials	Housing Materials	Total				
Net sales								
Net sales to outside customers	12,327	2,754	3,048	18,130	282	18,412	–	18,412
Inter-segment net sales or transfers	0	–	1	2	207	209	(209)	–
Total	12,328	2,754	3,049	18,132	490	18,622	(209)	18,412
Segment profit	731	397	198	1,328	49	1,377	(540)	837

(Notes) 1. The “Other” category is a business segment that is not included in the reportable segments and includes the hotel business, information processing system development business, and real estate leasing business.

2. The segment profit adjustment of negative 540 million yen includes negative 0 million yen in eliminations of inter-segment transactions and negative 539 million yen in corporate expenses that are not allocated to each reportable segment. Corporate expenses mainly consist of general and administrative expenses that do not belong to any reportable segment.

3. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.

II For the three months ended March 31, 2023 (January 1, 2023 to March 31, 2023)

1. Information on the amount of net sales and profit or loss by reportable segment

(Million yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statements of income (Note 3)
	Plastic Film	New Materials	Housing Materials	Total				
Net sales								
Net sales to outside customers	13,307	3,151	3,154	19,613	357	19,970	–	19,970
Inter-segment net sales or transfers	0	–	6	7	207	214	(214)	–
Total	13,308	3,151	3,161	19,620	564	20,185	(214)	19,970
Segment profit	1,087	214	223	1,526	96	1,622	(583)	1,038

(Notes) 1. The “Other” category is a business segment that is not included in the reportable segments and includes the hotel business, information processing system development business, and real estate leasing business.

2. The segment profit adjustment of negative 583 million yen includes negative 0 million yen in eliminations of inter-segment transactions and negative 583 million yen in corporate expenses that are not allocated to each reportable segment. Corporate expenses mainly consist of general and administrative expenses that do not belong to any reportable segment.

3. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.