

Translation

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Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 2023 (Based on Japanese GAAP)

May 11, 2023

Company name: Kohoku Kogyo Co., Ltd.

Listing exchange: Tokyo Stock Exchange

Securities code: 6524

URL: <https://www.kohokukogyo.co.jp>

Representative: Futoshi Ishii, President and CEO

Inquiries: Kunio Uehara, Director and Corporate Officer
General Manager, Accounting and Finance Department

Phone: +81-749-85-3211

Scheduled date for filing quarterly report: May 11, 2023

Scheduled date for commencing dividend payments: -

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results briefing session: No

(Amounts are rounded down to the nearest million yen, unless otherwise noted)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 2023 (January 1, 2023 to March 31, 2023)

(1) Consolidated Operating Results (Cumulative) (Percentage figures indicate changes from the same quarter of the previous fiscal year for quarter)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of the fiscal year ending December 2023	3,521	(11.0)	846	(20.4)	882	(32.0)	564	(36.3)
First quarter of the fiscal year ended December 2022	3,954	-	1,062	-	1,299	-	886	-

(Note) Comprehensive income

First quarter of the fiscal year ending December 2023 672 million yen ((45.4)%)

First quarter of the fiscal year ended December 2022 1,230 million yen (-%)

	Net income per share	Diluted earnings per share
	yen sen	yen sen
First quarter of the fiscal year ending December 2023	62.77	-
First quarter of the fiscal year ended December 2022	100.39	98.62

(Note) The Company was listed on the Second Section of the Tokyo Stock Exchange on December 21, 2021. As the disclosure of financial results has been made since the third quarter of the fiscal year ended December 2021, year-on-year percentage changes for the first quarter of the fiscal year ended December 2022 are not stated.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2023	24,036	18,473	76.9
As of December 31, 2022	24,285	18,296	75.3

(Reference) Total shareholders' equity

As of March 31, 2023 18,473 million yen

As of December 31, 2022 18,296 million yen

2. Cash Dividends

	Annual dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
	yen sen	yen sen	yen sen	yen sen	yen sen
Fiscal year ended December 2022	-	0.00	-	55.00	55.00
Fiscal year ending December 2023	-				
Fiscal year ending December 2023 (Forecast)		0.00	-	60.00	60.00

(Note) Revisions to the most recently announced dividend forecast: No

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 2023 (January 1, 2023 to December 31, 2023) (Percentage figures indicate year-on-year changes for full year and changes from the same quarter of the previous fiscal year for quarter)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen sen
First two quarters (Cumulative)	8,086	1.6	2,047	0.3	2,027	(25.8)	1,398	(23.0)	155.49
Full year	16,494	5.2	4,121	6.1	4,084	(8.1)	2,819	(8.1)	313.41

(Note) Revisions to the most recently announced forecast of financial results: No

*Notes

(1) Changes in significant subsidiaries during the first quarter of the fiscal year ending December 2023: No
(Changes in specified subsidiaries resulting in change in scope of consolidation)
Newly consolidated: No, Excluded from consolidation: No

(2) Application of specific accounting to preparation of the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

- 1) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- 2) Changes in accounting policies other than those in 1) above: No
- 3) Changes in accounting estimates: No
- 4) Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of March 31, 2023	9,000,000	As of December 31, 2022	9,000,000
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2) Number of treasury shares at the end of the period

As of March 31, 2023	3,368	As of December 31, 2022	3,368
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3) Average number of shares during the period (cumulative from start of the period)

As of March 31, 2023	8,996,632	As of March 31, 2022	8,830,000
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* This summary of quarterly financial results is not subject to quarterly review procedures by a public accountant or audit corporation.

* Explanation regarding appropriate use of earnings forecasts, and other notes

(Notes on forward-looking statements)

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee that the Company will achieve the results. Actual financial results and the like may differ materially due to various factors. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please refer to “(3) Explanation Regarding Forecast Information Such as Consolidated Earnings Forecasts” under “1. Qualitative Information on Quarterly Financial Results” on page 3 of the Attachment.

* Changes in the display unit for amounts

The amounts of items and other matters presented in the quarterly consolidated financial statements of the Company were previously presented in units of 1,000 yen, but have been changed to be presented in units of 1 million yen from the first quarter of the fiscal year ending December 2023.

For ease of comparison, the amounts for the previous fiscal year and the first quarter of the previous fiscal year have also been restated to units of 1 million yen.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation Regarding Operating Results

During the first quarter of the fiscal year ending December 2023, regarding the world economy, the impact of COVID-19 gradually eased and there were some signs of improvement in the retail and service sectors. However, there were growing concerns about the outlook for the global economy, such as the prolonged Russia-Ukraine situation, the U.S.-China trade friction, price increases due to soaring resource and energy prices, and financial instability in Western countries. In the electronics market, consumer spending continued to be sluggish, as the consumption of tangible goods supported by stay-at-home demand declined, replaced by consumption of intangible goods such as travel.

In Japan, although there was a slight recovery in employment and capital investment, the economy weakened due to the impact of rising raw material and energy prices as well as sluggish production and machinery orders.

In the electronic components industry, the inventory adjustment due to the deterioration of the ICT equipment market since last summer and the automobile production adjustment due to the shortage of semiconductors from last year were prolonged, and the situation was extremely difficult. Demand for the submarine cable market remained strong, driven by the need for long-term growth in information and communications traffic, but was affected by supply chain disruptions from last summer.

Under these circumstances, in preparation for the medium- to long-term growth of the market, the Company worked to strengthen its stable supply system by preparing for the relocation of its Suzhou Plant in China and optimizing the global production ratio.

The Company also made efforts to maintain and improve the profit structure by reviewing the prices of unprofitable products and developing new products and technologies to improve production efficiency as well as added value.

Based on this environment, for the operating results for the first quarter of the fiscal year ending December 2023, the Company posted net sales of 3,521 million yen (down 11.0% year on year), Operating profit of 846 million yen (down 20.4% year on year), Ordinary profit of 882 million yen (down 32.0% year on year), and Profit attributable to owners of parent of 564 million yen (down 36.3% year on year), due to the slowdown of the Lead Terminals Business and the Optical Components and Devices Business, its mainstay businesses. The period-average exchange rate for the first quarter of the fiscal year ending December 2023 was 132.40 yen to the U.S. dollar.

Operating results by segment are as follows.

<Lead Terminals Business>

In the Lead Terminals Business, net sales and segment income (Operating profit) for the first quarter of the fiscal year ending December 2023 were 1,864 million yen (down 9.2% year on year) and 28 million yen (down 72.8% year on year), respectively.

Concerning products for the automotive market, the number of aluminum electrolytic capacitors installed per vehicle increased due to the development of EVs and other factors. However, production adjustments for automobiles continued due to the semiconductor shortage that continued from last year, and overall growth in the automotive market was sluggish. In addition, sales were stagnant due to the continued decline in the digital consumer market, after stay-at-home demand fizzled out.

In order to improve the profit structure, the Company expanded sales of the new burr-free product, which has significantly improved vibration resistance and insulation characteristics, and reviewed the prices of unprofitable products.

In order to enhance the product quality and reliability and improve production efficiency, the Company worked to develop new welding technologies that realize high efficiency and high accuracy.

In addition, in preparation for the relocation of the Suzhou Plant, the Company built up inventories in order to respond to the temporary suspension of production and strengthened the production system at the Dongguan Plant in China and the Malaysia Plant.

<Optical Components and Devices Business>

In the Optical Components and Devices Business, net sales and segment income (Operating profit) for the first quarter of the fiscal year ending December 2023 were 1,656 million yen (down 12.9% year on year) and 817 million yen (down 14.6% year on year), respectively.

There was continued demand for optical devices for submarine cables in the context of the strengthening of the global communications infrastructure. On the other hand, some customers continued order adjustments due to supply chain disruptions from last year.

Sales of optical fiber array products for land optical communications declined due to adjustments in the data center market in addition to delivery restrictions associated with the U.S.-China conflict.

In terms of development, the Company developed and prototyped multi-core composite products in line with technological progress toward further expansion of information and communications. The Company has also developed a four-core MCF intercore switching module using silicon photonics switches in collaboration with the National Institute of Advanced Industrial Science and Technology for future multi-core fiber technologies, and presented the research results at OFC 2023, one of the world's largest international conferences in optical communications. In addition, in order to strengthen the stable supply system, the Company promoted the automation of production at the post-process sites and the strengthening of disaster countermeasures at the pre-process sites.

(2) Explanation Regarding Financial Position

(Assets)

Current assets fell 530 million yen from the end of the previous fiscal year to 16,697 million yen. This was mainly attributable to finished goods increasing by 293 million yen, while cash and deposits dropped by 705 million yen, electronically recorded monetary claims - operating were down by 72 million yen, and work in process fell by 45 million yen, etc.

Non-current assets increased by 281 million yen from the end of the previous fiscal year to 7,339 million yen. This was mainly attributable to construction in progress increasing by 258 million yen, etc.

As a result, total assets decreased by 248 million yen from the end of the previous fiscal year to 24,036 million yen.

(Liabilities)

Current liabilities decreased by 248 million yen from the end of the previous fiscal year to 3,127 million yen. This was mainly attributable to provision for bonuses increasing by 109 million yen, while income taxes payable decreased by 281 million yen and short-term borrowings decreased by 96 million yen, etc.

Non-current liabilities were down by 177 million yen from the end of the previous fiscal year to 2,435 million yen. This was mainly attributable to deferred tax liabilities increasing by 14 million yen, while long-term borrowings fell by 193 million yen, etc.

As a result, total liabilities decreased by 426 million yen from the end of the previous fiscal year to 5,562 million yen.

(Net assets)

Net assets increased by 177 million yen from the end of the previous fiscal year to 18,473 million yen. This was mainly attributable to retained earnings increasing by 69 million yen and foreign currency translation adjustment increasing by 88 million yen, etc.

(3) Explanation Regarding Forecast Information Such as Consolidated Earnings Forecasts

In the first quarter under review, sales struggled as the market for information and communications equipment, etc. declined more than expected at the beginning of the fiscal year, and the automotive electronics market, which had been relatively strong thus far, began inventory adjustments for Europe and the United States, etc.

Although the market environment remains challenging, in the Optical Components and Devices Business, some customers have placed orders for optical isolators that exceed initial expectations. In addition, the Company is proceeding with cost-reduction measures in response to fluctuations in orders, measures to expand demand for new products with high added value, and negotiations to review the prices of unprofitable products. As a result, the Company has not changed the forecasts of financial results for the first half of the fiscal year under review and full year from the initial forecasts.

While paying close attention to developments in the future, the Company will promptly announce any changes that are deemed necessary.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Previous fiscal year (As of December 31, 2022)	First quarter of the fiscal year ending December 2023 (As of March 31, 2023)
Assets		
Current assets		
Cash and deposits	10,363	9,658
Notes and accounts receivable - trade	3,041	3,019
Electronically recorded monetary claims - operating	994	922
Finished goods	1,066	1,359
Work in process	362	316
Raw materials and supplies	1,067	1,090
Other	332	331
Total current assets	17,227	16,697
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	959	948
Machinery, equipment and vehicles, net	2,758	2,760
Tools, furniture and fixtures, net	503	499
Land	143	143
Leased assets, net	1,609	1,611
Construction in progress	236	494
Total property, plant and equipment	6,210	6,458
Intangible assets		
Other	134	172
Total intangible assets	134	172
Investments and other assets		
Investment securities	324	349
Deferred tax assets	178	173
Other	209	185
Total investments and other assets	711	707
Total non-current assets	7,057	7,339
Total assets	24,285	24,036

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	First quarter of the fiscal year ending December 2023 (As of March 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	684	767
Short-term borrowings	441	345
Current portion of long-term borrowings	676	643
Lease liabilities	135	138
Accounts payable - other	465	468
Income taxes payable	615	334
Provision for bonuses	65	175
Provision for bonuses for directors (and other officers)	30	-
Other	260	254
Total current liabilities	3,375	3,127
Non-current liabilities		
Long-term borrowings	726	532
Lease liabilities	1,623	1,620
Deferred tax liabilities	82	96
Retirement benefit liability	104	109
Asset retirement obligations	66	66
Other	10	9
Total non-current liabilities	2,613	2,435
Total liabilities	5,988	5,562
Net assets		
Shareholders' equity		
Share capital	350	350
Capital surplus	5,648	5,648
Retained earnings	11,223	11,293
Treasury shares	(0)	(0)
Total shareholders' equity	17,221	17,291
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	20
Foreign currency translation adjustment	1,073	1,162
Total accumulated other comprehensive income	1,074	1,182
Total net assets	18,296	18,473
Total liabilities and net assets	24,285	24,036

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

Quarterly Consolidated Statements of Income

First quarter (Cumulative)

	(Millions of yen)	
	First quarter of the fiscal year ended December 2022 (January 1, 2022 - March 31, 2022)	First quarter of the fiscal year ending December 2023 (January 1, 2023 - March 31, 2023)
Net sales	3,954	3,521
Cost of sales	2,382	2,049
Gross income	1,571	1,471
Selling, general and administrative expenses	509	625
Operating profit	1,062	846
Non-Operating profit		
Interest and dividend income	1	7
Foreign exchange gains	201	30
Gain on sale of goods	2	0
Other	47	24
Total non-Operating profit	251	61
Non-operating expenses		
Interest expenses	15	23
Other	0	2
Total non-operating expenses	15	25
Ordinary profit	1,299	882
Extraordinary losses		
Loss on sale and retirement of non-current assets	0	-
Total extraordinary losses	0	-
Income before income taxes	1,299	882
Income taxes - current	385	307
Income taxes - deferred	26	10
Total income taxes	412	318
Net income	886	564
Profit attributable to owners of parent	886	564

Quarterly Consolidated Statements of Comprehensive Income
 First quarter (Cumulative)

	(Millions of yen)	
	First quarter of the fiscal year ended December 2022 (January 1, 2022 - March 31, 2022)	First quarter of the fiscal year ending December 2023 (January 1, 2023 - March 31, 2023)
Net income	886	564
Other comprehensive income		
Valuation difference on available-for-sale securities	(8)	18
Foreign currency translation adjustment	353	88
Total other comprehensive income	344	107
Comprehensive income	1,230	672
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,230	672

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Guidance on Application of Accounting Standard for Fair Value Measurement)

The Company has applied the "Guidance on Application of Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on June 17, 2021) from the beginning of the first quarter of the fiscal year ending December 2023, and decided to adopt the new accounting policies set forth by the Guidance on Application of Accounting Standard for Fair Value Measurement going forward in accordance with the transitional treatment as stipulated in Paragraph 27-2 of the Guidance on Application of Accounting Standard for Fair Value Measurement. Note that the application has not affected the quarterly consolidated financial statements.

(Segment Information, Etc.)

[Segment information]

First quarter of the fiscal year ended December 2022 (January 1, 2022 - March 31, 2022)

1. Information regarding net sales and income or loss for each reportable segment, and breakdown of revenue

(Millions of yen)

	Reportable segment			Adjustments	Total (Note)
	Lead Terminals Business	Optical Components and Devices Business	Total		
Net sales					
Japan	819	268	1,087	-	1,087
China	579	144	723	-	723
Asia	637	13	650	-	650
U.K.	-	1,208	1,208	-	1,208
U.S.	-	259	259	-	259
Others	16	7	24	-	24
Revenue from contracts with customers	2,052	1,901	3,954	-	3,954
Other revenue					
Sales to outside customers	2,052	1,901	3,954	-	3,954
Inter-segment sales or transfers	-	-	-	-	-
Total	2,052	1,901	3,954	-	3,954
Segment income	105	956	1,062	-	1,062

(Note) The total segment income is consistent with Operating profit as reported in the Quarterly Consolidated Statements of Income.

First quarter of the fiscal year ending December 2023 (January 1, 2023 - March 31, 2023)

1. Information regarding net sales and income or loss for each reportable segment, and breakdown of revenue

(Millions of yen)

	Reportable segment			Adjustments	Total (Note)
	Lead Terminals Business	Optical Components and Devices Business	Total		
Net sales					
Japan	873	455	1,328	-	1,328
China	379	9	389	-	389
Asia	601	5	607	-	607
U.K.	-	529	529	-	529
U.S.	-	653	653	-	653
Others	9	2	12	-	12
Revenue from contracts with customers	1,864	1,656	3,521	-	3,521
Other revenue					
Sales to outside customers	1,864	1,656	3,521	-	3,521
Inter-segment sales or transfers	-	-	-	-	-
Total	1,864	1,656	3,521	-	3,521
Segment income	28	817	846	-	846

(Note) The total segment income is consistent with Operating profit as reported in the Quarterly Consolidated Statements of Income.

(Revenue Recognition)

Breakdown of revenue from contracts with customers is described in "Notes (Segment Information, Etc.)"

Consolidated Financial Highlights for the First Quarter of the Fiscal Year Ending Dec 2023

KOHOKU KOGYO CO., LTD.

2023/5/11

	FY22 1Q Results	FY23 1Q Results	Change		FY23 2Q Estimate	Change		FY23 Estimate	Change	
			Amount	Ratio		Ratio	Ratio			
(Millions of Yen, %)										
1. Statement of income										
Net Sales	3,954	3,521	-433	-11.0%	8,086	+1.6%		16,494	+5.2%	
Cost of sales	2,382	2,049	-332	-14.0%	4,664	-3.6%		9,628	+1.1%	
Gross profit	1,571	1,471	-100	-6.4%	3,421	+9.7%		6,866	+11.7%	
(Gross profit Ratio)	(39.8%)	(41.8%)	-	-	(42.3%)	-		(41.6%)	-	
S.G.A. expenses	509	625	+116	+22.8%	1,374	+27.7%		2,744	+21.4%	
Operating Profit	1,062	846	-216	-20.4%	2,047	+0.3%		4,121	+6.1%	
(Operating Profit ratio)	(26.9%)	(24.0%)	-	-	(25.3%)	-		(25.0%)	-	
Ordinary Profit	1,299	882	-416	-32.0%	2,027	-25.8%		4,084	-8.1%	
(Ordinary Profit ratio)	(32.9%)	(25.1%)	-	-	(25.1%)	-		(24.8%)	-	
Profit attributable to owners of parent	886	564	-321	-36.3%	1,398	-23.0%		2,819	-8.1%	
(Net Profit Ratio)	(22.4%)	(16.0%)	-	-	(17.3%)	-		(17.1%)	-	
Capital Expenditures	306	385	+79	+25.9%	951	+126.4%		2,281	+0.0%	
Depreciation	156	185	+28	+18.3%	367	+12.0%		800	+0.0%	
R&D Expenses	109	139	+30	+27.5%	327	+36.2%		666	+0.0%	
2. Segment Information										
<Lead Terminals Segment>										
Net Sales	2,052	1,864	-188	-9.2%	4,510	+7.3%		9,162	+9.3%	
Segment Profit	105	28	-77	-72.8%	413	+132.5%		699	+200.7%	
(Segment Profit Ratio)	(5.2%)	(1.5%)	-	-	(9.2%)	-		(7.6%)	-	
Capital Expenditures	219	133	-86	-39.4%	539	+91.4%		1,354	+166.5%	
Depreciation	90	109	+18	+20.7%	243	+30.1%		533	+37.5%	
<Optical Components and Device Segment>										
Net Sales	1,901	1,656	-244	-12.9%	3,575	-4.7%		7,331	+0.6%	
Segment Profit	956	817	-139	-14.6%	1,633	-12.4%		3,422	-6.3%	
(Segment Profit Ratio)	(50.3%)	(49.3%)	-	-	(45.7%)	-		(46.7%)	-	
Capital Expenditures	69	84	+14	+20.6%	258	+91.3%		660	+82.1%	
Depreciation	66	76	+10	+15.1%	123	-12.1%		267	-12.2%	
<Common section>										
Capital Expenditures	16	168	+151	+904.8%	153	+4962.7%		266	+512.7%	
Depreciation	-	-	-	-	-	-		-	-	
3. Others										
EBITDA	1,219	1,031	-188	-15.4%	2,414	+1.9%		4,922	+0.0%	
Equity Ratio	71.9%	76.9%	-	-	-	-		-	-	
Net Profit per Share (Yen)	100.39	62.77	-37.62	-37.5%	155.49	-		313.41	-	
Employees (People)	1,693	1,658	-35	-2.1%	1,637	-		1,606	-	
Foreign Exchange Rate (USD/JPY) (Average)	116.34	132.40	-	-	130.00	-		130.00	-	
Foreign Exchange Rate (USD/JPY) (At year End)	122.41	133.54	-	-	130.00	-		130.00	-	

* Calculation Formula EBITDA : Operating Income + Depreciation