

Translation

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Consolidated Financial Results for the Three Months Ended June 30, 2023 (Based on Japanese GAAP)

August 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 Officer, General Manager of
 Inquiries: Accounting Department Kohei Nakada TEL 026-259-5955
 Scheduled date to file Quarterly Securities Report: August 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 three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(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	%
Three months ended June 30, 2023	16,849	7.6	(1,248)	–	(304)	–	(332)	–
Three months ended June 30, 2022	15,665	2.4	(1,701)	–	(594)	–	(557)	–

Note: Comprehensive income Three months ended June 30, 2023 ¥(117) million [–%]
 Three months ended June 30, 2022 ¥(520) million [–%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2023	(10.50)		–	
Three months ended June 30, 2022	(17.65)		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	106,957	49,934	46.7
As of March 31, 2023	104,897	50,955	48.6

Reference: Equity As of June 30, 2023 ¥49,934 million
 As of March 31, 2023 ¥50,955 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2023	–	10.00	–	30.00	40.00
Year ending March 31, 2024	–				
Year ending March 31, 2024 (Forecast)		10.00	–	–	–

Notes: 1. Revisions to the cash dividend forecasts most recently announced: None

2. The forecast for the year-end dividends for the year ending March 31, 2024 has not yet been determined.

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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
Six months ending September 30, 2023	35,800	13.2	(2,730)	–	(2,650)	–	(2,110)	–	(66.58)
Full year	80,200	9.9	1,920	–	2,110	–	700	–	22.08

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

4. Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2023
(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 June 30, 2023	∴	33,359,040 shares	As of March 31, 2023	∴	33,359,040 shares
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Number of treasury shares at the end of the period

As of June 30, 2023	∴	1,673,376 shares	As of March 31, 2023	∴	1,698,816 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2023	∴	31,672,114 shares	Three months ended June 30, 2022	∴	31,587,881 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 Three Months Ended June 30, 2023,' on page 3 of the attached materials.

1. Qualitative Information Regarding Financial Results for the Three Months Ended June 30, 2023

(1) Explanation of operating results

The Japanese economy during the first three months ended June 30, 2023 showed signs of resumption of economic activities and a recovery in consumer spending and capital investment due to the transition of COVID-19 to a Class 5 infectious disease and other relaxations of activity restrictions designed to prevent the spread of the virus. However, the outlook is 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 carried out initiatives 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 three months ended June 30, 2023 were net sales of ¥16,849 million (up 7.6% from the same period of the previous fiscal year), operating loss of ¥1,248 million (operating loss of ¥1,701 million in the same period of the previous fiscal year), ordinary loss of ¥304 million (ordinary loss of ¥594 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥332 million (loss attributable to owners of parent of ¥557 million in the same period of the previous fiscal year).

Production output for the three months ended June 30, 2023 consists of 11,050t of Bunashimeji, including Bunapi (down 5.8% from the same period of the previous fiscal year), 4,418t of Eryngii (up 0.1% from the same period of the previous fiscal year), and 3,721t of Maitake (down 0.1% from the same period of the previous fiscal year).

Performance in each business segment for the three months ended June 30, 2023 was as follows.

[Mushroom business in Japan]

The production division, amid a significant rise in raw material prices, electricity costs, packaging costs, and other production costs, worked to reduce costs, 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.

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. In terms of sales, production adjustments made since the beginning of the current fiscal year have resulted in improved supply and demand of mushrooms, and prices have remained relatively firm, maintaining a stable state.

As a result, net sales for the mushroom business in Japan as a whole were ¥10,776 million (up 11.9% year on year).

[Mushroom business outside Japan]

Hokto Kinoko Company, a local subsidiary in the U.S., faced difficult conditions in overall fresh produce sales, including mushrooms, due to a long rainy season and low temperatures. In addition, net sales and operating profit fell short of the plan due to higher manufacturing costs caused by soaring energy costs and raw material and material costs. At Taiwan Hokuto Corporation, a local subsidiary in Taiwan, sales in the retail market as a whole were sluggish due to falling vegetable prices. Amid this, mushroom sales were also weak, and net sales fell slightly short of the plan. However, thanks to the effects of cost-cutting measures and other factors, operating profit slightly exceeded the plan. Hokto Malaysia Sdn. Bhd., a local subsidiary in Malaysia, faced a difficult market environment due to inflation since last year, while a large volume of Chinese mushrooms were imported into the ASEAN region at low prices, which had a significant impact on the company's mushroom sales. Consequently, both net sales and operating profit fell short of the plan. However, net sales increased year on year for the local subsidiary in the U.S. as a result of raising prices twice from the second half of last year.

As a result, net sales for the mushroom business outside Japan as a whole were ¥1,657 million (up 7.8% year on year).

[Processed products business]

The processed products business carried out sales of processed mushroom products, such as those that are boiled or frozen, and worked to develop new products and develop markets. 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, sales of fresh and frozen mushroom products for commercial use struggled for home meals and convenience stores. We launched dried shiitake mushrooms, etc., in the mail-order business, and sales were strong despite raising prices, mainly through our e-commerce website. Furthermore, at the subsidiary Arden Corporation, net sales fell short of projections due to reduced orders as a result of raising prices in April.

As a result, net sales for the processed products business were ¥1,568 million (down 12.6% year on year).

[Chemical products business]

The First Business Department, whose main business is packaging materials, worked on proposal-based marketing for value-added products, with a focus on functional packaging materials that limit quality deterioration and environmental packaging materials made from recycled materials. While sales to mass retailers remained strong, sales of industrial materials for semiconductor and automotive parts-related manufacturers struggled.

The Second Business Department, which primarily produces and sells agricultural materials and our own products, continued to focus on stable supply of some production materials and culture medium, which are in tight supply and demand, to mushroom growers, and also worked to improve the quality of our own products and expand sales.

As a result, net sales for the chemical products business were ¥2,846 million (up 5.2% year on year).

(2) Explanation of financial position

Positions of assets, liabilities and net assets, and the factors thereof as of June 30, 2023 are as follows.

(Assets)

Current assets as of June 30, 2023 amounted to ¥33,204 million, up ¥2,413 million from the previous fiscal year end. This was due mainly to an increase of ¥2,365 million in cash and deposits. Non-current assets amounted to ¥73,752 million, down ¥353 million from the previous fiscal year end.

As a result, total assets amounted to ¥106,957 million, up ¥2,060 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of June 30, 2023 amounted to ¥38,876 million, up ¥939 million from the previous fiscal year end. Non-current liabilities amounted to ¥18,146 million, up ¥2,141 million from the previous fiscal year end. This was due mainly to an increase of ¥2,159 million in long-term borrowings.

As a result, total liabilities amounted to ¥57,022 million, up ¥3,081 million from the previous fiscal year end.

(Net assets)

Total net assets as of June 30, 2023 amounted to ¥49,934 million, down ¥1,020 million from the previous fiscal year end. This was due mainly to a decrease of ¥1,286 million in retained earnings associated with the recording of ¥332 million in loss attributable to owners of parent and the payment of dividend of ¥954 million.

As a result, the equity ratio was 46.7% (48.6% at the end of the previous fiscal year).

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

There is no change in the earnings forecasts in the “Summary of Consolidated Financial Results for the Year Ended March 31, 2023 (Based on Japanese GAAP),” dated May 12, 2023.

The earnings forecasts are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ materially from the forecasts due to various factors.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	16,031	18,396
Notes and accounts receivable - trade	6,250	5,665
Merchandise and finished goods	2,636	3,133
Work in process	4,308	4,368
Raw materials and supplies	1,056	1,090
Other	538	582
Allowance for doubtful accounts	(31)	(32)
Total current assets	30,790	33,204
Non-current assets		
Property, plant and equipment		
Buildings and structures	71,334	72,004
Accumulated depreciation	(34,848)	(35,625)
Buildings and structures, net	36,486	36,379
Machinery, equipment and vehicles	67,555	68,360
Accumulated depreciation	(55,339)	(56,858)
Machinery, equipment and vehicles, net	12,215	11,502
Land	14,506	14,556
Other	2,760	2,813
Accumulated depreciation	(1,995)	(2,027)
Other, net	765	786
Total property, plant and equipment	63,973	63,224
Intangible assets		
Goodwill	9	—
Other	202	191
Total intangible assets	211	191
Investments and other assets		
Investment securities	6,681	7,070
Retirement benefit asset	1,127	1,140
Other	2,254	2,271
Allowance for doubtful accounts	(142)	(144)
Total investments and other assets	9,920	10,337
Total non-current assets	74,106	73,752
Total assets	104,897	106,957

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,187	5,960
Short-term borrowings	7,088	11,086
Income taxes payable	262	169
Provision for bonuses	964	721
Other	23,433	20,939
Total current liabilities	37,936	38,876
Non-current liabilities		
Long-term borrowings	14,072	16,232
Retirement benefit liability	358	362
Asset retirement obligations	1,030	1,048
Other	543	504
Total non-current liabilities	16,004	18,146
Total liabilities	53,941	57,022
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	41,943	40,656
Treasury shares	(3,151)	(3,100)
Total shareholders' equity	50,020	48,783
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,352	1,616
Foreign currency translation adjustment	(357)	(411)
Remeasurements of defined benefit plans	(59)	(53)
Total accumulated other comprehensive income	935	1,150
Total net assets	50,955	49,934
Total liabilities and net assets	104,897	106,957

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	15,665	16,849
Cost of sales	13,658	14,230
Gross profit	2,006	2,618
Selling, general and administrative expenses	3,708	3,867
Operating loss	(1,701)	(1,248)
Non-operating income		
Dividend income	86	87
Rental income from land and buildings	31	40
Foreign exchange gains	998	777
Other	21	69
Total non-operating income	1,137	976
Non-operating expenses		
Interest expenses	22	29
Loss on sale of investment securities	7	-
Other	0	3
Total non-operating expenses	30	32
Ordinary loss	(594)	(304)
Extraordinary income		
Gain on sale of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Other	0	-
Total extraordinary losses	1	0
Loss before income taxes	(594)	(304)
Income taxes - current	118	245
Income taxes - deferred	(155)	(217)
Total income taxes	(37)	28
Loss	(557)	(332)
Loss attributable to owners of parent	(557)	(332)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Loss	(557)	(332)
Other comprehensive income		
Valuation difference on available-for-sale securities	54	263
Foreign currency translation adjustment	(25)	(53)
Remeasurements of defined benefit plans, net of tax	7	5
Total other comprehensive income	36	215
Comprehensive income	(520)	(117)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(520)	(117)
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.