

Translation

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

August 9, 2023

Company name: Kohoku Kogyo Co., Ltd.

Listing exchange: Tokyo Stock Exchange

Securities code: 6524

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Scheduled date for filing quarterly report: August 9, 2023

Scheduled date for commencing dividend payments: -

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results briefing session: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the First Two Quarters of the Fiscal Year Ending December 2023 (January 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results (Cumulative)

(Percentage figures represent 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	%
First two quarters ended June 30, 2023	7,023	(11.7)	1,686	(17.4)	2,185	(20.0)	1,344	(26.0)
First two quarters ended June 30, 2022	7,958	—	2,042	—	2,731	—	1,817	—

(Note) Comprehensive income

First two quarters ended June 30, 2023 1,785 Millions of yen ((32.8)%)

First two quarters ended June 30, 2022 2,656 Millions of yen (-%)

	Net income per share	Diluted earnings per share
	yen sen	yen sen
First two quarters ended June 30, 2023	149.41	—
First two quarters ended June 30, 2022	205.70	202.29

(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 two quarters 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 June 30, 2023	25,214	19,586	77.7
As of December 31, 2022	24,285	18,296	75.3

(Reference) Total shareholders' equity

As of June 30, 2023 19,586 Millions of yen

As of December 31, 2022 18,296 Millions of yen

2. Cash Dividends

	Annual dividends per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
As of December 31, 2022	yen sen -	yen sen 0.00	yen sen -	yen sen 55.00	yen sen 55.00
Fiscal year ending December 2023	-	0.00			
Fiscal year ending December 2023 (Forecast)			-	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 represent year-on-year changes)

	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
Full year	14,490	(7.5)	3,411	(12.2)	3,363	(24.3)	2,157	(29.7)	239.77

(Note) Revisions to the most recently announced forecast of financial results: Yes

*Notes

- (1) Changes in significant subsidiaries during the quarter: 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 June 30, 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 June 30, 2023	3,465	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)

First two quarters ended June 30, 2023	8,996,609	First two quarters ended June 30, 2022	8,835,027
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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 4 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 two quarters 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 two quarters (January - June 2023) of the fiscal year ending December 2023, the world economy showed some signs of improvement in the retail and service sectors in a phase of post-COVID-19. However, severe situations continued because of various factors including the prolonged Russia-Ukraine situation, the U.S.-China friction, economic stagnation in China, the sustained high energy prices, price increases, and financial instability in Western countries. In the electronics market, the market environment for PCs and information and communications equipment became severe since the personal consumption of tangible goods supported by stay-at-home demand during the COVID-19 pandemic was replaced by consumption of intangible goods such as travel.

The Japanese economy started to show a gradual recovery trend, such as an improvement in the employment conditions, a recovery in capital investment, and a positive upturn in the stock market although industrial production and machinery orders remained sluggish.

In the electronic components industry, the situation was difficult since turmoil in the automotive electronic components market, which was initiated by the shortage of semiconductors, continued and the ICT equipment market, which substantially declined since last summer, did not show any sign of recovery, despite positive factors such as a rapid increase in EV sales in Europe and the United States. The submarine cable device market remained strong, driven by the announcement of a new construction project for cable installation and the need for long-term growth in information and communications traffic, despite being 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 supply chain by relocating its Suzhou Plant in China and optimizing the global production ratio. The Company also worked to strengthen its risk management system including cybersecurity measures and disaster countermeasures.

The Company reviewed the prices of unprofitable products and promoted the use of new products primarily in the Lead Terminals Business. In addition, the Company made sustained efforts to maintain and improve the profit structure by improving production efficiency and developing new technologies.

For the operating results for the first two quarters under review, the Company posted net sales of 7,023 million yen (down 11.7% year on year), Operating profit of 1,686 million yen (down 17.4% year on year), Ordinary profit of 2,185 million yen (down 20.0% year on year), and Profit attributable to owners of parent of 1,344 million yen (down 26.0% year on year), due to the slowdown of the Lead Terminals Business and the Optical Components and Devices Business. The period-average exchange rate for the first two quarters under review was 134.99 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 two quarters ended June 2023 were 3,789 million yen (down 9.9% year on year) and 157 million yen (down 11.6% year on year), respectively.

Among products for the automotive market, aluminum electrolytic capacitors failed to grow in actual demand because an excessive inventory came to light in the course of normalization of automobile production attendant on the eased semiconductor shortage, although the volume of automobile production was on a recovery trend and EVs became increasingly widespread. In addition, sales were stagnant due to the continued decline in the digital consumer market, after stay-at-home demand fizzled out.

On the other hand, the Company made efforts to improve its earning power, such as proceeding with negotiations to review the prices of its unprofitable products including longtime sellers, starting volume production of the burr-free product, which has significantly improved vibration resistance and insulation characteristics, and expanding new product offerings particularly for electric double layer capacitors (EDLC). 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 an effort to reorganize its global production system, the Company proceeded with preparations to start production at a new site of its Suzhou Plant in China in July and boosted its production capacity 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 two quarters ended June 2023 were 3,234 million yen (down 13.8% year on year) and 1,528 million yen (down 18.0% year on year), respectively.

As for optical devices for submarine cables, some customers continued order adjustments due to supply chain disruptions from last year. However, the Company saw a positive sign for the future, including receiving a long-term turnkey order from a customer against a backdrop of growing demand in the context of the strengthening of the global communications infrastructure. Meanwhile, sales of optical fiber array products for land optical communications declined due to adjustments in the data center market in addition to an embargo and delivery restrictions associated with the U.S.-China conflict.

In terms of development, the Company developed and prototyped compact or composite products compatible with multi-core fiber in line with technological progress toward further expansion of the volume 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 to be ready for multi-core fiber, a future technology, 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 strengthened natural disaster countermeasures such as watertight measures at the pre-process sites.

(2) Explanation Regarding Financial Position

(Assets)

Current assets increased by 92 million yen from the end of the previous fiscal year to 17,320 million yen. This was mainly attributable to finished goods increasing by 331 million yen, while cash and deposits dropped by 224 million yen.

Non-current assets increased by 836 million yen from the end of the previous fiscal year to 7,894 million yen. This was mainly attributable to construction in progress increasing by 480 million yen, machinery, equipment and vehicles, net increasing by 186 million yen and intangible assets increasing by 106 million yen.

As a result, total assets increased by 929 million yen from the end of the previous fiscal year to 25,214 million yen.

(Liabilities)

Current liabilities decreased by 155 million yen from the end of the previous fiscal year to 3,220 million yen. This was mainly attributable to short-term borrowings decreasing by 95 million yen and current portion of long-term borrowings decreasing by 68 million yen.

Non-current liabilities were down by 205 million yen from the end of the previous fiscal year to 2,407 million yen. This was mainly attributable to lease liabilities increasing by 62 million yen, while long-term borrowings fell by 308 million yen.

As a result, total liabilities decreased by 360 million yen from the end of the previous fiscal year to 5,628 million yen.

(Net assets)

Net assets increased by 1,289 million yen from the end of the previous fiscal year to 19,586 million yen. This was mainly attributable to retained earnings increasing by 849 million yen and foreign currency translation adjustment increasing by 410 million yen.

Cash and cash equivalents at the end of the period under review totaled 10,139 million yen.

Cash flows in each area of activity and their respective contributing factors for the period under review are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 1,510 million yen. The major factors of cash inflow were income before income taxes of 2,147 million yen and depreciation of 373 million yen, and the major factors of cash outflow were income taxes paid of 571 million yen, increase in inventories of 270 million yen and decrease in trade payables of 134 million yen.

(Cash flows from investing activities)

Net cash provided by investing activities amounted to 166 million yen. The major factor of cash inflow was proceeds from withdrawal of time deposits of 1,031 million yen, and the major factors of cash outflow were purchase of property, plant and equipment of 792 million yen and purchase of intangible assets of 104 million yen.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 1,044 million yen. The major factors of cash outflow were dividends paid of 494 million yen, repayments of long-term borrowings of 376 million yen and decrease in short-term borrowings of 105 million yen.

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

The financial results for the first two quarters under review were disappointing compared to initial expectations partly due to unexpected market adjustments in the Lead Terminals Business and the sluggish data center market in the Optical Components and Devices Business.

In the Optical Components and Devices Business, the Company has not changed the financial results forecasts from the initial forecasts based on the status of long-term turnkey orders for optical isolators for submarine cables although the data center market remains sluggish. In the Lead Terminals Business, as the market environment remains challenging, the Company's financial results forecasts are below the initially planned figures.

Based on the situation, the Company has revised the consolidated financial results forecasts for the fiscal year ending December 2023 as follows.

It is assumed that the exchange rate projected for the second half of the fiscal year under review is 130 yen to the U.S. dollar.

	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
Previous forecasts (A)	16,494	4,121	4,084	2,819	313.41
Revised forecasts (B)	14,490	3,411	3,363	2,157	239.77
Difference (B-A)	(2,004)	(712)	(721)	(662)	(73.64)
Rate of change (%)	(12.2)	(17.3)	(17.7)	(23.5)	(23.5)
(Reference) Actual results for the year ended December 31, 2022	15,673	3,884	4,443	3,066	346.14

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)	Second quarter of the fiscal year ending December 2023 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	10,363	10,139
Notes and accounts receivable - trade	3,041	3,110
Electronically recorded monetary claims - operating	994	921
Finished goods	1,066	1,397
Work in process	362	326
Raw materials and supplies	1,067	1,148
Other	332	277
Total current assets	17,227	17,320
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	959	963
Machinery, equipment and vehicles, net	2,758	2,945
Tools, furniture and fixtures, net	503	498
Land	143	143
Leased assets, net	1,609	1,673
Construction in progress	236	717
Total property, plant and equipment	6,210	6,942
Intangible assets		
Other	134	240
Total intangible assets	134	240
Investments and other assets		
Investment securities	324	365
Deferred tax assets	178	148
Other	209	196
Total investments and other assets	711	711
Total non-current assets	7,057	7,894
Total assets	24,285	25,214

(Millions of yen)

	Previous fiscal year (As of December 31, 2022)	Second quarter of the fiscal year ending December 2023 (As of June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	684	576
Short-term borrowings	441	346
Current portion of long-term borrowings	676	607
Lease liabilities	135	134
Accounts payable - other	465	396
Income taxes payable	615	773
Provision for bonuses	65	120
Provision for bonuses for directors (and other officers)	30	—
Other	260	264
Total current liabilities	3,375	3,220
Non-current liabilities		
Long-term borrowings	726	417
Lease liabilities	1,623	1,686
Deferred tax liabilities	82	110
Retirement benefit liability	104	116
Asset retirement obligations	66	66
Other	10	9
Total non-current liabilities	2,613	2,407
Total liabilities	5,988	5,628
Net assets		
Shareholders' equity		
Share capital	350	350
Capital surplus	5,648	5,648
Retained earnings	11,223	12,073
Treasury shares	(0)	(0)
Total shareholders' equity	17,221	18,070
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	31
Foreign currency translation adjustment	1,073	1,484
Total accumulated other comprehensive income	1,074	1,515
Total net assets	18,296	19,586
Total liabilities and net assets	24,285	25,214

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

Quarterly Consolidated Statements of Income

(Cumulative)

(Millions of yen)

	First two quarters of the fiscal year ended June 2022 (January 1, 2022 - June 30, 2022)	First two quarters of the fiscal year ending December 2023 (January 1, 2023 - June 30, 2023)
Net sales	7,958	7,023
Cost of sales	4,840	4,072
Gross income	3,118	2,950
Selling, general and administrative expenses	1,075	1,264
Operating profit	2,042	1,686
Non-Operating profit		
Interest and dividend income	3	42
Foreign exchange gains	650	527
Gain on sale of goods	10	0
Other	58	34
Total non-Operating profit	721	605
Non-operating expenses		
Interest expenses	31	46
Litigation expenses	—	50
Other	0	9
Total non-operating expenses	32	105
Ordinary profit	2,731	2,185
Extraordinary losses		
Loss on sale and retirement of non-current assets	1	37
Total extraordinary losses	1	37
Income before income taxes	2,730	2,147
Income taxes - current	868	763
Income taxes - deferred	44	39
Total income taxes	913	803
Net income	1,817	1,344
Profit attributable to owners of parent	1,817	1,344

Quarterly Consolidated Statements of Comprehensive Income
(Cumulative)

(Millions of yen)

	First two quarters of the fiscal year ended June 2022 (January 1, 2022 - June 30, 2022)	First two quarters of the fiscal year ending December 2023 (January 1, 2023 - June 30, 2023)
Net income	1,817	1,344
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	30
Foreign currency translation adjustment	842	410
Total other comprehensive income	839	441
Comprehensive income	2,656	1,785
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,656	1,785

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	First two quarters of the fiscal year ended June 2022 (January 1, 2022 - June 30, 2022)	First two quarters of the fiscal year ending December 2023 (January 1, 2023 - June 30, 2023)
Cash flows from operating activities		
Income before income taxes	2,730	2,147
Depreciation	327	373
Interest and dividend income	(3)	(42)
Interest expenses	31	46
Foreign exchange losses (gains)	(58)	(75)
Decrease (increase) in trade receivables	(320)	36
Decrease (increase) in inventories	(318)	(270)
Increase (decrease) in trade payables	57	(134)
Increase (decrease) in provision for bonuses	38	52
Increase (decrease) in provision for bonuses for directors (and other officers)	(33)	(30)
Increase (decrease) in retirement benefit liability	(10)	9
Loss (gain) on sale and retirement of non-current assets	1	37
Increase (decrease) in accounts payable - other	(32)	(93)
Decrease (increase) in other assets	(33)	75
Increase (decrease) in other liabilities	(146)	(41)
Subtotal	2,229	2,091
Interest and dividends received	1	39
Interest paid	(31)	(49)
Income taxes paid	(1,002)	(571)
Net cash provided by (used in) operating activities	1,197	1,510
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	—	1,031
Purchase of property, plant and equipment	(449)	(792)
Purchase of investment securities	(100)	(0)
Proceeds from sale of investment securities	11	2
Purchase of intangible assets	—	(104)
Other, net	(14)	30
Net cash provided by (used in) investing activities	(553)	166
Cash flows from financing activities		
Repayments of long-term borrowings	(451)	(376)
Redemption of bonds	(9)	—
Dividends paid	(485)	(494)
Net increase (decrease) in short-term borrowings	(400)	(105)
Repayments of lease liabilities	(79)	(66)
Purchase of treasury shares	—	(0)
Proceeds from sale of treasury shares	3	—
Net cash provided by (used in) financing activities	(1,422)	(1,044)
Effect of exchange rate change on cash and cash equivalents	322	143
Net increase (decrease) in cash and cash equivalents	(455)	776
Cash and cash equivalents at beginning of period	10,951	9,362
Cash and cash equivalents at end of period	10,496	10,139

(4) 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 two quarters of the fiscal year ended June 2022 (January 1, 2022 - June 30, 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	1,867	557	2,424	—	2,424
China	924	248	1,172	—	1,172
Asia	1,387	30	1,417	—	1,417
U.K.	—	2,306	2,306	—	2,306
U.S.	—	598	598	—	598
Other	26	13	39	—	39
Revenue from contracts with customers	4,204	3,753	7,958	—	7,958
Other revenue					
Sales to outside customers	4,204	3,753	7,958	—	7,958
Inter-segment sales or transfers	—	—	—	—	—
Total	4,204	3,753	7,958	—	7,958
Segment income	178	1,864	2,042	—	2,042

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

First two quarters of the fiscal year ending December 2023 (January 1, 2023 - June 30, 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	1,752	792	2,544	—	2,544
China	850	32	883	—	883
Asia	1,166	7	1,174	—	1,174
U.K.	—	1,114	1,114	—	1,114
U.S.	—	1,279	1,279	—	1,279
Other	19	8	27	—	27
Revenue from contracts with customers	3,789	3,234	7,023	—	7,023
Other revenue					
Sales to outside customers	3,789	3,234	7,023	—	7,023
Inter-segment sales or transfers	—	—	—	—	—
Total	3,789	3,234	7,023	—	7,023
Segment income	157	1,528	1,686	—	1,686

(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.)”

	FY22 2Q Results	FY23 2Q Results	Change		FY23 Original Estimate	FY23 Revised Estimate	Change Ratio
			Amount	Ratio			
4. Others (Millions of Yen, %)							
EBITDA	2,370	2,060	-309	-13.1%	4,922	4,130	-9.8%
ROIC	6.0%	5.4%	-	-	14.1%	11.1%	-
Equity Ratio	72.8%	77.7%	-	-	-	-	-
ROE	11.2%	7.1%	-	-	14.5%	11.6%	-
ROA	11.8%	8.8%	-	-	16.3%	13.6%	-
Net Profit per Share (Yen)	205.70	149.41	-56.29	-27.4%	313.41	239.77	-
Consolidated Payout Ratio	-	-	-	-	19.1%	25.0%	-
DOE	-	-	-	-	2.8%	2.9%	-
Employees (People)	1,662	1,528	-134	-8.1%	1,606	1,563	-
Foreign Exchange Rate (USD/JPY) (Average)	123.15	134.99	-	-	130.00	(※) 130.00	-
Foreign Exchange Rate (USD/JPY) (At year End)	136.69	144.99	-	-	130.00	130.00	-

(※) Assumed average rate for the second half of the Fiscal Year Ending Dec 2023

■ Calculation

① ROIC : $\frac{\text{NOPAT (Net Operating income After Tax)}}{\text{Invested Capital (Equity + Liabilities at year end)}}$

② EBITDA : Operating income + Depreciation