

Consolidated Financial Results for the Nine Months Ended September 30, 2023 [Japanese GAAP]



November 13, 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: November 13, 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 Nine Months Ended September 30, 2023 (January 1, 2023 - September 30, 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 | % |
| Nine months ended | | | | | | | | |
| September 30, 2023 | 58,698 | 2.0 | 3,696 | 20.7 | 4,105 | 15.4 | 3,301 | 28.8 |
| September 30, 2022 | 57,541 | – | 3,063 | – | 3,558 | – | 2,563 | – |

(Note) Comprehensive income: Nine months ended September 30, 2023: ¥4,705 million [76.4%]

Nine months ended September 30, 2022: ¥2,667 million [–%]

| | Basic earnings per share | | Diluted earnings per share | |
|--------------------|--------------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Nine months ended | | | | |
| September 30, 2023 | 275.49 | | – | |
| September 30, 2022 | 214.80 | | – | |

(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 September 30, 2023 | 97,232 | 59,588 | 61.3 |
| As of December 31, 2022 | 90,234 | 55,591 | 61.6 |

(Reference) Equity: As of September 30, 2023: ¥59,563 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 | – | 0.00 | – | | |
| Fiscal year ending December 31, 2023 (Forecast) | | | | 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 |
|-----------|-------------|-----|------------------|------|-----------------|------|---|-----------------------------|
| Full year | Million yen | % | Million yen | % | Million yen | % | Million yen | Yen |
| | 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):

| | |
|---------------------|-------------------|
| September 30, 2023: | 12,414,870 shares |
| December 31, 2022: | 12,414,870 shares |
 - 2) Total number of treasury shares at the end of the period:

| | |
|---------------------|----------------|
| September 30, 2023: | 321,382 shares |
| December 31, 2022: | 478,949 shares |
 - 3) Average number of shares during the period:

| | |
|---------------------------------------|-------------------|
| Nine months ended September 30, 2023: | 11,985,330 shares |
| Nine months ended September 30, 2022: | 11,933,228 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 nine months ended September 30, 2023, the Japanese economy was on a recovery trend as domestic economic activity normalized following the relaxation of COVID-19-related movement restrictions, with an increase in inbound consumption providing a favorable tailwind, despite price hikes and other challenges. Although there are expectations that pay raises will spread further and inbound demand will continue to increase, the economic outlook remains uncertain as it is still difficult to foresee the future on account of such concerns as increasing costs due to rising prices, reduced demand, and escalating labor shortages.

Under these circumstances, the Group posted net sales of 58,698 million yen for the nine months ended September 30, 2023 (up 2.0% year on year) as, despite a sales decline, 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 grew in the New Materials Division.

In terms of profit, the increase in net sales as well as our cost reduction efforts through productivity improvement resulted in operating profit of 3,696 million yen (up 20.7% year on year) and ordinary profit of 4,105 million yen (up 15.4% year on year). Profit attributable to owners of parent was 3,301 million yen (up 28.8% year on year) mainly due to the recording of gain on sale of investment securities under extraordinary income following the sale of investment securities held by the Company.

Operating results by segment are as follows.

[Plastic Film]

The sales volume of packaging films mainly for food usage decreased, as consumer appetite was dampened by a string of price increases in food and daily necessities, despite earlier expectations for inbound demand following the easing of government-imposed COVID-19-related restrictions. The sales volume of industrial-use process films for optics and semiconductor usages, too, showed a decline, as inventory adjustments have yet to come to a complete end due to the stagnant market. Meanwhile, chiefly because the rising costs of raw materials and otherwise have been transferred to product prices, net sales amounted to 38,186 million yen (down 0.1% year on year). Operating profit was 3,007 million yen (up 17.4% year on year), mainly due to markups on products and our cost reduction efforts through productivity improvement.

[New Materials]

Orders received for optical films for large LCD panels increased as the inventory adjustments peaked out, and functional materials for automobiles and other applications remained strong, resulting in net sales of 10,047 million yen (up 19.7% year on year). Operating profit was 1,491 million yen (up 23.6% year on year) due to the concentrated efforts to improve yields and productivity, as well as the increase in sales.

[Housing Materials]

The sales volume of particleboards, one of the key products of this business segment, was maintained as the Company focused on new customer acquisition and approaches to existing customers. However, mainly due to a significant decline in the sales volume of the lumber processing business, which mainly operates in the Shikoku Island area where new housing starts fell remarkably, net sales amounted to 9,333 million yen (down 5.4% year on year). Meanwhile, operating profit was 671 million yen (down 1.6% year on year) due in part to the rises in raw material prices and utility costs, despite the continuously stable production of particleboards.

[Other]

The hotel business saw a partial recovery in sales from hotel stays and banquets as COVID-19-related movement restrictions were eased, while the information processing system development business remained robust. As a result, overall net sales of other businesses were 1,131 million yen (up 7.0% year on year). Operating profit amounted to 313 million yen (up 12.8% 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 third quarter of the fiscal year under review increased by 6,998 million yen compared to the end of the previous fiscal year to 97,232 million yen. This was mainly due to an increase in property, plant and equipment of 3,759 million yen, an increase in investment securities of 1,946 million yen, and an increase in inventories of 1,136 million yen.

On the other hand, liabilities increased by 3,000 million yen compared to the end of the previous fiscal year to 37,644 million yen, mainly due to an increase in accounts payable - other of 1,718 million yen, an increase in other current liabilities of 1,019 million yen, an increase in provision for bonuses of 575 million yen, an increase in deferred tax liabilities of 419 million yen, and a decrease in borrowings of 365 million yen.

Net assets increased by 3,997 million yen from the end of the previous fiscal year to 59,588 million yen, mainly due to an increase in retained earnings of 2,287 million yen and an increase in valuation difference on available-for-sale securities of 1,364 million yen.

As a result of the above, the equity ratio decreased by 0.3 percentage points from the end of the previous fiscal year to 61.3%.

(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 July 24, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

| | As of December 31, 2022 | As of September 30, 2023 |
|---|-------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 8,448 | 8,346 |
| Notes and accounts receivable - trade | 20,797 | 20,940 |
| Electronically recorded monetary claims - operating | 8,325 | 8,058 |
| Merchandise and finished goods | 5,694 | 6,143 |
| Work in process | 1,263 | 1,491 |
| Raw materials and supplies | 4,611 | 4,987 |
| Real estate for sale | 206 | 289 |
| Other | 1,292 | 1,098 |
| Allowance for doubtful accounts | (0) | — |
| Total current assets | 50,640 | 51,356 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 11,981 | 11,683 |
| Machinery, equipment and vehicles, net | 7,415 | 7,902 |
| Land | 6,276 | 6,278 |
| Construction in progress | 2,868 | 6,357 |
| Other, net | 428 | 508 |
| Total property, plant and equipment | 28,970 | 32,730 |
| Intangible assets | 642 | 852 |
| Investments and other assets | | |
| Investment securities | 9,141 | 11,088 |
| Deferred tax assets | 234 | 143 |
| Other | 605 | 1,061 |
| Total investments and other assets | 9,981 | 12,293 |
| Total non-current assets | 39,594 | 45,875 |
| Total assets | 90,234 | 97,232 |

(Million yen)

| | As of December 31, 2022 | As of September 30, 2023 |
|---|-------------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 18,213 | 17,975 |
| Short-term borrowings | 1,549 | 1,530 |
| Current portion of long-term borrowings | 483 | 480 |
| Accounts payable - other | 4,306 | 6,025 |
| Income taxes payable | 797 | 664 |
| Provision for bonuses | – | 575 |
| Other | 4,159 | 5,178 |
| Total current liabilities | 29,509 | 32,430 |
| Non-current liabilities | | |
| Long-term borrowings | 343 | – |
| Deferred tax liabilities | 0 | 419 |
| Retirement benefit liability | 3,968 | 3,972 |
| Other | 821 | 821 |
| Total non-current liabilities | 5,133 | 5,213 |
| Total liabilities | 34,643 | 37,644 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 8,619 | 8,619 |
| Capital surplus | 9,071 | 9,105 |
| Retained earnings | 35,094 | 37,381 |
| Treasury shares | (829) | (556) |
| Total shareholders' equity | 51,956 | 54,549 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 3,507 | 4,872 |
| Foreign currency translation adjustment | 220 | 245 |
| Remeasurements of defined benefit plans | (114) | (103) |
| Total accumulated other comprehensive income | 3,613 | 5,014 |
| Non-controlling interests | 20 | 24 |
| Total net assets | 55,591 | 59,588 |
| Total liabilities and net assets | 90,234 | 97,232 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine months ended September 30

(Million yen)

| | For the nine months ended September 30, 2022 | For the nine months ended September 30, 2023 |
|---|---|---|
| Net sales | 57,541 | 58,698 |
| Cost of sales | 47,349 | 47,614 |
| Gross profit | 10,191 | 11,083 |
| Selling, general and administrative expenses | | |
| Sales commission | 56 | 62 |
| Transportation and storage costs | 2,071 | 1,970 |
| Salaries | 1,571 | 1,573 |
| Bonuses | 272 | 281 |
| Provision for bonuses | 171 | 169 |
| Remuneration for directors (and other officers) | 245 | 255 |
| Retirement benefit expenses | 86 | 107 |
| Depreciation | 147 | 160 |
| Research and development expenses | 864 | 966 |
| Provision of allowance for doubtful accounts | (0) | (0) |
| Other | 1,641 | 1,839 |
| Total selling, general and administrative expenses | 7,128 | 7,387 |
| Operating profit | 3,063 | 3,696 |
| Non-operating income | | |
| Interest income | 3 | 4 |
| Dividend income | 220 | 238 |
| Foreign exchange gains | 210 | 111 |
| Miscellaneous income | 121 | 114 |
| Total non-operating income | 555 | 469 |
| Non-operating expenses | | |
| Interest expenses | 17 | 13 |
| Commission expenses | 26 | 33 |
| Miscellaneous losses | 16 | 12 |
| Total non-operating expenses | 60 | 59 |
| Ordinary profit | 3,558 | 4,105 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 1 | 0 |
| Gain on sale of investment securities | – | 428 |
| Total extraordinary income | 1 | 429 |
| Extraordinary losses | | |
| Loss on sale and retirement of non-current assets | 56 | 129 |
| Loss on sale of investment securities | – | 1 |
| Extra retirement payments | 0 | 0 |
| Total extraordinary losses | 57 | 132 |
| Profit before income taxes | 3,502 | 4,402 |
| Income taxes - current | 1,130 | 1,301 |
| Income taxes - deferred | (188) | (202) |
| Total income taxes | 941 | 1,098 |
| Profit | 2,560 | 3,303 |
| Profit (loss) attributable to non-controlling interests | (2) | 1 |
| Profit attributable to owners of parent | 2,563 | 3,301 |

Quarterly Consolidated Statements of Comprehensive Income

Nine months ended September 30

(Million yen)

| | For the nine months ended September 30, 2022 | For the nine months ended September 30, 2023 |
|--|---|---|
| Profit | 2,560 | 3,303 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 57 | 1,364 |
| Foreign currency translation adjustment | 47 | 26 |
| Remeasurements of defined benefit plans, net of tax | 2 | 10 |
| Total other comprehensive income | 107 | 1,401 |
| Comprehensive income | 2,667 | 4,705 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 2,667 | 4,702 |
| Comprehensive income attributable to non-controlling interests | 0 | 3 |

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Pursuant to the resolution at the Board of Directors meeting held on March 23, 2023, the Group decided to introduce an incentive plan under which the common shares issued by the Company will be granted to members of the Group's Employee Stock Ownership Association as a special incentive, with the intention of raising employees' awareness of participating in management and increasing their motivation to enhance the Company's medium- to long-term shareholder value. Accordingly, on July 3, 2023, the Company disposed of treasury shares through third-party allotment, with the Group's Employee Stock Ownership Association as the allottee. As a result, capital surplus increased by 32 million yen and treasury shares decreased by 261 million yen during the nine months ended September 30, 2023 to 9,105 million yen and negative 556 million yen, respectively, at the end of the third quarter of the fiscal year under review.

(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.

(Segment information, etc.)

I For the nine months ended September 30, 2022 (January 1, 2022 to September 30, 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 | 38,227 | 8,395 | 9,861 | 56,484 | 1,057 | 57,541 | – | 57,541 |
| Inter-segment net sales or transfers | 2 | – | 7 | 10 | 600 | 610 | (610) | – |
| Total | 38,230 | 8,395 | 9,868 | 56,494 | 1,658 | 58,152 | (610) | 57,541 |
| Segment profit | 2,562 | 1,206 | 682 | 4,451 | 277 | 4,728 | (1,665) | 3,063 |

(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 1,665 million yen includes negative 1 million yen in eliminations of inter-segment transactions and negative 1,664 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 nine months ended September 30, 2023 (January 1, 2023 to September 30, 2023)

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 | 38,186 | 10,047 | 9,333 | 57,566 | 1,131 | 58,698 | – | 58,698 |
| Inter-segment net sales or transfers | 3 | – | 7 | 10 | 607 | 618 | (618) | – |
| Total | 38,189 | 10,047 | 9,341 | 57,577 | 1,738 | 59,316 | (618) | 58,698 |
| Segment profit | 3,007 | 1,491 | 671 | 5,171 | 313 | 5,484 | (1,787) | 3,696 |

(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 1,787 million yen includes negative 1 million yen in eliminations of inter-segment transactions and negative 1,786 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.