

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2021 (Based on Japanese GAAP)

November 12, 2021

Company name: HOKUTO CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 1379 URL <https://www.hokto-kinoko.co.jp>
 Representative: President Masayoshi Mizuno
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 Department Director
 Scheduled date to file Quarterly Securities Report: November 12, 2021
 Scheduled date to commence dividend payments: December 3, 2021
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(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	%
Six months ended September 30, 2021	31,497	–	(913)	–	(725)	–	(612)	–
Six months ended September 30, 2020	33,610	4.6	997	–	980	–	528	–

Note: Comprehensive income Six months ended September 30, 2021 ¥(898) million [–%]
 Six months ended September 30, 2020 ¥1,077 million [–%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2021	(19.45)		–	
Six months ended September 30, 2020	16.88		14.64	

Note: As the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending March 31, 2022, each figure as of September 30, 2021, is the figure after the application of the said standard, etc.

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of September 30, 2021	104,814		51,772		49.4	
As of March 31, 2021	100,237		54,140		54.0	

Reference: Equity As of September 30, 2021 ¥51,772 million
 As of March 31, 2021 ¥54,140 million

Note: As the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the fiscal year ending March 31, 2022, each figure as of September 30, 2021, is the figure after the application of the said standard, etc.

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, 2021	–	10.00	–	50.00	60.00
Year ending March 31, 2022	–	10.00	–	–	–
Year ending March 31, 2022 (Forecast)	–	–	–	50.00	60.00

Note: Revisions to the cash dividend forecasts most recently announced: None

3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

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
Full year	74,800	–	5,100	(15.2)	5,240	(19.7)	3,300	(18.3)	104.72

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

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ending March 31, 2022. Although this impact has been taken into account, year-on-year changes for net sales are not presented in the consolidated earnings forecasts above as the accounting method used for comparison differs.

4. Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2021
(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: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

Note: For the details, please refer to ‘Changes in accounting policies’ in ‘(3) Notes to quarterly consolidated financial statements’ in ‘2. Quarterly Consolidated Financial Statements and Significant Notes Thereto’ on page 8 of the attached materials.

(4) Number of issued shares (common shares)

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

As of September 30, 2021	33,359,040 shares	As of March 31, 2021	33,359,040 shares
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Number of treasury shares at the end of the period

As of September 30, 2021	1,828,319 shares	As of March 31, 2021	1,888,679 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2021	31,499,650 shares	Six months ended September 30, 2020	31,294,064 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 Six Months Ended September 30, 2021,’ on page 3 of the attached materials.

(Means of access to contents of supplementary material on financial results and financial results meeting)

A financial results presentation meeting for institutional investors and analysts will be held online on Friday, November 19, 2021. Any materials for the financial results presentation to be used in the meeting will be available on our website.

1. Qualitative Information Regarding Financial Results for the Six Months Ended September 30, 2021

(1) Explanation of operating results

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year. As a result, net sales for the six months ended September 30, 2021 decreased from the same period of the previous fiscal year, and in the description about the operating results mentioned below, the amount and percentage of year-on-year change of net sales are not included.

In the Japanese economy for the six months ended September 30, 2021, there were significant impacts to economic activity, such as the implementation of “states of emergency” and “strict infection control measures” in many prefectures due to the spread of the novel coronavirus disease (COVID-19). Although vaccinations have been proceeding steadily, the outlook of the economy remains uncertain as there is no projection for when COVID-19 will be brought under control due to the spread of variants.

In this economic environment, the Group believes that its priority is the safety of all consumers and employees, and it carried out business activities to deliver deliciousness and health to more and more people through research & development, production, and sales of the health food, mushrooms, primarily in the mushroom business, while taking into account measures to prevent the spread of COVID-19. Furthermore, the Group formulated a new Medium-Term Management Plan with the Management Vision of “Expand the market and consumption, with delivering health through mushrooms as our mission” and “Achieve both generation of profit and social responsibility as a company,” and carried it out from April 2021.

As a result of the above, the operating results of the Group for the six months ended September 30, 2021 were net sales of ¥31,497 million (¥33,610 million in the same period of the previous fiscal year), decreased by ¥498 million due to the application of the Accounting Standard for Revenue Recognition. Operating loss was ¥913 million (operating profit of ¥997 million in the same period of the previous fiscal year), ordinary loss was ¥725 million (ordinary profit of ¥980 million in the same period of the previous fiscal year), and loss attributable to owners of parent was ¥612 million (profit attributable to owners of parent of ¥528 million in the same period of the previous fiscal year).

Production output for the six months ended September 30, 2021 consists of 22,434t of Bunashimeji, including Bunapi (up 2.0% from the same period of the previous fiscal year), 9,235t of Eryngii (up 1.0% from the same period of the previous fiscal year), and 6,484t of Maitake (down 3.5% from the same period of the previous fiscal year).

Performance in each business segment for the six months ended September 30, 2021 was as follows.

[Mushroom business in Japan]

The production division performed even more thorough hygiene control, worked to improve quality and for stable cultivation, and produced mushrooms safely and securely, while taking 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 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 amid not being able to carry out direct sales promotion activities due to the impact of COVID-19, and carried out sales activities with a commitment to freshness. In terms of sales, the price of mushrooms declined as the market value of produce was low in general due to the abundant supply of produce because of continuous days with good weather in the first half of the six months ended September 30, 2021. In the second half, although mushroom prices leveled out as produce prices soared from the impact of heavy rain at the beginning of August, mushroom prices declined as demand for mushrooms was sluggish due to the intense late summer heat after entering September.

As a result, net sales for the mushroom business in Japan as a whole were ¥19,782 million (¥22,449 million in the same period of the previous fiscal year).

Net sales decreased by ¥400 million due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations.

[Mushroom business outside Japan]

At Hokto Kinoko Company, a local subsidiary in the U.S., net sales and operating profit both greatly exceeded the plan as sales volume and unit price both exceeded the plan against the backdrop of economic activities activating due to the spread of vaccinations. At Taiwan Hokuto Corporation, a local subsidiary in Taiwan, net sales and operating profit both exceeded the plan due to the increase of demand for eating at home as a result of the strengthening of rules to prevent the spread of COVID-19, and mushroom prices being strong because of produce prices soaring due to heavy rain. At Hokto Malaysia Sdn. Bhd., a local subsidiary in Malaysia, the sales environment deteriorated due to strict laws to restrict activities as a result of the increase of the number of people infected with COVID-19 in the various ASEAN countries that house the Group's customers, and due to the increasing trend of restrained buying as a result of the economic outlook being unclear. In this difficult environment, net sales fell below the plan despite focusing on sales, primarily bargain sales, and reducing expenses.

As a result, net sales for the mushroom business outside Japan as a whole were ¥2,875 million (¥2,172 million in the same period of the previous fiscal year). There is no effect on net sales due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations.

[Processed products business]

The processed products business carried out sales of processed mushroom products, such as those that are boiled or frozen, developed boiled, frozen and dried items, and worked to develop new products and develop markets. Although the situation continues to be difficult for business related to restaurants as the inclination to eat at home is continuing due to the impact of COVID-19, sales were steady for convenience stores. In the mail-order business, sales of retort food were favorable. Furthermore, at the subsidiary Arden Corporation, sales decreased year on year due to a rebound from the previous year.

As a result, net sales for the processed products business as a whole were ¥3,576 million (¥4,081 million in the same period of the previous fiscal year). Net sales decreased by ¥1 million due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations.

[Chemical products business]

Amid prices of materials being affected by soaring crude oil prices, the First Business Department, whose main business is packaging materials, strengthened sales from various perspectives, such as proposals for environmentally-friendly packaging materials and industrial materials that will contribute to SDGs, energy-saving equipment, etc., and worked to reinforce sales and profits. At the Second Business Department, which primarily produces and sells our own products and sells agricultural materials, sales and profits were both favorable due to the expansion of new orders for our own products, such as cultivation bottles and food containers for mushroom farmers. Furthermore, the Toyono Factory newly acquired ISO 9001 certification in order to improve quality, etc.

As a result, net sales for the chemical products business as a whole were ¥5,262 million (¥4,907 million in the same period of the previous fiscal year). Net sales decreased by ¥95 million due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations.

(2) Explanation of financial position

Positions of assets, liabilities and net assets, and the factors thereof as of September 30, 2021 are as follows.

(Assets)

Current assets as of September 30, 2021 amounted to ¥31,463 million, up ¥4,581 million from the previous fiscal year end. This was due mainly to increases of ¥2,599 million in cash and deposits, ¥671 million in notes and accounts receivable - trade and ¥556 million in merchandise and finished goods. Non-current assets amounted to ¥73,351 million, down ¥3 million from the previous fiscal year end.

As a result, total assets amounted to ¥104,814 million, up ¥4,577 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of September 30, 2021 amounted to ¥29,105 million, up ¥5,781 million from the previous fiscal year end. This was due mainly to an increase of ¥10,012 million in short-term borrowings and a decrease of ¥3,199 million in current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥23,937 million, up ¥1,165 million from the previous fiscal year end. This was due mainly to an increase of ¥1,651 million in long-term borrowings.

As a result, total liabilities amounted to ¥53,042 million, up ¥6,946 million from the previous fiscal year end.

(Net assets)

Total net assets as of September 30, 2021 amounted to ¥51,772 million, down ¥2,368 million from the previous fiscal year end. This was due mainly to the recording of ¥612 million in loss attributable to owners of parent and a decrease of ¥2,202 million in retained earnings due to the payment of dividend of ¥1,590 million.

As a result, the equity ratio was 49.4% (54.0% 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, 2021 (Based on Japanese GAAP),” dated May 14, 2021.

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, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	13,891	16,490
Notes and accounts receivable - trade	5,845	6,517
Merchandise and finished goods	2,251	2,807
Work in process	3,701	4,203
Raw materials and supplies	735	834
Other	508	662
Allowance for doubtful accounts	(53)	(54)
Total current assets	26,881	31,463
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,247	64,423
Accumulated depreciation	(29,985)	(31,019)
Buildings and structures, net	34,262	33,404
Machinery, equipment and vehicles	59,628	61,207
Accumulated depreciation	(45,291)	(47,666)
Machinery, equipment and vehicles, net	14,337	13,540
Land	14,354	14,360
Other	2,990	5,199
Accumulated depreciation	(1,897)	(1,957)
Other, net	1,093	3,242
Total property, plant and equipment	64,047	64,548
Intangible assets		
Goodwill	115	82
Other	134	130
Total intangible assets	250	212
Investments and other assets		
Investment securities	6,544	5,930
Retirement benefit asset	995	1,027
Other	1,537	1,654
Allowance for doubtful accounts	(19)	(21)
Total investments and other assets	9,057	8,590
Total non-current assets	73,355	73,351
Total assets	100,237	104,814

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,870	6,009
Short-term borrowings	3,931	13,944
Income taxes payable	2,005	247
Provision for bonuses	1,130	1,142
Other	10,385	7,761
Total current liabilities	23,323	29,105
Non-current liabilities		
Long-term borrowings	11,739	13,390
Bonds with share acquisition rights	9,722	9,719
Retirement benefit liability	371	382
Asset retirement obligations	213	223
Other	725	221
Total non-current liabilities	22,772	23,937
Total liabilities	46,096	53,042
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,727	5,728
Retained earnings	45,267	43,064
Treasury shares	(3,530)	(3,410)
Total shareholders' equity	52,964	50,881
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,659	1,231
Foreign currency translation adjustment	(328)	(209)
Remeasurements of defined benefit plans	(155)	(131)
Total accumulated other comprehensive income	1,176	890
Total net assets	54,140	51,772
Total liabilities and net assets	100,237	104,814

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	33,610	31,497
Cost of sales	25,186	25,307
Gross profit	8,423	6,190
Selling, general and administrative expenses	7,425	7,103
Operating profit (loss)	997	(913)
Non-operating income		
Dividend income	70	73
Rental income from land and buildings	57	54
Foreign exchange gains	–	73
Subsidy income	31	2
Other	36	26
Total non-operating income	194	231
Non-operating expenses		
Interest expenses	41	37
Foreign exchange losses	160	–
Other	10	6
Total non-operating expenses	212	43
Ordinary profit (loss)	980	(725)
Extraordinary income		
Gain on sale of non-current assets	39	1
Insurance claim income	111	–
Other	–	0
Total extraordinary income	151	1
Extraordinary losses		
Loss on disaster	162	–
Other	24	0
Total extraordinary losses	187	0
Profit (loss) before income taxes	944	(725)
Income taxes - current	344	214
Income taxes - deferred	71	(327)
Total income taxes	416	(112)
Profit (loss)	528	(612)
Profit (loss) attributable to owners of parent	528	(612)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit (loss)	528	(612)
Other comprehensive income		
Valuation difference on available-for-sale securities	419	(427)
Foreign currency translation adjustment	89	118
Remeasurements of defined benefit plans, net of tax	40	23
Total other comprehensive income	549	(285)
Comprehensive income	1,077	(898)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,077	(898)
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.

Changes in accounting policies

Application of Accounting Standard for Revenue Recognition, Etc.

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations effective from the beginning of the first quarter of the current fiscal year, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

Accordingly, certain payments to customers, such as rebates, that were recorded as selling, general and administrative expenses in the prior years have been reclassified to deduction of net sales. For subcontract processing with supply of materials for value (the “transaction”), raw materials, etc. supplied for value were previously derecognized. However, because the Group has an obligation to repurchase the supplied raw materials, etc. in the transaction, the supplied raw materials, etc. will not be derecognized.

Furthermore, for transactions in which the Group acts as an agent for providing products to customers, the full amount of the consideration received from customers was previously recognized as revenue, but the Group has changed this method so that revenue is recognized at the net amount calculated by deducting the amount paid to the supplier from the amount received from the customer.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and thus the new accounting policy was applied from such opening balance.

As a result of this change, for the six months ended September 30, 2021, net sales decreased by ¥498 million, cost of sales decreased by ¥95 million, selling, general and administrative expenses decreased by ¥402 million, while there is no effect on operating loss, ordinary loss and loss before income taxes. In addition, work in process and other under current liabilities increased by ¥41 million and ¥41 million, respectively, but there is no effect on the beginning balance of retained earnings for the first quarter of the current fiscal year.

In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

Application of Accounting Standard for Fair Value Measurement, Etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and it has applied the new accounting policy stipulated in the Accounting Standard for Fair Value Measurement, etc. prospectively, in accordance with the transitional treatment provided for in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no effect on the quarterly consolidated financial statements.

Additional information*Tentative Accounting Estimates Related to COVID-19*

There are no significant changes with respect to assumptions used in accounting estimates related to COVID-19, including the spread of COVID-19 and the timing for its ending, that were presented in “*Tentative Accounting Estimates Related to COVID-19*” in “Additional information” in the Annual Securities Report for the fiscal year ended March 31, 2021.