

Translation

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Summary of Consolidated Financial Results for the Three Months Ended June 30, 2022 (Based on Japanese GAAP)

August 10, 2022

Company name: HOKUTO CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 1379 URL <https://www.hokto-kinoko.co.jp>
 Representative: President Masayoshi Mizuno
 Inquiries: Executive Director, Administration Tomio Takato TEL 026-259-5955
 Department Director
 Scheduled date to file Quarterly Securities Report: August 10, 2022
 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, 2022 (from April 1, 2022 to June 30, 2022)

(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, 2022	15,665	2.4	(1,701)	–	(594)	–	(557)	–
Three months ended June 30, 2021	15,300	–	(733)	–	(638)	–	(504)	–

Note: Comprehensive income Three months ended June 30, 2022 ¥(520) million [–%]
 Three months ended June 30, 2021 ¥(950) million [–%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	(17.65)	–
Three months ended June 30, 2021	(16.04)	–

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 ended March 31, 2022, each figure for the three months ended June 30, 2021 is the figure after the application of the said standard, etc. The percentage of year-on-year change is not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	104,552	52,442	50.2
As of March 31, 2022	104,933	54,509	51.9

Reference: Equity As of June 30, 2022 ¥52,442 million
 As of March 31, 2022 ¥54,509 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	–	10.00	–	50.00	60.00
Year ending March 31, 2023	–	–	–	–	–
Year ending March 31, 2023 (Forecast)	–	10.00	–	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, 2023 (from April 1, 2022 to March 31, 2023)

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, 2022	34,600	9.8	(2,630)	–	(2,550)	–	(2,160)	–	(68.35)
Full year	78,700	10.9	3,000	48.9	3,120	(14.7)	1,780	(29.7)	56.28

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

4. Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2022
(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, 2022	33,359,040 shares	As of March 31, 2022	33,359,040 shares
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Number of treasury shares at the end of the period

As of June 30, 2022	1,760,058 shares	As of March 31, 2022	1,782,109 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, 2022	31,587,881 shares	Three months ended June 30, 2021	31,481,661 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, 2022,' on page 3 of the attached materials.

1. Qualitative Information Regarding Financial Results for the Three Months Ended June 30, 2022

(1) Explanation of operating results

In the Japanese economy for the three months ended June 30, 2022, there was progress in the efforts to prevent the spread of the novel coronavirus disease (COVID-19) and implement the third vaccination, and restrictions on economic activities have gradually eased, as a gradual recovery continues. Meanwhile, there are concerns about fluctuations in financial markets due to the rapid devaluation of the yen and the impact of high prices of resources and energy on consumption. In addition, due to the situation in Ukraine, which is expected to continue for a long time, the future of the economy continues to remain uncertain.

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 formulated and carried out from April 2021 a new Medium-Term Management Plan 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, 2022 were net sales of ¥15,665 million (up 2.4% from the same period of the previous fiscal year), operating loss of ¥1,701 million (operating loss of ¥733 million in the same period of the previous fiscal year), ordinary loss of ¥594 million (ordinary loss of ¥638 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥557 million (loss attributable to owners of parent of ¥504 million in the same period of the previous fiscal year).

Production output for the three months ended June 30, 2022 consists of 11,727t of Bunashimeji, including Bunapi (up 6.9% from the same period of the previous fiscal year), 4,414t of Eryngii (down 2.7% from the same period of the previous fiscal year), and 3,725t of Maitake (up 17.0% from the same period of the previous fiscal year).

Performance in each business segment for the three months ended June 30, 2022 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 provided 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 remained low compared to last year due to the abundant supply of produce and generally low prices in the vegetable market as in the previous year.

As a result, net sales for the mushroom business in Japan as a whole were ¥9,628 million (down 1.6% from the same period of the previous fiscal year).

[Mushroom business outside Japan]

Hokto Kinoko Company, a local subsidiary in the U.S., achieved solid sales, but operating profit fell slightly short of the plan due to soaring raw material prices. At Taiwan Hokuto Corporation, a local subsidiary in Taiwan, the lack in rise in temperature since the Lunar New Year in February and the prolonged rainy season with persistent rain resulted in high vegetable prices, and the explosive increase in COVID-19 cases led to an increase in demand for eating at home and sales at high prices remained, contributing to net sales and operating profit. A heat wave in June led to a drop in consumption and a decline in sales volume, and this led to net sales falling slightly below the plan while operating profit was able to outpace projections. At Hokto Malaysia Sdn. Bhd., a local subsidiary in Malaysia, restrictions were lifted in various ASEAN countries that house the Group's customers, people have become more active with travel and eating out including internationally, and opportunities to buy food at retailers and cook at home have significantly decreased, affecting the sales of mushrooms. In addition, overall sales of mushrooms struggled in all countries where they are sold due to intense competition for market share with Chinese products and sluggish consumption as a result of inflation. Consequently, both net sales and operating profit fell short of the plan.

As a result, net sales for the mushroom business outside Japan as a whole were ¥1,537 million (up 14.2% from the same period of the previous fiscal 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 national brand food manufacturer and restaurant divisions, the use of processed products for commercial use in standard products was well received, and in terms of processed products for retail market in the fruit and vegetable market, while dried and boiled products and pre-packaged mushroom rice products were popular among mass retailers, the rising prices of other food materials led to a decrease in use of mushrooms at convenience stores, and we had a hard time with sales. In the mail-order business, sales were strong mainly through our own e-commerce website, as we launched two new soup products, but purchases due to stay-at-home demand were on a downward trend. Furthermore, at the subsidiary Arden Corporation, net sales outpaced projections due to strong orders from major customers in the OEM business.

As a result, net sales for the processed products business were ¥1,794 million (up 9.1% from the same period of the previous fiscal year).

[Chemical products business]

Amid the momentum to increase prices due to depreciation of the yen and soaring crude oil prices, the First Business Department, whose main business is packaging materials, strengthened sales activities to meet customer entrustment by proposing eco-friendly materials, recycled products, and other inexpensive best-quality alternatives. Amid a lockdown in Shanghai, China and increasing instability of shipping, the Second Business Department, which primarily produces and sells our own products and sells agricultural materials, strived to improve the quality of our own products and optimize the supply chain, including beverage container materials and raw materials for mushroom farmers, to ensure stable supply to our customers.

As a result, net sales for the chemical products business were ¥2,704 million (up 7.1% from the same period of the previous fiscal year).

(2) Explanation of financial position

Positions of assets, liabilities and net assets, and the factors thereof as of June 30, 2022 are as follows.

(Assets)

Current assets as of June 30, 2022 amounted to ¥27,362 million, up ¥262 million from the previous fiscal year end. Non-current assets amounted to ¥77,189 million, down ¥643 million from the previous fiscal year end. This was due mainly to a decrease of ¥811 million in property, plant and equipment.

As a result, total assets amounted to ¥104,552 million, down ¥381 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of June 30, 2022 amounted to ¥28,466 million, up ¥6,709 million from the previous fiscal year end. This was due mainly to an increase of ¥3,006 million in short-term borrowings and an increase of ¥4,010 million in current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥23,643 million, down ¥5,023 million from the previous fiscal year end. This was due mainly to a decrease of ¥4,930 million in long-term borrowings.

As a result, total liabilities amounted to ¥52,109 million, up ¥1,686 million from the previous fiscal year end.

(Net assets)

Total net assets as of June 30, 2022 amounted to ¥52,442 million, down ¥2,067 million from the previous fiscal year end. This was due mainly to the recording of ¥557 million in loss attributable to owners of parent and a decrease of ¥2,147 million in retained earnings due to the payment of dividend of ¥1,590 million.

As a result, the equity ratio was 50.2% (51.9% 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, 2022 (Based on Japanese GAAP),” dated May 13, 2022.

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, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	12,481	13,342
Notes and accounts receivable - trade	5,916	5,440
Merchandise and finished goods	1,975	2,659
Work in process	4,173	4,459
Raw materials and supplies	945	1,062
Other	1,635	426
Allowance for doubtful accounts	(27)	(28)
Total current assets	27,100	27,362
Non-current assets		
Property, plant and equipment		
Buildings and structures	69,934	70,829
Accumulated depreciation	(32,339)	(33,227)
Buildings and structures, net	37,595	37,601
Machinery, equipment and vehicles	66,786	67,691
Accumulated depreciation	(50,418)	(52,217)
Machinery, equipment and vehicles, net	16,368	15,474
Land	14,418	14,488
Other	2,292	2,348
Accumulated depreciation	(1,899)	(1,951)
Other, net	392	397
Total property, plant and equipment	68,774	67,962
Intangible assets		
Goodwill	46	37
Other	204	205
Total intangible assets	250	243
Investments and other assets		
Investment securities	5,664	5,723
Retirement benefit asset	1,040	1,055
Other	2,118	2,219
Allowance for doubtful accounts	(14)	(14)
Total investments and other assets	8,807	8,984
Total non-current assets	77,832	77,189
Total assets	104,933	104,552

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,763	6,087
Short-term borrowings	4,951	7,958
Income taxes payable	1,002	225
Provision for bonuses	1,016	715
Other	9,022	13,479
Total current liabilities	21,757	28,466
Non-current liabilities		
Long-term borrowings	17,753	12,822
Bonds with share acquisition rights	9,719	9,719
Retirement benefit liability	382	386
Asset retirement obligations	240	259
Other	572	455
Total non-current liabilities	28,666	23,643
Total liabilities	50,423	52,109
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	45,888	43,741
Treasury shares	(3,318)	(3,274)
Total shareholders' equity	53,798	51,695
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,038	1,093
Foreign currency translation adjustment	(205)	(230)
Remeasurements of defined benefit plans	(122)	(115)
Total accumulated other comprehensive income	710	747
Total net assets	54,509	52,442
Total liabilities and net assets	104,933	104,552

(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, 2021	Three months ended June 30, 2022
Net sales	15,300	15,665
Cost of sales	12,357	13,658
Gross profit	2,943	2,006
Selling, general and administrative expenses	3,676	3,708
Operating loss	(733)	(1,701)
Non-operating income		
Dividend income	72	86
Rental income from land and buildings	35	31
Foreign exchange gains	–	998
Other	14	21
Total non-operating income	121	1,137
Non-operating expenses		
Interest expenses	17	22
Foreign exchange losses	6	–
Loss on sale of investment securities	0	7
Other	3	0
Total non-operating expenses	27	30
Ordinary loss	(638)	(594)
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
Other	–	0
Total extraordinary losses	–	1
Loss before income taxes	(638)	(594)
Income taxes - current	109	118
Income taxes - deferred	(243)	(155)
Total income taxes	(133)	(37)
Loss	(504)	(557)
Loss attributable to owners of parent	(504)	(557)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Loss	(504)	(557)
Other comprehensive income		
Valuation difference on available-for-sale securities	(551)	54
Foreign currency translation adjustment	93	(25)
Remeasurements of defined benefit plans, net of tax	11	7
Total other comprehensive income	(445)	36
Comprehensive income	(950)	(520)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(950)	(520)
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.