

Translation

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Consolidated Financial Results for the Six Months Ended September 30, 2022 (Based on Japanese GAAP)

November 11, 2022

Company name: HOKUTO CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 1379 URL <https://www.hokto-kinoko.co.jp>
 Representative: President Masayoshi Mizuno
 Executive Director, Administration
 Inquiries: Department Director Tomio Takato TEL 026-259-5955
 Scheduled date to file Quarterly Securities Report: November 11, 2022
 Scheduled date to commence dividend payments: December 5, 2022
 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, 2022 (from April 1, 2022 to September 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	%
Six months ended September 30, 2022	31,617	0.4	(4,397)	–	(2,769)	–	(2,208)	–
Six months ended September 30, 2021	31,497	–	(913)	–	(725)	–	(612)	–

Note: Comprehensive income Six months ended September 30, 2022 ¥(2,398) million [–%]
 Six months ended September 30, 2021 ¥(898) million [–%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2022	(69.89)		–	
Six months ended September 30, 2021	(19.45)		–	

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 six months ended September 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 September 30, 2022	104,039	50,584	48.6
As of March 31, 2022	104,933	54,509	51.9

Reference: Equity As of September 30, 2022 ¥50,584 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	–	10.00			
Year ending March 31, 2023 (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, 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
Full year	75,200	6.0	(960)	–	990	(72.9)	320	(87.4)	10.12

Note: Revisions to the earnings forecasts most recently announced: Yes

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 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 September 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 September 30, 2022	1,750,780 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)

Six months ended September 30, 2022	31,597,031 shares	Six months ended September 30, 2021	31,499,650 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, 2022,' 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 18, 2022. 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, 2022

(1) Explanation of Operating Results

In the six months ended September 30, 2022, the Japanese economy was affected by the rapid spread of the seventh wave of COVID-19 infections from July onward, as well as supply chain disruptions due to lockdowns in China, Russia's military invasion of Ukraine, rising resources and energy prices, and the rapid depreciation of the yen, and the economic outlook remains 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 six months ended September 30, 2022 were net sales of ¥31,617 million (up 0.4% from the same period of the previous fiscal year), operating loss of ¥4,397 million (operating loss of ¥913 million in the same period of the previous fiscal year), ordinary loss of ¥2,769 million (ordinary loss of ¥725 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥2,208 million (loss attributable to owners of parent of ¥612 million in the same period of the previous fiscal year).

Production output for the six months ended September 30, 2022 consists of 23,565t of Bunashimeji, including Bunapi (up 5.0% from the same period of the previous fiscal year), 8,988t of Eryngii (down 2.7% from the same period of the previous fiscal year), and 7,785t of Maitake (up 20.1% from the same period of the previous fiscal year).

Performance in each business segment for the six months ended September 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 continuing to take into account measures to prevent the spread of COVID-19.

The R&D division worked to strengthen the quality control system, develop new high value-added products, improve existing mushrooms, and pursue pharmacological effects and functionality of mushrooms.

The sales division advocated for "Kinkatsu through mushrooms" (the lifestyle habit of incorporating mushrooms into daily meals) with the three pillars of health, beauty and sports in order to stimulate mushroom demand amid not being able to carry out direct sales promotion activities due to the ongoing impact of COVID-19, and carried out sales activities with a commitment to freshness. However, as in the first quarter, the price of mushrooms remained low compared to last year due to the low market prices of vegetables.

As a result, net sales for the mushroom business in Japan as a whole were ¥18,896 million (down 4.5% 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 competition with imported products and soaring cost of living. At Taiwan

Hokuto Corporation, a local subsidiary in Taiwan, amid the sudden expansion of domestic tourism and the restaurant industry due to the relaxation of COVID-19 restrictions on activities, the retail market as a whole struggled, and mushroom sales also suffered. Although traditional markets were also sluggish, net sales fell short of the plan, despite a gradual increase in the volume of restaurant-related orders. At Hokto Malaysia Sdn. Bhd., a local subsidiary in Malaysia, as with the first quarter, there was an increase in activities within Malaysia that had been restricted due to the COVID-19 pandemic, such as travel, eating out, and purchasing luxury goods. However, with inflationary pressures and severe restrictions in China due to COVID-19, the export of mushrooms to the ASEAN region became more active, resulting in extremely low prices, which also affected our mushroom sales. 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 ¥3,148 million (up 9.5% 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, sales of products for delicatessen and home meal service were strong, and in terms of sales of processed products for the commercial fruit and vegetable market were also steady, mainly for dried and boiled products and pre-packaged mushroom rice products. At convenience stores, menus for this period were not decided as expected and we had difficulty with sales. We launched two new soup products in the mail-order business, and sales were strong, mainly through our e-commerce website. Furthermore, at the subsidiary Arden Corporation, net sales outpaced projections due to continued strong orders from major customers in the OEM business.

As a result, net sales for the processed products business were ¥3,949 million (up 10.4% from the same period of the previous fiscal year).

[Chemical products business]

In the First Business Department, whose main business is packaging materials, in addition to dealing with a series of price increases for food trays, film, wrap, and other materials, we have been working to strengthen sales and profitability through efforts such as sales of machinery that contribute to productivity improvement. In the Second Business Department, which is mainly engaged in the production and sales of our own products and sales of agricultural materials, we have focused on receiving new orders for our own products and preventing shortages of culture mediums and other products for mushroom growers in the face of rising raw material prices and increasing instability in procurement, and have thoroughly pursued sales activities to maintain our customers' trust.

As a result, net sales for the chemical products business were ¥5,623 million (up 6.9% 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 September 30, 2022 are as follows.

(Assets)

Current assets as of September 30, 2022 amounted to ¥27,602 million, up ¥502 million from the previous fiscal year end. Non-current assets amounted to ¥76,436 million, down ¥1,396 million from the previous fiscal year end. This was due mainly to a decrease of ¥1,963 million in property, plant and equipment.

As a result, total assets amounted to ¥104,039 million, down ¥894 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of September 30, 2022 amounted to ¥31,087 million, up ¥9,330 million from the previous fiscal year end. This was due mainly to an increase of ¥5,144 million in short-term borrowings and an increase of ¥4,016 million in current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥22,367 million, down ¥6,299 million from the previous fiscal year end. This was due mainly to a decrease of ¥5,969 million in long-term borrowings.

As a result, total liabilities amounted to ¥53,454 million, up ¥3,030 million from the previous fiscal year end.

(Net assets)

Total net assets as of September 30, 2022 amounted to ¥50,584 million, down ¥3,925 million from the previous fiscal year end. This was due mainly to the recording of ¥2,208 million in loss attributable to owners of parent and a decrease of ¥3,798 million in retained earnings due to the payment of dividend of ¥1,590 million.

As a result, the equity ratio was 48.6% (51.9% at the end of the previous fiscal year).

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

Although it is difficult to forecast mushroom demand and prices, the earnings forecasts are based on information currently available to the Company, and certain assumptions deemed reasonable. For details, please refer to the “Notice Concerning Recording of Non-operating Income (Foreign Exchange Gains) and Differences Between Second Quarter Earnings Forecasts and Actual Results, and Revision of Full Year Earnings Forecast” released today.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	12,481	11,467
Notes and accounts receivable - trade	5,916	6,597
Merchandise and finished goods	1,975	2,916
Work in process	4,173	5,023
Raw materials and supplies	945	1,069
Other	1,635	559
Allowance for doubtful accounts	(27)	(30)
Total current assets	27,100	27,602
Non-current assets		
Property, plant and equipment		
Buildings and structures	69,934	71,130
Accumulated depreciation	(32,339)	(33,873)
Buildings and structures, net	37,595	37,257
Machinery, equipment and vehicles	66,786	68,021
Accumulated depreciation	(50,418)	(53,455)
Machinery, equipment and vehicles, net	16,368	14,565
Land	14,418	14,521
Other	2,292	2,449
Accumulated depreciation	(1,899)	(1,983)
Other, net	392	466
Total property, plant and equipment	68,774	66,811
Intangible assets		
Goodwill	46	27
Other	204	214
Total intangible assets	250	241
Investments and other assets		
Investment securities	5,664	5,710
Retirement benefit asset	1,040	1,070
Other	2,118	2,764
Allowance for doubtful accounts	(14)	(162)
Total investments and other assets	8,807	9,383
Total non-current assets	77,832	76,436
Total assets	104,933	104,039

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,763	6,405
Short-term borrowings	4,951	10,095
Income taxes payable	1,002	228
Provision for bonuses	1,016	1,101
Other	9,022	13,256
Total current liabilities	21,757	31,087
Non-current liabilities		
Long-term borrowings	17,753	11,783
Bonds with share acquisition rights	9,719	9,719
Retirement benefit liability	382	383
Asset retirement obligations	240	258
Other	572	223
Total non-current liabilities	28,666	22,367
Total liabilities	50,423	53,454
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	45,888	42,090
Treasury shares	(3,318)	(3,254)
Total shareholders' equity	53,798	50,063
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,038	1,089
Foreign currency translation adjustment	(205)	(461)
Remeasurements of defined benefit plans	(122)	(107)
Total accumulated other comprehensive income	710	520
Total net assets	54,509	50,584
Total liabilities and net assets	104,933	104,039

(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, 2021	Six months ended September 30, 2022
Net sales	31,497	31,617
Cost of sales	25,307	28,476
Gross profit	6,190	3,141
Selling, general and administrative expenses	7,103	7,538
Operating loss	(913)	(4,397)
Non-operating income		
Dividend income	73	88
Rental income from land and buildings	54	48
Foreign exchange gains	73	1,512
Subsidy income	2	9
Other	26	37
Total non-operating income	231	1,697
Non-operating expenses		
Interest expenses	37	47
Other	6	20
Total non-operating expenses	43	68
Ordinary loss	(725)	(2,769)
Extraordinary income		
Gain on sale of non-current assets	1	1
Other	0	–
Total extraordinary income	1	1
Extraordinary losses		
Loss on retirement of non-current assets	0	1
Other	0	0
Total extraordinary losses	0	1
Loss before income taxes	(725)	(2,769)
Income taxes - current	214	209
Income taxes - deferred	(327)	(770)
Total income taxes	(112)	(560)
Loss	(612)	(2,208)
Loss attributable to owners of parent	(612)	(2,208)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Loss	(612)	(2,208)
Other comprehensive income		
Valuation difference on available-for-sale securities	(427)	50
Foreign currency translation adjustment	118	(255)
Remeasurements of defined benefit plans, net of tax	23	14
Total other comprehensive income	(285)	(190)
Comprehensive income	(898)	(2,398)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(898)	(2,398)
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.