

Translation

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Consolidated Financial Results for the Six Months Ended September 30, 2023 (Based on Japanese GAAP)

November 10, 2023

Company name: HOKUTO CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 1379 URL <https://www.hokto-kinoko.co.jp>
 Representative: President Masayoshi Mizuno
 Executive Officer, General Manager of
 Inquiries: Accounting Department Kohei Nakada TEL 026-259-5955
 Scheduled date to file Quarterly Securities Report: November 10, 2023
 Scheduled date to commence dividend payments: December 5, 2023
 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, 2023 (from April 1, 2023 to September 30, 2023)

(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, 2023	34,862	10.3	(1,975)	–	(668)	–	(617)	–
Six months ended September 30, 2022	31,617	0.4	(4,397)	–	(2,769)	–	(2,208)	–

Note: Comprehensive income Six months ended September 30, 2023 ¥33 million [–%]
 Six months ended September 30, 2022 ¥(2,398) million [–%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	(19.49)		–	
Six months ended September 30, 2022	(69.89)		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	105,128	50,156	47.7
As of March 31, 2023	104,897	50,955	48.6

Reference: Equity As of September 30, 2023 ¥50,156 million
 As of March 31, 2023 ¥50,955 million

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, 2023	–	10.00	–	30.00	40.00
Year ending March 31, 2024	–	10.00			
Year ending March 31, 2024 (Forecast)			–	–	–

Notes: 1. Revisions to the cash dividend forecasts most recently announced: None

2. The forecast for the year-end dividends for the year ending March 31, 2024 has not yet been determined.

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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	80,200	9.9	1,920	–	2,110	–	700	–	22.08

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

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2023
(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, 2023	33,359,040 shares	As of March 31, 2023	33,359,040 shares
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Number of treasury shares at the end of the period

As of September 30, 2023	1,637,362 shares	As of March 31, 2023	1,698,816 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, 2023	31,690,299 shares	Six months ended September 30, 2022	31,597,031 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, 2023,' 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 17, 2023. 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, 2023.

(1) Explanation of operating results

The Japanese economy in the six months that ended September 30, 2023, showed signs of normalization of economic and social activities as a result of the transition of COVID-19 to a Class 5 infectious disease, and a moderate recovery trend of the domestic economy is observed in consumer spending and capital investment. However, the economic outlook remains uncertain due to the protracted situation in Ukraine and the rising prices of commodities due to the sharp depreciation of the yen.

In this economic environment, under the Management Vision to “Expand the market and consumption, with delivering health through mushrooms as our mission” and to “Balance profit generation and corporate social responsibility,” and placing its priority on the safety of all consumers and employee, the Group 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.

As a result of the above, the operating results of the Group for the six months ended September 30, 2023, were net sales of ¥34,862 million (up 10.3% from the same period of the previous fiscal year), operating loss of ¥1,975 million (operating loss of ¥4,397 million in the same period of the previous fiscal year), ordinary loss of ¥668 million (ordinary loss of ¥2,769 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥617 million (loss attributable to owners of parent of ¥2,208 million in the same period of the previous fiscal year).

Production output for the six months ended September 30, 2023, consists of 22,286t of Bunashimeji, including Bunapi (down 5.4% from the same period of the previous fiscal year), 8,514t of Eryngii (down 5.3% from the same period of the previous fiscal year), and 7,396t of Maitake (down 5.0% from the same period of the previous fiscal year).

Performance in each business segment for the six months ended September 30, 2023 was as follows.

[Mushroom business in Japan]

The production division, amid a significant rise in raw material prices, electricity costs, packaging costs, and other production costs, worked to reduce costs, performed even more thorough hygiene control, worked to improve quality and for stable cultivation, and provided mushrooms safely and securely.

The R&D division worked to strengthen the quality control system, develop new high value-added products, improve existing mushrooms, and pursue the 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 and carry out sales activities with a commitment to freshness. In terms of sales, production adjustments made since the beginning of the current fiscal year have resulted in improved supply and demand of mushrooms, and also vegetable prices have remained relatively high, which supported firm prices of mushrooms and maintained a stable state.

As a result, net sales for the mushroom business in Japan as a whole were ¥21,574 million (up 14.2% year on year).

[Mushroom business outside Japan]

Both sales and operating profit of Hokto Kinoko Company, a local subsidiary in the U.S., remained strong due to the effect of price increases. At Taiwan Hokuto Corporation, a local subsidiary in Taiwan, sales remained strong and exceeded the budget plan due to increased demand for mushrooms accompanying a decreased supply of vegetables overall caused by typhoons, which although had not hit in the past three years, have already hit southern Taiwan three times this year. However, operating income fell short of the plan due to continued price pressure. At Hokto Malaysia Sdn. Bhd., a local subsidiary in Malaysia, although inflation since last year showed signs of weakening amid an uncertain economic outlook, a large volume of Chinese mushrooms were imported into the ASEAN region at low prices, which had a significant impact on the company's 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 ¥3,616 million (up 14.9% year on 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 markets. 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 shiitake mushroom rice products. Also, sales of fresh and frozen mushroom products for commercial use remained steady for convenience stores.

We launched dried shiitake mushrooms in the mail-order business, and sales were strong despite raising prices, mainly through our e-commerce website. Furthermore, at the subsidiary Arden Corporation, net sales fell short of projections due to reduced orders as a result of raising prices in April.

As a result, net sales for the processed products business were ¥3,655 million (down 7.4% year on year).

[Chemical products business]

The First Sales Department, whose main business is packaging materials, worked on proposal-based marketing for value-added products, with a focus on functional packaging materials that limit quality deterioration and environmental packaging materials made from recycled materials. While sales to mass retailers remained strong, sales of industrial materials for semiconductor and automotive parts-related manufacturers struggled, although there were some signs of recovery.

The Second Sales Department, which focuses on production and sales of in-house products and sales of agricultural materials, continued to improve the quality of in-house products and expand sales. In addition to focusing on the stable supply of some production materials and culture medium, for which the supply-demand balance is tight, to mushroom growers, we also made efforts to supply materials to vegetable growers other than mushrooms.

As a result, net sales for the chemical products business were ¥6,015 million (up 7.0% year on year).

(2) Explanation of financial position

Positions of assets, liabilities and net assets, and the factors thereof as of September 30, 2023 are as follows.

(Assets)

Current assets as of September 30, 2023 amounted to ¥31,358 million, up ¥567 million from the previous fiscal year end. Non-current assets amounted to ¥73,769 million, down ¥336 million from the previous fiscal year end.

As a result, total assets amounted to ¥105,128 million, up ¥230 million from the previous fiscal year end.

(Liabilities)

Current liabilities as of September 30, 2023 amounted to ¥35,872 million, down ¥2,063 million from the previous fiscal year end. This was due mainly to an increase of ¥10,006 million in short-term borrowings and decreases of ¥9,719 million in the current portion of bonds with share acquisition rights and ¥2,952 million in the current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥19,098 million, up ¥3,094 million from the previous fiscal year end. This was due mainly to an increase of ¥2,999 million in long-term borrowings.

As a result, total liabilities amounted to ¥54,971 million, up ¥1,030 million from the previous fiscal year end.

(Net assets)

Total net assets as of September 30, 2023, amounted to ¥50,156 million, down ¥799 million from the previous fiscal year end. This was due mainly to a decrease of ¥1,571 million in retained earnings associated with the recording of ¥617 million in loss attributable to owners of parent and the payment of dividend of ¥954 million and an increase of ¥850 million in valuation difference on available-for-sale securities.

As a result, the equity ratio was 47.7% (48.6% at the end of the previous fiscal year).

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

On November 8, 2023, the Company announced revisions to the earnings forecasts for the Six Months Ended September 30, 2023. However, no changes to the earnings forecasts for the fiscal year ending March 31, 2024 have been made since the announcement of “Consolidated Financial Results for the Year Ended March 31, 2023 (Based on Japanese GAAP),” dated May 12, 2023.

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, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	16,031	13,245
Notes and accounts receivable - trade	6,250	8,323
Merchandise and finished goods	2,636	2,982
Work in process	4,308	4,965
Raw materials and supplies	1,056	1,101
Other	538	780
Allowance for doubtful accounts	(31)	(40)
Total current assets	30,790	31,358
Non-current assets		
Property, plant and equipment		
Buildings and structures	71,334	72,246
Accumulated depreciation	(34,848)	(36,245)
Buildings and structures, net	36,486	36,001
Machinery, equipment and vehicles	67,555	68,878
Accumulated depreciation	(55,339)	(57,861)
Machinery, equipment and vehicles, net	12,215	11,016
Land	14,506	14,581
Other	2,760	2,928
Accumulated depreciation	(1,995)	(2,056)
Other, net	765	871
Total property, plant and equipment	63,973	62,471
Intangible assets		
Goodwill	9	—
Other	202	177
Total intangible assets	211	177
Investments and other assets		
Investment securities	6,681	7,912
Retirement benefit asset	1,127	1,155
Other	2,254	2,203
Allowance for doubtful accounts	(142)	(150)
Total investments and other assets	9,920	11,120
Total non-current assets	74,106	73,769
Total assets	104,897	105,128

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,187	6,301
Short-term borrowings	7,088	17,094
Income taxes payable	262	226
Provision for bonuses	964	1,237
Other	23,433	11,013
Total current liabilities	37,936	35,872
Non-current liabilities		
Long-term borrowings	14,072	17,071
Retirement benefit liability	358	368
Asset retirement obligations	1,030	1,048
Other	543	610
Total non-current liabilities	16,004	19,098
Total liabilities	53,941	54,971
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	41,943	40,371
Treasury shares	(3,151)	(3,029)
Total shareholders' equity	50,020	48,570
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,352	2,203
Foreign currency translation adjustment	(357)	(568)
Remeasurements of defined benefit plans	(59)	(48)
Total accumulated other comprehensive income	935	1,586
Total net assets	50,955	50,156
Total liabilities and net assets	104,897	105,128

(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, 2022	Six months ended September 30, 2023
Net sales	31,617	34,862
Cost of sales	28,476	29,139
Gross profit	3,141	5,723
Selling, general and administrative expenses	7,538	7,698
Operating loss	(4,397)	(1,975)
Non-operating income		
Dividend income	88	106
Rental income from land and buildings	48	67
Foreign exchange gains	1,512	1,111
Subsidy income	9	9
Other	37	91
Total non-operating income	1,697	1,386
Non-operating expenses		
Interest expenses	47	64
Other	20	15
Total non-operating expenses	68	79
Ordinary loss	(2,769)	(668)
Extraordinary income		
Gain on sale of non-current assets	1	2
Total extraordinary income	1	2
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Other	0	–
Total extraordinary losses	1	0
Loss before income taxes	(2,769)	(666)
Income taxes - current	209	344
Income taxes - deferred	(770)	(393)
Total income taxes	(560)	(48)
Loss	(2,208)	(617)
Loss attributable to owners of parent	(2,208)	(617)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Loss	(2,208)	(617)
Other comprehensive income		
Valuation difference on available-for-sale securities	50	850
Foreign currency translation adjustment	(255)	(210)
Remeasurements of defined benefit plans, net of tax	14	11
Total other comprehensive income	(190)	651
Comprehensive income	(2,398)	33
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,398)	33
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.