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Consolidated Financial Results for the Six Months Ended September 30, 2024 (Based on Japanese GAAP)

November 14, 2024

Company name: HOKUTO CORPORATION Stock exchange listing: Tokyo
Stock code: 1379 1379 URL: https://www.hokto-kinoko.co.jp/lang/en/
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Scheduled date to file Semi-annual Securities Report: November 14, 2024
Scheduled date to commence dividend payments: December 5, 2024
Preparation of supplementary material on financial results: Yes
Holding of 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, 2024 (from April 1, 2024 to September 30, 2024)

(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, 2024	35,998	3.3	(282)	—	(639)	—	(499)	—
Six months ended September 30, 2023	34,862	10.3	(1,975)	—	(668)	—	(617)	—

Note: Comprehensive income: Six months ended September 30, 2024: ¥(911) million [–%]
Six months ended September 30, 2023: ¥33 million [–%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	(15.74)	—
Six months ended September 30, 2023	(19.49)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	108,169	52,641	48.7
As of March 31, 2024	103,505	54,824	53.0

Reference: Equity: As of September 30, 2024: ¥52,641 million
As of March 31, 2024: ¥54,824 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, 2024	—	10.00	—	40.00	50.00
Year ending March 31, 2025	—	10.00			
Year ending March 31, 2025 (Forecast)			—	—	—

Notes: 1. Revisions to the cash dividend forecasts most recently announced: None
2. The breakdown of year-end dividends for the year ended March 31, 2024
Ordinary dividend: ¥35.00 per share
Commemorative dividend ¥5.00 per share
3. The forecast for the year-end dividends for the year ending March 31, 2025 has not yet been determined.

3. Forecast of consolidated financial results for the year ending March 31, 2025 (from April 1, 2024 to March 31, 2025)

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	—	—	—	—	—	—	—	—	—

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

4. Notes

(1) Significant changes in the scope of consolidation during the six months ended September 30, 2024: No

(2) Application of special accounting methods for preparing 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 details, please refer to "(3) Notes on consolidated financial statements (Notes on changes in accounting policies)" in "2. Consolidated Financial Statements and Notes," 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, 2024	33,359,040 shares	As of March 31, 2024	33,359,040 shares
Number of treasury shares at the end of the period	As of September 30, 2024	1,635,035 shares	As of March 31, 2024	1,634,972 shares
Average number of shares during the period	Six months ended September 30, 2024	31,724,050 shares	Six months ended September 30, 2023	31,690,299 shares

Notes: 1. "Consolidated Financial Results for the Six Months Ended September 30, 2024" is exempt from review conducted by certified public accountants or an audit corporation.

2. 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. Overview of Operating Results, Etc.,' 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 22, 2024. Any materials for the financial results presentation to be used in the meeting will be available on our website.

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1. Overview of Operating Results, Etc.

(1) Overview of operating results for the six months of the fiscal year ending March 31, 2025

During the first six months ended September 30, 2024, the Japanese economy maintained a moderate recovery trend amid improvement in the employment and personal income environment and growing inbound demand. However, the outlook remained uncertain mainly due to the soaring prices of energy resources and raw materials caused by the protracted Russian-Ukraine war, the growing instability in the Middle East, and weakening economic activity in China.

In this economic environment, the Group carried out business activities primarily in the mushroom business to deliver deliciousness and health to more people through research & development, production, and sales of mushrooms, which are a health food. Furthermore, the Group carried out initiatives with 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."

As a result of the above, the operating results of the Group for the six months ended September 30, 2024 were net sales of ¥35,998 million (up 3.3% year on year), operating loss of ¥282 million (operating loss of ¥1,975 million in the same period of the previous fiscal year), ordinary loss of ¥639 million (ordinary loss of ¥668 million in the same period of the previous fiscal year), and loss attributable to owners of parent of ¥499 million (loss attributable to owners of parent of ¥617 million in the same period of the previous fiscal year).

Production output for the six months ended September 30, 2024 consisted of 21,769t of Bunashimeji, including Bunapi (down 2.3% year on year), 8,368t of Eryngii (down 1.7%), and 7,304t of Maitake (down 1.3%).

Performance in each business segment for the six months ended September 30, 2024 was as follows.

Mushroom business in Japan

Amid a significant rise in raw material prices, electricity costs, packaging costs, personnel expenses, and other costs, the production division 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, develop new varieties, 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, the volume of many vegetables has been generally low in 2024 due to a short rainy season and above-average temperatures, plus the impact of heatwaves and typhoons. This kept vegetable prices at a high level, such that prices for mushrooms were also firm and sales were stable.

As a result, net sales for the mushroom business in Japan as a whole were ¥22,591 million (up 4.7% year on year).

Mushroom business outside Japan

At Hokto Kinoko Company, our U.S. subsidiary, operating profit was better than the result reported in the previous fiscal year, but both net sales and operating profit fell short of the target due to a downturn during the low demand period in summer and a drop in sales to major customers. However, the actual figures show steady growth due to the efforts made to increase sales to the new customer base, such that operating profit improved and this subsidiary moved steadily into the black on a single-month basis. At Taiwan Hokuto Corporation, our subsidiary in Taiwan, net sales and operating profit increased year on year due to substantial demand because of two typhoons and growth in sales volumes, partly driven by a major sales campaign by a key customer. However, both net sales and operating profit fell slightly short of the target. At Hokto Malaysia Sdn. Bhd., our subsidiary in Malaysia, sales planning and promotional activities in Malaysia and Singapore limited the impact from Chinese mushroom imports at low prices, but other ASEAN regions were affected by those Chinese imports and there was fierce competition with Korean mushroom imports over market share and price, which had a significant impact on the company's mushroom sales. Consequently, both net sales and operating profit improved year on year but fell short of the target.

As a result, net sales for the mushroom business outside Japan as a whole were ¥3,586 million (down 0.8% year on year).

Processed products business

The processed products business carried out sales of boiled or frozen mushroom products and worked to develop new products and markets. Also, sales of products for restaurants, delicatessens and prepared meals were strong, while commercial-use fresh mushroom sales as part of area strategies of convenience stores and sales of frozen mushroom products also proceeded steadily. Sales of processed products for the commercial fruit and vegetable market were steady. In the mail-order businesses, sales of retort pouched foods were strong. Furthermore, at the subsidiary Arden Corporation, although it was not possible to recover sales to some customers after product price rises, orders were on a recovery trend and there were contributions from new bulk product orders, such that both net sales and operating profit exceeded target slightly.

As a result, net sales for the processed products business were ¥3,902 million (up 6.8% year on year).

Chemical products business

Amid ongoing requests from suppliers to raise prices, the First Sales Department, whose main business is packaging materials, worked on proposal-based marketing for value-added products, including functional packaging materials that limit quality deterioration in plastic products and environmental packaging materials made from recycled materials. For industrial materials, sales to semiconductor and automotive parts-related manufacturers were slow to recover, but the recovery trend strengthened mainly for export-related products.

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. Sales of cultivation materials to mushroom producers remained solid.

As a result, net sales for the chemical products business were ¥5,918 million (down 1.6% year on year).

(2) Overview of financial position at the end of the first half

Positions of assets, liabilities and net assets, and the factors thereof as of September 30, 2024 are as follows.

Assets

Current assets as of September 30, 2024 amounted to ¥38,446 million, up ¥7,220 million from the previous fiscal year end. This was due mainly to an increase of ¥6,394 million in securities. Non-current assets amounted to ¥69,722 million, down ¥2,557 million from the previous fiscal year end. This was due mainly to a decrease of ¥2,095 million in property, plant and equipment.

As a result, total assets amounted to ¥108,169 million, up ¥4,663 million from the previous fiscal year end.

Liabilities

Current liabilities as of September 30, 2024 amounted to ¥29,301 million, down ¥1,002 million from the previous fiscal year end. This was due mainly to a decrease of ¥1,527 million in the current portion of long-term borrowings included in other under current liabilities. Non-current liabilities amounted to ¥26,226 million, up ¥7,849 million from the previous fiscal year end. This was due mainly to an increase of ¥10,017 million in bonds with share acquisition rights and a decrease of ¥1,603 million in long-term borrowings.

As a result, total liabilities amounted to ¥55,527 million, up ¥6,847 million from the previous fiscal year end.

Net assets

Total net assets as of September 30, 2024 amounted to ¥52,641 million, down ¥2,183 million from the previous fiscal year end. This was due mainly to ¥1,771 million in retained earnings associated with the recording of ¥499 million in loss attributable to owners of parent and dividends paid of ¥1,272 million and a decrease of ¥451 million in valuation difference on available-for-sale securities.

As a result, the equity ratio was 48.7% (53.0% at the end of the previous fiscal year).

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

Regarding earnings forecasts for the six months ending September 30, 2024, the Company gave notice regarding differences between the financial results forecasts and actual results for the first half of the fiscal year ending March 31, 2025, in an announcement dated November 14, 2024. Regarding the full-year earnings forecasts, the Company is unable to provide forecasts because investigations are currently underway into the damage caused by a fire that broke out at the Ueda No. 1 Mushroom Center on October 29. The Company will disclose the impacts on earnings as soon as the situation becomes clear.

2. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	14,924	15,403
Notes and accounts receivable - trade	7,953	7,297
Securities	—	6,394
Merchandise and finished goods	2,254	2,528
Work in process	4,306	5,023
Raw materials and supplies	1,150	1,128
Other	675	680
Allowance for doubtful accounts	(39)	(11)
Total current assets	31,225	38,446
Non-current assets		
Property, plant and equipment		
Buildings and structures	72,663	72,253
Accumulated depreciation	(37,423)	(38,314)
Buildings and structures, net	35,240	33,938
Machinery, equipment and vehicles	69,569	70,040
Accumulated depreciation	(59,727)	(61,017)
Machinery, equipment and vehicles, net	9,841	9,022
Land	14,674	14,655
Other	2,992	3,055
Accumulated depreciation	(2,056)	(2,077)
Other, net	935	978
Total property, plant and equipment	60,691	58,596
Intangible assets	171	152
Investments and other assets		
Investment securities	7,986	7,502
Retirement benefit asset	1,581	1,611
Other	2,000	2,021
Allowance for doubtful accounts	(151)	(162)
Total investments and other assets	11,416	10,973
Total non-current assets	72,279	69,722
Total assets	103,505	108,169

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,134	1,955
Electronically recorded obligations - operating	3,842	4,449
Short-term borrowings	12,084	13,105
Income taxes payable	926	237
Provision for bonuses	1,248	1,318
Other	10,068	8,236
Total current liabilities	30,304	29,301
Non-current liabilities		
Bonds with share acquisition rights	—	10,017
Long-term borrowings	15,118	13,515
Retirement benefit liability	350	362
Asset retirement obligations	1,058	1,048
Other	1,848	1,281
Total non-current liabilities	18,376	26,226
Total liabilities	48,680	55,527
Net assets		
Shareholders' equity		
Share capital	5,500	5,500
Capital surplus	5,728	5,728
Retained earnings	44,194	42,422
Treasury shares	(3,024)	(3,024)
Total shareholders' equity	52,397	50,625
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,675	2,224
Foreign currency translation adjustment	(500)	(460)
Remeasurements of defined benefit plans	251	250
Total accumulated other comprehensive income	2,427	2,015
Total net assets	54,824	52,641
Total liabilities and net assets	103,505	108,169

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

Consolidated statements of income

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net sales	34,862	35,998
Cost of sales	29,139	28,425
Gross profit	5,723	7,573
Selling, general and administrative expenses	7,698	7,855
Operating profit	(1,975)	(282)
Non-operating income		
Dividend income	106	110
Rental income from land and buildings	67	62
Foreign exchange gains	1,111	—
Subsidy income	9	5
Other	91	95
Total non-operating income	1,386	273
Non-operating expenses		
Interest expenses	64	61
Foreign exchange losses	—	547
Other	15	22
Total non-operating expenses	79	630
Ordinary profit	(668)	(639)
Extraordinary income		
Gain on sale of non-current assets	2	1
Gain on sale of investment securities	—	0
Total extraordinary income	2	2
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	(666)	(637)
Income taxes - current	344	193
Income taxes - deferred	(393)	(331)
Total income taxes	(48)	(137)
Profit	(617)	(499)
Profit attributable to owners of parent	(617)	(499)

Consolidated statements of comprehensive income

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Profit	(617)	(499)
Other comprehensive income		
Valuation difference on available-for-sale securities	850	(451)
Foreign currency translation adjustment	(210)	40
Remeasurements of defined benefit plans, net of tax	11	(1)
Total other comprehensive income	651	(411)
Comprehensive income	33	(911)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	33	(911)
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on consolidated financial statements

Notes on changes in accounting policies

Application of Accounting Standard for Current Income Taxes, etc.

The Company has applied the "Accounting Standard for Current Income Taxes" (Accounting Standards Board of Japan (ASBJ) Statement No. 27, October 28, 2022; the "Revised Accounting Standard of 2022") and other relevant ASBJ regulations from the beginning of the first half of the fiscal year ending March 31, 2025. Revisions to categories for recording current income taxes (taxation on other comprehensive income) conform to the transitional treatment in the proviso of paragraph 20-3 of the Revised Accounting Standard of 2022 and to the transitional treatment in the proviso of paragraph 65-2(2) of "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, the "Revised Application Guidance of 2022"). This change of accounting policy has no impact on the consolidated financial statements.

In addition, for revisions related to the review of the treatment in consolidated financial statements when a gain or loss on sale arising from the sale of shares of subsidiaries, etc. among consolidated companies is deferred for tax purposes, the Company has applied the Revised Application Guidance of 2022 from the beginning of the first half of the fiscal year ending March 31, 2025. The change in the accounting policy has been applied retrospectively. Therefore, the new accounting policy was reflected in the consolidated financial statements for the same period of the previous fiscal year and for the previous fiscal year. This change in accounting policy has no impact on the consolidated financial statements for the same period of the previous fiscal year and for the consolidated financial statements for the previous fiscal year.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Notes on assumptions for going concern

Not applicable.

Significant subsequent events

A fire broke out at the Company's Ueda No. 1 Mushroom Center (Ueda City, Nagano Prefecture) on October 29, 2024 and operations have been suspended. As a result of the fire, the Company anticipates losses in non-current assets and inventories. However, some of the assets are insured and the Company is currently assessing the loss amounts, insurance payouts, and potential impacts on earnings.