Translation

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Consolidated Financial Results for the Six Months Ended June 30, 2024 [Japanese GAAP]

August 8, 2024

Company name: KOHOKU KOGYO CO.,LTD.
Listing: Tokyo
Securities code: 6524
URL: https://www.kohokukogyo.co.jp
Representative: Futoshi Ishii President and CEO
Inquiries: Kunio Uehara Director, Executive Officer and General Manager of Accounting Department
Telephone: +81-749-85-3211

Scheduled date to file semi-annual securities report: August 8, 2024
Scheduled date to commence dividend payments: -
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (For institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Six Months Ended June 30, 2024 (January 1, 2024 to June 30, 2024)

(1) Consolidated Operating Results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2024	7,707	9.7	1,788	6.1	2,753	26.0	1,791	33.3
June 30, 2023	7,023	(11.7)	1,686	(17.4)	2,185	(20.0)	1,344	(26.0)

(Note) Comprehensive income: Six months ended June 30, 2024: ¥ 2,528 million [41.6%]
Six months ended June 30, 2023: ¥ 1,785 million [(32.8)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2024	66.37	-
June 30, 2023	49.80	-

(Note) On April 1, 2024, the Company conducted a stock split at a ratio of 3 shares for each common share. "Basic earnings per share" is calculated assuming that the stock split was carried out at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
June 30, 2024	27,620	22,059	79.9
December 31, 2023	24,973	20,059	80.3

(Reference) Equity: As of June 30, 2024: ¥ 22,059 million
As of December 31, 2023: ¥ 20,059 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	-	0.00	-	60.00	60.00
Fiscal year ending December 31, 2024	-	0.00			
Fiscal year ending December 31, 2024 (Forecast)			-	23.00	23.00

(Note) Revision to the forecast for dividends announced most recently: None

(Note) On April 1, 2024, the Company conducted a stock split at a ratio of 3 shares for each common share. For the fiscal year ending December 31, 2023, the actual dividends before the stock split are shown.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2024(January 1, 2024 to December 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	16,376	21.6	4,098	45.7	4,637	47.1	3,045	60.0	112.84

(Note) Revision to the financial results forecast announced most recently: Yes

(Note) On April 1, 2024, the Company conducted a stock split at a ratio of 3 shares for each common share. “Basic earnings per share” in Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2024 takes the stock split into consideration.

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - (Company name:)

Excluded: - (Company name:)

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of issued shares (common shares)

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

June 30, 2024: 27,000,000 shares

December 31, 2023: 27,000,000 shares

2) Number of treasury shares at the end of the period:

June 30, 2024: 4,787 shares

December 31, 2023: 10,491 shares

3) Average number of shares outstanding during the period:

Six months ended June 30, 2024: 26,990,678 shares

Six months ended June 30, 2023: 26,989,828 shares

(Note) On April 1, 2024, the Company conducted a stock split at a ratio of 3 shares for each common share. Number of issued shares (common shares) is calculated assuming that the stock split was carried out at the beginning of the previous consolidated fiscal year.

* Semi-annual financial results reports are exempt from review conducted by certified public accountants or an audit firm.

* Proper use of earnings forecasts, and other special matters

(Notes on forward-looking statements)

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee that the Company will achieve the results. Actual financial results and the like may differ materially due to various factors. For information on the assumptions underlying the earnings forecasts and precautions regarding the use of the earnings forecasts, please refer to "1. Qualitative Information on Semi-annual Financial Results (3) Explanation Regarding Forecast Information Such as Consolidated Earnings Forecasts" on page 4 of the attached documents.

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1. Qualitative Information on Semi-annual Financial Results

(1) Explanation Regarding Operating Results

During the first six months of the fiscal year ending December 31, 2024, the global economy remained on the road to recovery as the post-pandemic rebound in the service sector continued with some signs of improvement in the manufacturing sector, which pushed corporate earnings up. At the same time, a host of concerns remained, including rising interest rates in Europe and the U.S., price increases due to soaring energy prices and other factors, and a stagnation in the real estate market in China.

The Japanese economy began to show some positive signs in personal consumption, with improvements in the employment and income environment. However, the depreciation of the yen and quality fraud problems in the automobile industry caused a temporary decline in industrial production.

In the electronic components industry, conditions remained harsh at the beginning due to the prolonged slump in the information and telecommunications equipment market and stagnant manufacturing in China. However, the industry showed signs of recovery in the second half of the period, as excess inventory in Europe was used up and the information and telecommunications equipment market bounced back due to the widespread use of AI and other factors.

Under these circumstances, the Company worked to expand sales and improve the profit structure by developing and expanding sales of new products, enhancing overall equipment efficiency, restructuring the production system for the lead terminals business, and improving transactions for unprofitable products and orders in order to achieve the medium-term management plan.

The Company also worked on measures aimed at medium- to long-term growth, including efforts to commercialize high-purity quartz glass products which are a new field we focus on, and making EpiPhotonics Co., Ltd., a developer of PLZT optical switch technology which is expected to have applications in high-speed optical communications and optical quantum computers, into a subsidiary.

Based on this environment, for the operating results for the six months ended June 2024, the Company posted net sales of 7,707 million yen (up 9.7% year on year), operating profit of 1,788 million yen (up 6.1% year on year), ordinary profit of 2,753 million yen (up 26.0% year on year) due to foreign exchange gains resulting from the depreciation of the yen, and profit attributable to owners of parent of 1,791 million yen (up 33.3% year on year). The period-average exchange rate for the first six months of the fiscal year ending December 2024 was 152.36 yen to the U.S. dollar.

Operating results by segment are as follows.

<Lead Terminals Business>

In the Lead Terminals Business, net sales and segment income (operating profit) for the six months ended June 2024 were 4,086 million yen (up 7.8% year on year) and 119 million yen (down 24.3% year on year), respectively.

In the automotive electronics market, the early stage of the period was affected by production lags at some automakers due to quality fraud problems, while the downturn continued in Europe, China, and other countries as excess inventory in the aluminum electrolytic capacitor market became apparent. In the second half of the period, however, global automobile production and sales remained generally strong as the shift to EVs continued, especially in China. Also, inventory reductions in the aluminum electrolytic capacitor market came to an end, putting orders back on track.

In the markets for consumer electronics and power supplies for information and telecommunications equipment, the first half of the period saw continued inventory reductions mainly due to waning stay-at-home demand that had surged during the pandemic. Buoyed by growing IT demand in the corporate sector, the markets shifted from an inventory reduction phase to a positive growth phase in the second half of the period.

Working against this backdrop, the Company enjoyed earnings growth in the second quarter as it moved ahead with building a flexible production system to fill increasing orders, although an unexpected rise in fixed costs associated with the sharp uptick in orders for some product models temporarily brought profits down in the first quarter. The Company worked on expanding sales of high-value-added products, such as products for electric double-layer capacitors (EDLCs) as well as new burr-free products with significantly improved vibration resistance and insulation characteristics, with the aim of further improving its profit structure over the medium to long term. The Company also worked to strengthen its earnings structure by reviewing small-lot orders and improving overall equipment efficiency.

Moreover, in order to enhance the product quality and reliability and improve production efficiency, the Company worked to develop new welding technologies that realize high efficiency and high accuracy.

<Optical Components and Devices Business>

In the Optical Components and Devices Business, net sales and segment income (operating profit) for the six months ended June 2024 were 3,621 million yen (up 12.0% year on year) and 1,669 million yen (up 9.2% year on year), respectively.

Sales of optical devices for submarine cables increased as orders for optical isolators and optical filters rebounded due to an improved outlook in demand for optical components and devices, which came following the announcement of new submarine cable projects amid a global trend toward strengthening telecommunications infrastructure over the medium

to long term, in addition to the end of inventory cutbacks that were ongoing since last year due to the postponement of submarine cable projects and other factors.

In terms of development, the Company worked on developing small, composite products, and multi-core fiber products to meet growing needs in information and communications. In the area of multi-core fiber products, the Company developed a new optical isolator and fan-in/fan-out (*1) composite optical device for next-generation optical submarine cable systems, contributing to the demonstration of optical fiber transmission over 18,090 km, the world's longest multicore fiber. A paper was presented jointly with KDDI Research, Inc. at OFC2024, one of the world's largest international conferences in the field of optical communications.

In the high-purity silica glass (SSG®) business, which the Company has positioned as a next-generation business, sales of aspherical lenses for ultraviolet rays, for which mass production and supply began last year, increased steadily. In addition, the Company shipped samples in response to an increasing number of inquiries from semiconductor and related manufacturers considering substitutions for various applications due to the tight supply of anhydrous synthetic quartz.

The Company also started working on strengthening the management structure of EpiPhotonics, which became a subsidiary in April this year, and creating technological synergies with the optical components and devices business.

*1: Fan in/fan out (product)
An optical component that connects each core of a multi-core fiber to the core of a single-core fiber "Fan-in" means combining multiple inputs into a single output, and "fan-out" means branching one input into multiple outputs. For example, when a multi-core fiber with multiple cores built into a single optical fiber cable is used as a submarine cable, the fiber is branched into a single-core fiber in optical repeaters installed every few tens of kilometers to amplify the optical signal and then recombined into a single output.

(2) Explanation Regarding Financial Position

(Assets)
Current assets increased by 1,610 million yen from the end of the previous fiscal year to 18,345 million yen. This was mainly attributable to increases of 1,166 million yen in notes and accounts receivable - trade, 170 million yen in raw materials and supplies, and 162 million yen in cash and deposits.
Non-current assets increased by 1,036 million yen from the end of the previous fiscal year to 9,274 million yen. This was mainly attributable to increases of 325 million yen in goodwill, 279 million yen in machinery, equipment and vehicles, net, and 133 million yen in intangible assets etc., and 128 million yen in leased assets, net.
As a result, total assets increased by 2,647 million yen from the end of the previous fiscal year to 27,620 million yen.

(Liabilities)
Current liabilities increased by 632 million yen from the end of the previous fiscal year to 3,155 million yen. This was mainly attributable to income taxes payable increasing 622 million yen and accounts payable - trade increasing 278 million yen, while short-term borrowings declined 162 million yen.
Non-current liabilities were decreased by 14 million yen from the end of the previous fiscal year to 2,405 million yen. This was mainly attributable to lease liabilities increasing 134 million yen and deferred tax liabilities increasing 27 million yen, while long-term borrowings declined 156 million yen.
As a result, total liabilities increased by 647 million yen from the end of the previous fiscal year to 5,561 million yen.

(Net assets)
Net assets increased by 1,999 million yen from the end of the previous fiscal year to 22,059 million yen. This was mainly attributable to increases of 1,251 million yen in retained earnings, 742 million yen in foreign currency translation adjustment.

Cash and cash equivalents at the end of the six months under review totaled 10,865 million yen.
Cash flows in each area of activity and their respective contributing factors for the six months under review are as follows.

(Cash flows from operating activities)
Net cash provided by operating activities amounted to 1,710 million yen. The major factors of cash inflow were income before income taxes of 2,753 million yen and depreciation of 459 million yen, and the major factors of cash outflow were increase in trade receivables of 1,131 million yen, income taxes paid of 350 million yen.

(Cash flows from investing activities)
Net cash used in investing activities amounted to 311 million yen. The major factor of cash inflow was proceeds

from withdrawal of time deposits of 301 million yen, and the major factors of cash outflow were purchase of property, plant and equipment of 404 million yen and purchase of intangible assets of 137 million yen.

(Cash flows from financing activities)
Net cash used in financing activities amounted to 1,276 million yen. The major factors of cash outflow were dividends paid of 539 million yen, repayments of long-term borrowings of 369 million yen and decrease in short-term borrowings of 294 million yen.

(3) Explanation Regarding Forecast Information Such as Consolidated Earnings Forecasts

The results for the semi-annual consolidated fiscal period followed a slightly faster recovery trend than expected at the beginning of the period due to sales of lead terminals tending to recover as inventory adjustments in the aluminum electrolytic capacitor market came to an end, and a sharp increase in orders from some customers in optical components and devices business where adjustments had continued.

Regarding foreign exchange trends, the yen has tended to be cheaper than 140 yen to the U.S. dollar, the assumption at the start of the period.

The Company thinks that although mild, the recovery will continue in the second half of this fiscal year, despite a number of concerns such as economic trends in China and the intensification of competition in the EV market.

Based on the circumstances above, the Company has revised consolidated earnings forecasts for the fiscal year ending December 2024 as follows.

Although there has been no change to the policy of returning profits to shareholders with a “consolidated dividend payout ratio target of 30% and DOE of 3% or more,” the Company will examine carefully the specific dividend amount while ascertaining future exchange rate trends, etc., and at the present time, the year-end dividend forecast for the current fiscal year remains unchanged from the dividend forecast at the beginning of the period.

In addition, we have formulated the earnings forecast for the second half of the current fiscal year based on the assumption of an exchange rate of 150 yen to the U.S. dollar.

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previous forecasts (A)	Millions of yen 14,536	Millions of yen 3,243	Millions of yen 3,284	Millions of yen 2,136	Yen 79.17
Revised forecasts (B)	16,376	4,098	4,637	3,045	112.84
Difference (B-A)	1,840	854	1,352	909	—
Rate of change (%)	12.7	26.4	41.2	42.6	—
(Reference) Actual results for the year ended December 31, 2023	13,472	2,812	3,152	1,904	70.55

(Note) On April 1, 2024, the Company conducted a stock split at a ratio of 3 shares each common share. “Basic earnings per share” is calculated assuming that the stock split was carried out at the beginning of the previous consolidated fiscal year.

2. Semi-annual Consolidated Financial Statements and Significant Notes Thereto

(1) Semi-annual Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	10,864	11,026
Notes and accounts receivable - trade	2,450	3,617
Electronically recorded monetary claims - operating	937	1,000
Finished goods	979	945
Work in process	351	390
Raw materials and supplies	888	1,058
Other	263	305
Total current assets	16,735	18,345
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,406	1,441
Machinery, equipment and vehicles, net	2,756	3,036
Tools, furniture and fixtures, net	476	545
Land	143	143
Leased assets, net	1,895	2,024
Construction in progress	439	426
Total property, plant and equipment	7,117	7,618
Intangible assets		
Goodwill	-	325
Other	330	464
Total intangible assets	330	790
Investments and other assets		
Investment securities	385	377
Deferred tax assets	210	287
Other	193	200
Total investments and other assets	789	865
Total non-current assets	8,237	9,274
Total assets	24,973	27,620

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	476	755
Short-term borrowings	196	34
Current portion of long-term borrowings	517	413
Lease liabilities	127	138
Accounts payable - other	422	390
Income taxes payable	402	1,025
Provision for bonuses	70	135
Provision for bonuses for directors (and other officers)	27	15
Other	282	247
Total current liabilities	2,522	3,155
Non-current liabilities		
Long-term borrowings	208	52
Lease liabilities	1,902	2,036
Deferred tax liabilities	80	108
Retirement benefit liability	123	133
Asset retirement obligations	67	67
Other	8	7
Total non-current liabilities	2,391	2,405
Total liabilities	4,913	5,561
Net assets		
Shareholders' equity		
Share capital	350	350
Capital surplus	5,648	5,658
Retained earnings	12,633	13,884
Treasury shares	(1)	(0)
Total shareholders' equity	18,629	19,893
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7	1
Foreign currency translation adjustment	1,422	2,164
Total accumulated other comprehensive income	1,429	2,166
Total net assets	20,059	22,059
Total liabilities and net assets	24,973	27,620

(2) Semi-annual Consolidated Statements of Income and Comprehensive Income

Semi-annual Consolidated Statements of Income (For the six months)

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Net sales	7,023	7,707
Cost of sales	4,072	4,531
Gross profit	2,950	3,176
Selling, general and administrative expenses	1,264	1,387
Operating profit	1,686	1,788
Non-operating income		
Interest and dividend income	42	99
Foreign exchange gains	527	909
Other	34	21
Total non-operating income	605	1,030
Non-operating expenses		
Interest expenses	46	56
Litigation expenses	50	-
Other	9	9
Total non-operating expenses	105	65
Ordinary profit	2,185	2,753
Extraordinary losses		
Loss on sale and retirement of non-current assets	37	-
Total extraordinary losses	37	-
Profit before income taxes	2,147	2,753
Income taxes - current	763	1,002
Income taxes - deferred	39	(39)
Total income taxes	803	962
Profit	1,344	1,791
Profit attributable to owners of parent	1,344	1,791

Semi-annual Consolidated Statements of Comprehensive Income (For the six months)

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Profit	1,344	1,791
Other comprehensive income		
Valuation difference on available-for-sale securities	30	(6)
Foreign currency translation adjustment	410	742
Total other comprehensive income	441	736
Comprehensive income	1,785	2,528
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,785	2,528

(3) Semi-annual Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Cash flows from operating activities		
Profit before income taxes	2,147	2,753
Depreciation	373	459
Amortization of goodwill	-	17
Interest and dividend income	(42)	(99)
Interest expenses	46	56
Foreign exchange losses (gains)	(75)	(198)
Decrease (increase) in trade receivables	36	(1,131)
Decrease (increase) in inventories	(270)	7
Increase (decrease) in trade payables	(134)	222
Increase (decrease) in provision for bonuses	52	62
Increase (decrease) in provision for bonuses for directors (and other officers)	(30)	(12)
Increase (decrease) in retirement benefit liability	9	5
Loss (gain) on sale and retirement of non-current assets	37	-
Increase (decrease) in accounts payable - other	(93)	(13)
Decrease (increase) in other assets	75	(20)
Increase (decrease) in other liabilities	(41)	(90)
Subtotal	2,091	2,018
Interest and dividends received	39	98
Interest paid	(49)	(56)
Income taxes paid	(571)	(350)
Net cash provided by (used in) operating activities	1,510	1,710
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	1,031	301
Purchase of property, plant and equipment	(792)	(404)
Purchase of investment securities	(0)	(0)
Proceeds from sale of investment securities	2	-
Purchase of intangible assets	(104)	(137)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(67)
Other, net	30	(2)
Net cash provided by (used in) investing activities	166	(311)
Cash flows from financing activities		
Repayments of long-term borrowings	(376)	(369)
Dividends paid	(494)	(539)
Net increase (decrease) in short-term borrowings	(105)	(294)
Repayments of lease liabilities	(66)	(72)
Purchase of treasury shares	(0)	(0)
Net cash provided by (used in) financing activities	(1,044)	(1,276)
Effect of exchange rate change on cash and cash equivalents	143	303
Net increase (decrease) in cash and cash equivalents	776	426
Cash and cash equivalents at beginning of period	9,362	10,439
Cash and cash equivalents at end of period	10,139	10,865

(4) Notes to Semi-annual Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Segment Information, Etc.)

[Segment information]

First six months of the fiscal year ended December 2023 (January 1, 2023 - June 30, 2023)

1. Information regarding net sales and income or loss for each reportable segment, and breakdown of revenue

(Millions of yen)

	Reportable segment			Adjustments	Total (Note)
	Lead Terminals Business	Optical Components and Devices Business	Total		
Net sales					
Japan	1,752	792	2,544	—	2,544
China	850	32	883	—	883
Asia	1,166	7	1,174	—	1,174
U.K.	—	1,114	1,114	—	1,114
U.S.	—	1,279	1,279	—	1,279
Others	19	8	27	—	27
Revenue from contracts with customers	3,789	3,234	7,023	—	7,023
Other revenue	—	—	—	—	—
Sales to outside customers	3,789	3,234	7,023	—	7,023
Inter-segment sales or transfers	—	—	—	—	—
Total	3,789	3,234	7,023	—	7,023
Segment income	157	1,528	1,686	—	1,686

(Note) The total segment income is consistent with operating profit as reported in the Semi-annual Consolidated Statements of Income.

First six months of the fiscal year ending December 2024 (January 1, 2024 - June 30, 2024)

1. Information regarding net sales and income or loss for each reportable segment, and breakdown of revenue

(Millions of yen)

	Reportable segment			Adjustments	Total (Note)
	Lead Terminals Business	Optical Components and Devices Business	Total		
Net sales					
Japan	1,853	544	2,397	—	2,397
China	848	103	952	—	952
Asia	1,368	11	1,379	—	1,379
U.K.	—	1,359	1,359	—	1,359
U.S.	—	1,586	1,586	—	1,586
Others	16	15	31	—	31
Revenue from contracts with customers	4,086	3,621	7,707	—	7,707
Other revenue	—	—	—	—	—
Sales to outside customers	4,086	3,621	7,707	—	7,707
Inter-segment sales or transfers	—	—	—	—	—
Total	4,086	3,621	7,707	—	7,707
Segment income	119	1,669	1,788	—	1,788

(Note) The total segment income is consistent with operating profit as reported in the Semi-annual Consolidated Statements of Income.

2. Information regarding impairment losses or goodwill on fixed assets by reportable segment
(Significant changes in the amount of goodwill)
In the Optical Components and Devices Business segment, goodwill has been generated as a result of the acquisition of all shares of EpiPhotonics Co., Ltd. and including it in the scope of consolidation from the current semi-annual consolidated fiscal period. The increase in goodwill resulting from this event was 343 million yen in the current semi-annual consolidated fiscal period.

(Revenue Recognition)

Breakdown of revenue from contracts with customers is described in “Notes (Segment Information, Etc.)”