Translation

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KOHOKU

Consolidated Financial Results for the Nine Months Ended September 30, 2024 [Japanese GAAP]

November 8, 2024

Company name: KOHOKU KOGYO CO.,LTD.
Listing: Tokyo
Securities code: 6524
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Scheduled date to commence dividend payments: -
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: None

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2024	12,137	17.2	3,174	38.3	3,326	11.9	2,224	29.1
September 30, 2023	10,355	(13.0)	2,295	(26.3)	2,973	(27.3)	1,723	(36.0)

(Note) Comprehensive income: Nine months ended September 30, 2024: ¥ 2,377 million [1.7%]
Nine months ended September 30, 2023: ¥ 2,337 million [(37.0)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2024	82.42	-
September 30, 2023	63.87	-

(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	%
September 30, 2024	26,855	21,907	81.6
December 31, 2023	24,973	20,059	80.3

(Reference) Equity: As of September 30, 2024: ¥ 21,907 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: None

(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 quarterly 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):

September 30, 2024: 27,000,000 shares

December 31, 2023: 27,000,000 shares

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

September 30, 2024: 4,957 shares

December 31, 2023: 10,491 shares

3) Average number of shares outstanding during the period:

Nine months ended September 30, 2024: 26,992,176 shares

Nine months ended September 30, 2023: 26,989,728 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.

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: Yes(voluntary)

* 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 the Company 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 Quarterly 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 Quarterly Financial Results

(1) Explanation Regarding Operating Results

During the first nine months of the fiscal year ending December 31, 2024, the global economy generally remained strong, supported by the continued strength of the U.S. economy and economic growth in Asia, including India, despite signs of slowdown in China and parts of Europe. At the same time, a host of concerns remained, including interest rates which remained high in Europe and the U.S., price increases due to soaring energy prices and other factors, and deteriorating business conditions in the manufacturing and other sectors in China.

The Japanese economy began to show some positive signs with improvements in the employment and income environment in addition to a boom in inbound consumption following the COVID-19 pandemic. However, rising material costs caused by 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 in the first half of the period due to the prolonged slump in the information and telecommunications equipment market and stagnant manufacturing in China. 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 generative AI and other factors. However, the sluggish EV market and deteriorating microeconomic conditions in China prevented a full-scale recovery.

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 and streamlining the production process for the lead terminals business, and improving 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 silica 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 first nine months of the fiscal year ending December 31, 2024, the Company posted net sales of 12,137 million yen (up 17.2% year on year), operating profit of 3,174 million yen (up 38.3% year on year), ordinary profit of 3,326 million yen (up 11.9% year on year) due to foreign exchange gains resulting from the continued depreciation of the yen, and profit attributable to owners of parent of 2,224 million yen (up 29.1% year on year). The period-average exchange rate for the first nine months of the fiscal year ending December 2024 was 151.45 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 first nine months of the fiscal year ending December 31, 2024 were 6,285 million yen (up 12.6% year on year) and 296 million yen (up 382.6% 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 due to excess inventory adjustments in the aluminum electrolytic capacitor market. In the second half of the period, inventory adjustments for aluminum electrolytic capacitors and adjustments in automobile production slowed and the downturn appeared to bottom out. Subsequently, however, the market recovery faltered due to factors such as the sluggish uptake of EVs in the European market and slowing demand in China.

In the markets for consumer electronics and 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, particularly for AI servers, in the corporate sector, the markets shifted from an inventory reduction phase to a positive growth phase in the second half of the period.

Under these circumstances, in the first half of the period, an unexpected increase in fixed costs due to a sudden increase in orders for some product types temporarily pushed down profits. However, in the second half of the period, earnings began to improve as we began to see the results of progress made in establishing a flexible production system, as well as price

adjustments to unprofitable products, reviews of small-lot orders, and improvements to overall equipment efficiency, including improved yield rates. In addition, 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 improving its profit structure over the medium to long term.

In the area of production technology, in order to enhance the product quality and reliability and improve production efficiency, the Company worked to develop laser welding, a new welding technology that realizes 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 first nine months of the fiscal year ending December 31, 2024 were 5,852 million yen (up 22.6% year on year) and 2,878 million yen (up 28.8% year on year), respectively.

Sales of optical devices for submarine cables experienced a recovery trend as orders for optical isolators and optical filters rose rapidly due to an improved outlook in demand, including the end of inventory adjustments that were ongoing since last year due to the postponement of submarine cable projects, the announcement of new submarine cable projects due to a global trend toward strengthening telecommunications infrastructure, 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 telecommunications. 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 adoption of the product for various applications.

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 1,247 million yen from the end of the previous fiscal year to 17,982 million yen. This was mainly attributable to notes and accounts receivable - trade, and contract increasing 978 million yen, raw materials and supplies increasing 237 million yen, and other current assets increasing 139 million yen while cash and deposits declined 241 million yen.

Non-current assets increased by 635 million yen from the end of the previous fiscal year to 8,872 million yen. This was mainly attributable to increases of 98 million yen in machinery, equipment and vehicles, net, 308 million yen in goodwill, 156 million yen in intangible assets etc.

As a result, total assets increased by 1,882 million yen from the end of the previous fiscal year to 26,855 million yen.

(Liabilities)

Current liabilities increased by 235 million yen from the end of the previous fiscal year to 2,758 million yen. This was mainly attributable to accounts payable - trade increasing 278 million yen, income taxes payable increasing 257 million yen and

provision for bonuses increasing 185 million yen while short-term borrowings decreasing 196 million yen and current portion of long-term borrowings decreasing 246 million yen.

Non-current liabilities were decreased by 201 million yen from the end of the previous fiscal year to 2,189 million yen. This was mainly attributable to long-term borrowings declined 208 million yen.

As a result, total liabilities increased by 34 million yen from the end of the previous fiscal year to 4,948 million yen.

(Net assets)

Net assets increased by 1,848 million yen from the end of the previous fiscal year to 21,907 million yen. This was mainly attributable to increases of 1,684 million yen in retained earnings, 192 million yen in foreign currency translation adjustment.

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

The results for the first nine months of the fiscal year ending December 31, 2024 experienced 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 an unexpected increase in orders from some customers in optical components and devices business where adjustments had continued. Nevertheless, orders have been sluggish again since the summer due to factors such as stagnation in the automobile market, particularly in Europe, and the market continues to lack strength. Moreover, in the submarine cable market, the global trend toward expanding information and telecommunication capacity remains unchanged, but some customers are showing signs of temporary adjustment, which appear to be a decline from the higher level in the first half of the period.

Based on these circumstances, there is a slight worsening trend in the outlook compared to the earnings forecast announced on August 8, 2024. However, having determined that there will be no significant impact on the earnings forecast for the fiscal year ending December 31, 2024, the Company has not made any changes to the forecast at this time.

The Company will promptly announce any significant changes in business conditions in the future.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	10,864	10,623
Notes and accounts receivable - trade	2,450	-
Notes and accounts receivable - trade, and contract assets	-	3,428
Electronically recorded monetary claims - operating	937	1,008
Finished goods	979	1,013
Work in process	351	379
Raw materials and supplies	888	1,125
Other	263	403
Total current assets	16,735	17,982
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,406	1,453
Machinery, equipment and vehicles, net	2,756	2,854
Tools, furniture and fixtures, net	476	521
Land	143	143
Leased assets, net	1,895	1,868
Construction in progress	439	406
Total property, plant and equipment	7,117	7,248
Intangible assets		
Goodwill	-	308
Other	330	487
Total intangible assets	330	796
Investments and other assets		
Investment securities	385	330
Deferred tax assets	210	298
Other	193	199
Total investments and other assets	789	828
Total non-current assets	8,237	8,872
Total assets	24,973	26,855

(Millions of yen)

	As of December 31, 2023	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	476	754
Short-term borrowings	196	-
Current portion of long-term borrowings	517	270
Lease liabilities	127	139
Accounts payable - other	422	440
Income taxes payable	402	659
Provision for bonuses	70	255
Provision for bonuses for directors (and other officers)	27	22
Other	282	215
Total current liabilities	2,522	2,758
Non-current liabilities		
Long-term borrowings	208	-
Lease liabilities	1,902	1,876
Deferred tax liabilities	80	105
Retirement benefit liability	123	132
Asset retirement obligations	67	67
Other	8	7
Total non-current liabilities	2,391	2,189
Total liabilities	4,913	4,948
Net assets		
Shareholders' equity		
Share capital	350	350
Capital surplus	5,648	5,658
Retained earnings	12,633	14,318
Treasury shares	(1)	(1)
Total shareholders' equity	18,629	20,325
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7	(33)
Foreign currency translation adjustment	1,422	1,614
Total accumulated other comprehensive income	1,429	1,581
Total net assets	20,059	21,907
Total liabilities and net assets	24,973	26,855

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Millions of yen)

	For the nine months ended September 30, 2023	For the nine months ended September 30, 2024
Net sales	10,355	12,137
Cost of sales	6,077	6,855
Gross profit	4,278	5,281
Selling, general and administrative expenses	1,983	2,107
Operating profit	2,295	3,174
Non-operating income		
Interest and dividend income	74	174
Foreign exchange gains	712	43
Other	45	30
Total non-operating income	831	249
Non-operating expenses		
Interest expenses	70	84
Litigation expenses	50	-
Factory transfer expenses	26	-
Other	7	12
Total non-operating expenses	153	97
Ordinary profit	2,973	3,326
Extraordinary losses		
Loss on sale and retirement of non-current assets	38	-
Impairment losses	97	-
Total extraordinary losses	136	-
Profit before income taxes	2,836	3,326
Income taxes - current	1,095	1,135
Income taxes - deferred	17	(33)
Total income taxes	1,112	1,101
Profit	1,723	2,224
Profit attributable to owners of parent	1,723	2,224

Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Millions of yen)

	For the nine months ended September 30, 2023	For the nine months ended September 30, 2024
Profit	1,723	2,224
Other comprehensive income		
Valuation difference on available-for-sale securities	21	(40)
Foreign currency translation adjustment	592	192
Total other comprehensive income	613	152
Comprehensive income	2,337	2,377
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,337	2,377

(3) Notes to Quarterly Consolidated Financial Statements

(Preparation Method of Quarterly Consolidated Financial Statements)

The quarterly consolidated financial statements have been prepared in accordance with Article 4, Paragraph 1 of the Standards for Preparation of Quarterly Financial Statements, etc. of the Tokyo Stock Exchange, Inc., and the accounting standards for quarterly financial statements generally accepted in Japan (however, the omissions set forth in Article 4, Paragraph 2 of the Standards for Preparation of Quarterly Financial Statements, etc. have been applied).

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

(Notes on Statements of Cash Flows)

Quarterly consolidated statements of cash flows have not been prepared for the nine months ended September 30, 2024. Depreciation (including amortization related to intangible assets excluding goodwill) and amortization of goodwill for the nine months are as follows.

	For the nine months ended September 2023 (January 1, 2023 - September 30, 2023)	For the nine months ending September 2024 (January 1, 2024 - September 30, 2024)
Depreciation	580 Millions of yen	696 Millions of yen
Amortization of goodwill	― Millions of yen	34 Millions of yen

(Segment Information, Etc.)

[Segment information]

First nine months of the fiscal year ended December 2023 (January 1, 2023 - September 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	2,589	1,101	3,690	―	3,690
China	1,190	76	1,267	―	1,267
Asia	1,776	11	1,787	―	1,787
U.K.	―	1,753	1,753	―	1,753
U.S.A.	―	1,814	1,814	―	1,814
Others	24	17	42	―	42
Revenue from contracts with customers	5,580	4,774	10,355	―	10,355
Other revenue	―	―	―	―	―
Sales to outside customers	5,580	4,774	10,355	―	10,355
Inter-segment sales or transfers	―	―	―	―	―
Total	5,580	4,774	10,355	―	10,355
Segment income	61	2,233	2,295	―	2,295

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

First nine months of the fiscal year ending December 2024 (January 1, 2024 - September 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	2,802	772	3,574	—	3,574
China	1,366	179	1,546	—	1,546
Asia	2,097	18	2,115	—	2,115
U.K.	—	2,251	2,251	—	2,251
U.S.A.	—	2,524	2,524	—	2,524
Others	18	105	124	—	124
Revenue from contracts with customers	6,285	5,852	12,137	—	12,137
Other revenue	—	—	—	—	—
Sales to outside customers	6,285	5,852	12,137	—	12,137
Inter-segment sales or transfers	—	—	—	—	—
Total	6,285	5,852	12,137	—	12,137
Segment income	296	2,878	3,174	—	3,174

(Note) The total segment income is consistent with operating profit as reported in the Quarterly 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 semi-annual consolidated fiscal period. The increase in goodwill resulting from this event was 343 million yen for the nine months ended September 30, 2024.

(Revenue Recognition)

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

Independent auditor's review report on quarterly consolidated financial statements

The independent auditor's review has been conducted on the Japanese original document, and the review report is attached thereto. It is omitted in the English translation.