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

August 7, 2024

Company name: PILOT CORPORATION
Listing: Tokyo
Securities code: 7846
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Scheduled date to file semi-annual securities report: August 8, 2024
Scheduled date to commence dividend payments: September 2, 2024
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes

(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	65,639	6.9	9,951	(17.7)	12,676	(10.2)	8,933	(9.2)
June 30, 2023	61,402	6.8	12,091	2.8	14,112	2.3	9,841	4.1

(Note) Comprehensive income: Six months ended June 30, 2024: ¥ 13,055 million [(4.2)%]
Six months ended June 30, 2023: ¥ 13,623 million [0.1%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
June 30, 2024	226.69	-
June 30, 2023	249.48	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
June 30, 2024	181,056	142,038	77.6
December 31, 2023	166,468	132,345	78.3

(Reference) Equity: As of June 30, 2024: ¥ 140,434 million
As of December 31, 2023: ¥ 130,408 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	-	50.00	-	50.00	100.00
Fiscal year ending December 31, 2024	-	53.00			
Fiscal year ending December 31, 2024 (Forecast)			-	53.00	106.00

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

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	126,000	6.2	18,000	(5.3)	20,000	(4.0)	14,000	2.5	358.44

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

Forecast for the first two quarters of fiscal year ending June 30, 2024 has not been made.

The Company resolved the purchase and cancellation of treasury shares at the Board of Directors' Meeting held on May 10, 2024. The impact of the purchase and cancellation was included in "Basic earnings per share"stated above.

* Notes:

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

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: Yes

(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: 41,814,400 shares
December 31, 2023: 41,814,400 shares

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

June 30, 2024: 2,568,057 shares
December 31, 2023: 2,364,966 shares

3) Average number of shares outstanding during the period:

Six months ended June 30, 2024: 39,409,931 shares
Six months ended June 30, 2023: 39,449,434 shares

(Note) The number of shares of treasury stock at the end of the period includes the Company's shares held by the BIP (Board Incentive Plan) trust (As of June 30, 2024: 18,827 shares, As of December 31, 2023: 18,827 shares). In addition, these Company's shares are included in the treasury stock which is deducted from the number of shares outstanding when calculating the average number of shares during the period (As of June 30, 2024: 18,827 shares, As of June 30, 2023: 18,827 shares).

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

* Explanation for the appropriate use of performance forecast and other special notes

- The statements regarding forecast of financial results in this report are based on the information that is available to the Company, aswell as certain assumptions that are deemed to be reasonable by management. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors.

1. Management Discussion and Analysis

(1) Result of Operations

During the six months (January 1 to June 30, 2024) of the fiscal year under review, the economic environment in Japan saw a gradual recovery, although inflation caused personal consumption to stall. Overseas, although price hikes are subsiding, the outlook for the global economy remains uncertain given the impact of geopolitical risks, such as the protracted situation in Ukraine and the increasing tensions in the Middle East.

In this economic environment, Pilot Corporation ("the Company") and its consolidated subsidiaries ("the Group") benefited from continued firmness in the Japanese market for writing instruments, as well as from the depreciation of the yen against the U.S. dollar, euro and yuan. However, as in the previous fiscal year, demand remained weak in certain major developed markets. Meanwhile, personnel, depreciation, and other expenses increased as we stepped up investments for the future to achieve sustainable growth toward our "2030 Vision."

In this business environment, net sales for the six months under review stood at 65,639 million yen, up 6.9% year on year (YoY). Net sales in the Japanese market came to 14,423 million yen, up 7.8% YoY. Net sales in overseas markets were 51,215 million yen, up 6.7% YoY. Looking at sales by business, net sales in the writing instruments business stood at 59,799 million yen, up 6.3% YoY. Net sales in the non-writing instruments business came to 5,839 million yen, up 13.8% YoY.

In terms of profit, the Group recorded operating profit of 9,951 million yen, down 17.7% YoY, and ordinary profit of 12,676 million yen, down 10.2% YoY. Profit attributable to owners of parent stood at 8,933 million yen, down 9.2% YoY.

Details of each segment are as follows.

Segment operating profit is profit before the elimination of intersegment transactions.

(Japan segment)

In the stationery business, sales of the S20 series, which support the boom in high-end mechanical pencils, remained strong in Japan. Meanwhile, the FRIXION BALL NOCK ZONE x HERALBONY, a collaboration with HERALBONY Co., Ltd. creating new value and culture based on welfare, attracted attention, which helped to revitalize the market. In addition, the FRIXION SYNERGY KNOCK and the updated design of the ACROBALL are becoming more established in the market and we expect them to achieve further growth. Furthermore, Mark's Group Holdings, Inc., which designs and manufactures stationery such as diaries and notebooks and which joined the Group in the last fiscal year, also contributed to sales. Sales from exports decreased due to inventory adjustments in Philippines and certain other countries.

In the toys business, sales increased as the Mell Chan doll series, our mainstay products, achieved a robust performance.

In the industrial materials and other businesses, sales increased thanks to the contribution of Mark's products, although sales of ceramics products, the mainstay of the industrial materials business, declined as the semiconductor market is still to recover.

A breakdown of net sales in this segment by major business is as follows: 15,475 million yen, down 2.5% YoY in the stationery business, 1,463 million yen, up 13.5% YoY in the toys business, and 1,553 million yen, up 8.9% YoY

in the industrial materials and other businesses. In the stationery business, net sales of writing instruments stood at 13,627 million yen, down 4.2% YoY, and net sales of other stationery came to 1,847 million yen, a 12.7% increase YoY.

Segment operating profit increased due to the depreciation of the yen, which offset an increase in SG&A expenses such as personnel expenses and advertising expenses.

As a result, net sales to external customers in this segment stood at 18,493 million yen, down 0.5% YoY. Segment operating profit was 7,193 million yen, up 6.0% YoY.

(Americas segment)

In the Americas, sales in the U.S. were slow due to inventory control by mass retailers, who are among our main customers in the U.S. market. However, sales of G-2, which maintains the top share in the gel ink roller ball pen market, remained strong, and sales grew mainly on the strength of V Board Master whiteboard markers in the Brazilian market. The impact of the yen's depreciation also contributed to the increase in sales and profit.

As a result, net sales to external customers in this segment totaled 21,209 million yen, up 8.7% YoY. Segment operating profit came to 1,394 million yen, up 8.1% YoY.

(Europe segment)

In Europe, sales and profit increased with the recovery in sales of the FRIXION series, our core products in the European market, as well as the impact of the yen’s depreciation. Since June 2024, we have been expanding promotion of the FRIXION series in collaboration with a popular Japanese animation to increase sales.

As a result, net sales to external customers in this segment came to 15,226 million yen, up 11.4% YoY. Segment operating profit was 1,596 million yen, up 12.4% YoY.

(Asia segment)

In Asia, the Juice series of gel ink roller ball pens, our mainstay products in the Chinese market, generally performed well, and the impact of the yen's depreciation also contributed to an increase in sales despite continued economic weakness in China. Operating profit decreased on higher SG&A expenses such as personnel and advertising expenses.

Consequently, net sales to external customers in this segment totaled 10,709 million yen, up 11.1% YoY. Segment operating profit stood at 208 million yen, down 55.5% YoY.

As a result of the above, total segment operating profit in each region increased to 10,392 million yen, up 4.3% YoY, but consolidated operating profit was 9,951 million yen, down 17.7% YoY due to a consolidated adjustment of -441 million yen (mainly an increase in unrealized profit related to inventories). The increase in unrealized profit was mainly due to the difference in exchange rates between the end of the previous fiscal year and the end of the second quarter of the current fiscal year.

(2) Financial Position

(i) Analysis of Financial Position

Total assets at the end of the six months under review were 181,056 million yen, an increase of 14,587 million yen from the end of the previous fiscal year.

Current assets increased 10,341 million yen, to 117,479 million yen. Non-current assets increased 4,246 million yen, to 63,577 million yen.

In current assets, notes and accounts receivable - trade increased 10,940 million yen.

In non-current assets, property, plant and equipment increased 3,494 million yen.

Liabilities increased 4,895 million yen compared to the end of the previous fiscal year, to 39,018 million yen.

Current liabilities increased 5,076 million yen, to 36,644 million yen. Non-current liabilities decreased 181 million yen, to 2,374 million yen.

In current liabilities, short-term borrowings, and income taxes payable increased 2,245 million yen and 1,930 million yen, respectively.

Net assets increased 9,692 million yen compared to the end of the previous fiscal year, to 142,038 million yen. Retained earnings and foreign currency translation adjustment increased 6,960 million yen and 3,423 million yen, respectively, despite the acquisition of treasury shares of 886 million yen.

(ii) Consolidated Cash Flows

Cash and cash equivalents (hereinafter "capital") as of June 30, 2024 was 30,053 million yen, down 3,865 million yen from the end of the previous fiscal year.

(Cash flow from operating activities)

Capital generated by operating activities was 9,629 million yen (as compared to 6,442 million yen generated in the same period of the previous fiscal year). Major factors of the income were a profit before tax of 12,677 million yen, depreciation of 2,346 million yen, and a decrease of inventory of 3,656 million yen. Major factors of the expenditure were an increase in trade and other receivables of 8,773 million yen, a decrease in trade payable of 2,738 million yen, and income taxes paid of 1,477 million yen.

(Cash flow from investing activities)

Capital used as a result of investing activities was 16,452 million yen (as compared to 13,257 million yen decreased in the same period of the previous fiscal year). This was mainly due to payment into time deposit of 10,377 million yen, and 6,628 million yen spent on acquisition of property, plant and equipment.

(Cash flow from financing activities)

Capital used as a result of financing activities was 2,083 million yen (as compared to 3,854 million yen used in the same period of the previous fiscal year). Major factor of the income was a net increase of short-term borrowings of 1,676 million yen. Major factors of the expenditure were 886 million yen for the acquisition of treasury shares, and 1,949 million yen in dividend payments.

(3) Description of Consolidated Results Forecast

The consolidated financial results forecast for the fiscal year ending December 31, 2024, announced on February 13, 2024, was revised due to the revision of the assumed exchange rates, recent business results and an increase in expenses, including investments for growth.

Revision of consolidated financial forecast for the fiscal year ending December 31, 2024 (January 1 to December 31, 2024)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Profit per share (yen)
	million yen	million yen	million yen	million yen	yen
Previous forecast (A)	121,000	20,000	21,000	14,000	359.09
Revised forecast (B)	126,000	18,000	20,000	14,000	358.44
Change (B-A)	5,000	(2,000)	(1,000)	-	
Percentage change (%)	4.1	(10.0)	(4.8)	-	
(Reference) Results of FY2023	118,590	19,003	20,840	13,661	346.31

(Note) Assumed exchange rates: 152.00 yen to the US dollar, 164.00 yen to the euro, 21.00 yen to the yuan.

Semi-annual Consolidated Financial Statements
Semi-annual Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	39,171	40,928
Notes and accounts receivable - trade	24,243	35,183
Merchandise and finished goods	24,222	23,468
Work in process	8,324	8,737
Raw materials and supplies	4,749	4,772
Other	6,512	4,485
Allowance for doubtful accounts	(86)	(95)
Total current assets	107,138	117,479
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,462	31,117
Accumulated depreciation	(15,985)	(16,771)
Buildings and structures, net	14,476	14,346
Machinery, equipment and vehicles	39,999	42,093
Accumulated depreciation	(32,793)	(34,183)
Machinery, equipment and vehicles, net	7,205	7,909
Other	21,199	21,595
Accumulated depreciation	(18,211)	(18,504)
Other, net	2,988	3,090
Land	7,608	7,562
Construction in progress	5,612	8,478
Total property, plant and equipment	37,891	41,386
Intangible assets		
Leasehold interests in land	5,355	5,355
Other	973	986
Total intangible assets	6,328	6,341
Investments and other assets		
Investment securities	7,860	8,768
Deferred tax assets	3,371	3,184
Retirement benefit asset	2,862	3,027
Other	1,047	900
Allowance for doubtful accounts	(32)	(32)
Total investments and other assets	15,109	15,849
Total non-current assets	59,330	63,577
Total assets	166,468	181,056

(Millions of yen)

	As of December 31, 2023	As of June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,148	11,377
Short-term borrowings	1,728	3,974
Current portion of long-term borrowings	409	352
Accrued expenses	2,901	3,597
Income taxes payable	1,602	3,533
Provision for bonuses	718	846
Provision for bonuses for directors (and other officers)	65	32
Provision for share awards for directors (and other officers)	-	61
Other	11,992	12,867
Total current liabilities	31,567	36,644
Non-current liabilities		
Long-term borrowings	494	316
Deferred tax liabilities	389	416
Provision for retirement benefits for directors (and other officers)	131	120
Provision for environmental measures	48	-
Provision for share awards for directors (and other officers)	47	-
Retirement benefit liability	720	800
Other	723	721
Total non-current liabilities	2,555	2,374
Total liabilities	34,123	39,018
Net assets		
Shareholders' equity		
Share capital	2,340	2,340
Capital surplus	7,923	7,895
Retained earnings	129,116	136,076
Treasury shares	(10,858)	(11,744)
Total shareholders' equity	128,521	134,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,187	1,812
Foreign currency translation adjustment	276	3,700
Remeasurements of defined benefit plans	423	353
Total accumulated other comprehensive income	1,887	5,865
Non-controlling interests	1,936	1,603
Total net assets	132,345	142,038
Total liabilities and net assets	166,468	181,056

Semi-annual Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Net sales	61,402	65,639
Cost of sales	28,732	32,521
Gross profit	32,670	33,117
Selling, general and administrative expenses	20,578	23,166
Operating profit	12,091	9,951
Non-operating income		
Interest income	236	319
Dividend income	306	543
Foreign exchange gains	1,459	1,823
Other	166	180
Total non-operating income	2,169	2,867
Non-operating expenses		
Interest expenses	128	106
Other	20	35
Total non-operating expenses	149	142
Ordinary profit	14,112	12,676
Extraordinary income		
Gain on sale of non-current assets	31	67
Gain on sale of investment securities	273	65
Compensation income	197	-
Reversal of provision for environmental measures	-	48
Total extraordinary income	502	180
Extraordinary losses		
Loss on sale of non-current assets	0	0
Loss on retirement of non-current assets	29	22
Impairment losses	-	95
Loss on disaster	-	13
Loss on sale of investment securities	-	0
Soil pollution expense	-	46
Total extraordinary losses	29	179
Profit before income taxes	14,585	12,677
Income taxes	4,668	3,687
Profit	9,916	8,989
Profit attributable to non-controlling interests	74	55
Profit attributable to owners of parent	9,841	8,933

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Profit	9,916	8,989
Other comprehensive income		
Valuation difference on available-for-sale securities	287	636
Foreign currency translation adjustment	3,366	3,500
Remeasurements of defined benefit plans, net of tax	53	(70)
Total other comprehensive income	3,707	4,066
Comprehensive income	13,623	13,055
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,449	12,911
Comprehensive income attributable to non-controlling interests	174	143

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	14,585	12,677
Depreciation	2,070	2,346
Impairment losses	-	95
Amortization of goodwill	137	-
Retirement benefit expenses	67	(110)
Increase (decrease) in provision for bonuses	84	97
Increase (decrease) in provision for bonuses for directors (and other officers)	(47)	(34)
Increase (decrease) in provision for share awards for directors (and other officers)	11	13
Increase (decrease) in allowance for doubtful accounts	9	0
Increase (decrease) in retirement benefit liability	3	28
Interest and dividend income	(543)	(863)
Interest expenses	128	106
Loss (gain) on sale of non-current assets	(31)	(66)
Loss on retirement of non-current assets	29	22
Loss (gain) on sale of investment securities	(273)	(64)
Compensation income	(197)	-
Reversal of provision for environmental measures	-	(48)
Loss on disaster	-	13
Soil pollution expense	-	46
Decrease (increase) in trade receivables	(6,715)	(8,773)
Decrease (increase) in inventories	849	3,656
Increase (decrease) in trade payables	(2,693)	(2,738)
Other, net	3,034	4,020
Subtotal	10,509	10,425
Interest and dividends received	543	808
Interest paid	(126)	(105)
Proceeds from compensation	197	-
Soil pollution expense paid	-	(22)
Income taxes paid	(4,681)	(1,477)
Net cash provided by (used in) operating activities	6,442	9,629
Cash flows from investing activities		
Payments into time deposits	(10,000)	(10,377)
Proceeds from withdrawal of time deposits	-	377
Purchase of property, plant and equipment	(4,024)	(6,628)
Proceeds from sale of property, plant and equipment	43	178
Purchase of intangible assets	(76)	(167)
Purchase of investment securities	-	(19)
Proceeds from sale of investment securities	601	98
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	202	-
Other, net	(3)	86
Net cash provided by (used in) investing activities	(13,257)	(16,452)

(Millions of yen)

	For the six months ended June 30, 2023	For the six months ended June 30, 2024
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,948)	1,676
Repayments of lease liabilities	(163)	(185)
Proceeds from long-term borrowings	500	-
Repayments of long-term borrowings	(256)	(235)
Purchase of treasury shares	-	(886)
Dividends paid	(1,970)	(1,949)
Dividends paid to non-controlling interests	(15)	(16)
Purchase of treasury shares of subsidiaries	-	(486)
Net cash provided by (used in) financing activities	(3,854)	(2,083)
Effect of exchange rate change on cash and cash equivalents	(855)	630
Net increase (decrease) in cash and cash equivalents	(11,525)	(8,276)
Cash and cash equivalents at beginning of period	45,444	38,329
Cash and cash equivalents at end of period	33,918	30,053