

Financial Results for the Six Months Ended September 30, 2022 [JGAAP]



(Consolidated)

November 14, 2022

Company name: KPP GROUP HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9274

URL: <https://www.kpp-gr.com/>

Representative: Madoka Tanabe, Representative Director of the Board, Chairman & CEO

Contact: Shojiro Adachi, General Manager of Finance Division

Phone: +81-3-4431-7215

Scheduled date of filing quarterly securities report: November 14, 2022

Scheduled date of commencing dividend payments: December 2, 2022

Availability of supplementary explanatory materials on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1, 2022 to September 30, 2022)

(1) Consolidated Operating Results

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2022	320,699	19.2	12,299	221.8	11,067	163.1	9,186	163.6
Six months ended September 30, 2021	269,133	-	3,822	-	4,205	-	3,485	-

(Note) Comprehensive income: Six months ended September 30, 2022: 11,968 million yen (77.9%)

Six months ended September 30, 2021: 6,727 million yen (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2022	127.87	-
Six months ended September 30, 2021	48.54	-

(Note) Effective from the beginning of the first quarter ended June 30, 2021, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and others. Therefore, each amount for the six months ended September 30, 2021 is an amount after the adoption of the said accounting standard and others, and does not include any year-on-year percentage changes.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Six months ended September 30, 2022	320,706	67,684	21.1
Fiscal year ended March 31, 2022	290,707	56,374	19.4

(Reference) Equity: Six months ended September 30, 2022: 67,610 million yen

Fiscal year ended March 31, 2022: 56,291 million yen

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	-	5.00	-	9.00	14.00
Fiscal year ending March 31, 2023	-	9.00			
Fiscal year ending March 31, 2023 (Forecast)			-	11.0	20.00

Note: Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	650,000	15.4	21,000	123.9	18,500	109.2	15,000	100.1	208.77

Note: Revision to the earnings forecast announced most recently: Yes

* Notes:

(1) Changes in significant subsidiaries during the fiscal year

(Changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: No

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

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued and outstanding shares (common shares)

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

Six months ended September 30, 2022 73,244,408 shares

Fiscal year ended March 31, 2022 73,244,408 shares

2) Total number of treasury shares at the end of the period:

Six months ended September 30, 2022 1,388,226 shares

Fiscal year ended March 31, 2022 1,410,953 shares

3) Average number of shares during the period:

Six months ended September 30, 2022 71,844,209 shares

Six months ended September 30, 2021 71,815,405 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

(Cautionary notes regarding forward-looking statements)

The results forecast and other forward-looking statements contained in this document are based on the information currently available to the Company and certain assumptions deemed to be reasonable, and are not intended as a

guarantee that the Company will achieve them. Actual results may differ significantly due to various factors. For assumptions for the results forecast and points to consider in utilizing them, please see “(3) Explanation of consolidated financial results forecast and other forward-looking information” in “1. Qualitative Information Regarding Settlement of Accounts for the Six Months Ended September 30, 2022” of the attachments.

(How to obtain supplementary explanatory materials on quarterly financial results)

The Company will hold a briefing meeting for institutional investors and analysts on Wednesday, December 7, 2022. Financial results materials to be distributed at the briefing meeting will be posted on our official website swiftly after it.

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1. Qualitative Information Regarding Settlement of Accounts for the Six Months Ended September 30, 2022

(1) Explanation on Operating Results

(a) Status of Operating Results

During the six months ended September 30, 2022, the world economy suffered globally high inflation caused by workforce shortages and logistical stagnation stemming from COVID-19 and by rising energy prices prompted by Russia's invasion of Ukraine with the result that European and U.S. central banks shifted to monetary tightening.

China was faced with a growing risk of economic deterioration as evidenced by a stagnating economy and sluggish private-sector enterprises, affected by its zero-COVID policy.

Meanwhile, the Japanese economy as a whole was buoyant as consumer spending showed signs of recovery, helped by progress in COVID-19 vaccinations, and capital expenditures and public works turned to positive growth.

As a result, net sales for the six months ended September 30, 2022 were 320,699 million yen (up 19.2% year-on-year). Operating profit was 12,299 million yen (up 221.8% year-on-year), ordinary profit came to 11,067 million yen (up 163.1% year-on-year), and profit attributable to owners of parent was 9,186 million yen (up 163.6% year-on-year).

(b) Overview by Segment

Results for the six months ended September 30, 2022 by business are as follows.

<Wholesale pulp and paper, domestic locations>

During the six months ended September 30, 2022, the paper segment saw sales volume decline year-on-year as demand for graphic paper rebounded only to a limited extent despite a calming down of COVID-19 infections. Due to sales price revisions and rising export prices amid the depreciation of the yen, net sales grew year-on-year.

On the other hand, the paperboard segment saw sales volume decline year-on-year despite persistently strong sales of corrugated cardboard base paper for the e-commerce-driven home delivery business and beverage packaging materials. Sales of packaging paperboard grew year-on-year due to some signs of demand recovery, coupled with sales price revisions.

The paper production material segment saw both sales volume and net sales grow year-on-year as prices rose due to strong demand while waste paper production declined. Although demand from domestic household paper manufacturers fell, the pulp segment greatly exceeded the previous year in net sales, helped by stronger exports and an increase in sales unit prices.

As a result, net sales were 133,675 million yen (up 7.9% year-on-year), and operating profit was 3,611 million yen (up 47.6% year-on-year) for the six months ended September 30, 2022.

<Wholesale pulp and paper, overseas locations>

Europe

The Europe business continued to perform strongly due to a revival of various events amid the atmosphere of living with COVID-19 and tight demand-supply, although the end of Russia's invasion of Ukraine was nowhere in sight. As for the paper business, in particular, net sales greatly grew year-on-year as market prices rose in response to a number of upward price revisions. The packaging business continued to perform well, supported by strong demand. The performance of the visual communication business climbed thanks to rising demand for outdoor advertisements and vehicle graphics.

Oceania

Net sales of the Australia business grew year-on-year, helped by a set of acquisitions of local companies, while the market conditions of segments turned strong.

The New Zealand business fared well as its performance was generally shored up from low levels despite sales opportunity losses owing to supply shortages.

Southeast Asia

The Southeast Asia business saw sales prices decline due to price competition amid sluggish market performance in Singapore, Malaysia, and Thailand in the main. Meanwhile, net sales declined year-on-year although operating profit improved due to realignment and consolidation of group companies.

China

Demand for paper and board paper was lackluster, causing both sales volume and net sales to decline year-on-year, which was attributable to repeated city lockdowns while real demand was sluggish from the start of the year.

As a result, the overseas business recorded net sales of 186,431 million yen (up 28.9% year-on-year) and operating profit of 10,287 million yen (up 273.8% year-on-year) for the six months ended September 30, 2022. Overseas sales accounted for 58.1% of consolidated net sales.

<Real estate leasing>

In the office building market in major cities across Japan, the average vacancy rate, which had been on an upward trend since the surge in COVID-19 infections, lacked strength, making the outlook uncertain despite a moderate improvement in companies' intention to expand their office space. Rents were generally weak due to rent adjustments intended to secure tenants, among other factors.

Sales and profits declined year-on-year as rent revenue fell due to vacancy periods caused by the redevelopment of rental parking lots and tenant replacement for the KPP Yaesu Building. This was despite increased sales by some leased building spaces of the Group owing to a management system revamp.

As a result, net sales were 592 million yen (down 4.8% year-on-year) and operating profit was 58 million yen (down 32.6% year-on-year) for the six months ended September 30, 2022.

(2) Explanation on Financial Position

Total assets at the end of the second quarter ended September 30, 2022 were 320,706 million yen, up 29,999 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade receivables and inventory assets.

Liabilities were 253,021 million yen, up 18,689 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade payables and short-term borrowings.

Net assets came to 67,684 million yen, up 11,310 million yen from the end of the previous fiscal year. This was due mainly to recording of profit attributable to owners of parent. As a result of the above, the equity ratio was 21.1%, up 1.7 points from the end of the previous fiscal year.

(3) Explanation of consolidated financial results forecast and other forward-looking information

Considering our recent business performance, we have revised the consolidated financial forecasts for the fiscal year ending March 2023 released on May 13, 2022. For details, see the Notice on Revision to the Consolidated Financial Forecasts and Dividend Forecast for the Fiscal Year Ending March 2023 released today (November 14, 2022).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

	(Million yen)	
	Previous Fiscal Year (March 31, 2022)	Second Quarter of Current Fiscal Year (September 30, 2022)
Assets		
Current assets		
Cash and deposits	22,634	20,375
Notes and accounts receivable - trade	111,168	117,150
Electronically recorded monetary claims - operating	15,797	15,951
Merchandise and finished goods	51,270	71,861
Other	14,830	13,691
Allowance for doubtful accounts	(5,177)	(5,797)
Total current assets	210,523	233,231
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,333	6,541
Land	9,268	9,231
Other, net	18,593	20,818
Total property, plant and equipment	34,196	36,591
Intangible assets		
Goodwill	4,508	7,939
Other	4,739	5,390
Total intangible assets	9,248	13,329
Investments and other assets		
Investment securities	17,028	16,930
Retirement benefit asset	16,518	16,632
Other	13,331	15,832
Allowance for doubtful accounts	(10,139)	(11,841)
Total investments and other assets	36,738	37,553
Total non-current assets	80,183	87,474
Total assets	290,707	320,706

(Million yen)

	Previous Fiscal Year (March 31, 2022)	Second Quarter of Current Fiscal Year (September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	90,743	99,813
Electronically recorded obligations - operating	3,760	3,887
Short-term borrowings	26,615	50,300
Commercial papers	11,000	-
Income taxes payable	1,264	3,343
Provisions	4,359	4,442
Other	32,421	37,600
Total current liabilities	170,164	199,387
Non-current liabilities		
Long-term borrowings	42,622	30,120
Retirement benefit liability	4,616	4,180
Provisions	569	623
Other	16,359	18,710
Total non-current liabilities	64,167	53,634
Total liabilities	234,332	253,021
Net assets		
Shareholders' equity		
Capital stock	4,723	4,723
Capital surplus	7,292	7,292
Retained earnings	38,225	46,752
Treasury shares	(535)	(527)
Total shareholders' equity	49,705	58,241
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,480	3,281
Deferred gains or losses on hedges	(112)	(113)
Foreign currency translation adjustment	(782)	3,390
Remeasurements of defined benefit plans	4,000	2,810
Total accumulated other comprehensive income	6,586	9,368
Non-controlling interests	82	73
Total net assets	56,374	67,684
Total liabilities and net assets	290,707	320,706

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30, 2022

	(Million yen)	
	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2021 to September 30, 2021)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2022 to September 30, 2022)
Net sales	269,133	320,699
Cost of sales	225,188	260,670
Gross profit	43,944	60,029
Selling, general and administrative expenses	40,122	47,729
Operating profit	3,822	12,299
Non-operating income		
Interest income	66	18
Dividend income	221	258
Share of profit of entities accounted for using equity method	72	30
Foreign exchange gains	362	-
Reversal of allowance for doubtful accounts	737	65
Other	322	382
Total non-operating income	1,782	754
Non-operating expenses		
Interest expenses	876	915
Loss on sales of trade receivables	8	318
Foreign exchange losses	-	381
Other	514	371
Total non-operating expenses	1,399	1,987
Ordinary profit	4,205	11,067
Extraordinary income		
Gain on sales of non-current assets	29	624
Gain on sales of investment securities	125	-
Gain on reversal of impairment loss	187	-
Penalty income	164	-
Other	13	-
Total extraordinary income	521	624
Extraordinary losses		
Business restructuring expenses	326	-
Loss on retirement of non-current assets	39	24
Loss on sales of non-current assets	0	0
Loss on valuation of investment securities	-	7
Loss on sales of investment securities	2	-
Other	-	12
Total extraordinary losses	368	44
Profit before income taxes	4,358	11,647
Income taxes—current	942	2,635
Income taxes—deferred	(76)	(174)
Total income taxes	865	2,461
Profit	3,493	9,185
Profit (loss) attributable to non-controlling interests	7	(0)
Profit attributable to owners of parent	3,485	9,186

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended September 30, 2022

	(Million yen)	
	Cumulative Second Quarter of the Previous Fiscal Year (From April 1, 2021 to September 30, 2021)	Cumulative Second Quarter of the Current Fiscal Year (From April 1, 2022 to September 30, 2022)
Profit	3,493	9,185
Other comprehensive income		
Valuation difference on available-for-sale securities	(373)	(199)
Deferred gains or losses on hedges	6	(0)
Foreign currency translation adjustment	859	4,073
Remeasurements of defined benefit plans, net of tax	2,725	(1,190)
Share of other comprehensive income of entities accounted for using equity method	17	99
Total other comprehensive income	3,234	2,782
Comprehensive income	6,727	11,968
Comprehensive income attributable to		
Owners of parent	6,719	11,969
Non-controlling interests	7	(0)

(3) Notes to 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]

I Six months ended September 30, 2021 (from April 1 to September 30, 2021)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Wholesale pulp and paper, domestic locations	Wholesale pulp and paper, overseas locations	Real estate leasing	Total		
Net sales						
Net sales to external customers	123,863	144,647	622	269,133	-	269,133
Intersegment net sales or transfers	2,959	136	13	3,109	(3,109)	-
Total	126,822	144,784	635	272,243	(3,109)	269,133
Segment income	2,447	2,752	86	5,286	(1,463)	3,822

(Notes) 1. The adjustment to segment profit of (1,463) million yen consists of intersegment eliminations of (9) million yen and corporate expenses of (1,454) million yen. Corporate expenses are mainly general and administrative expenses at administrative divisions of the head office that are not attributable to any reportable segment.

2. Segment profit is adjusted with operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

II Six months ended September 30, 2022 (from April 1 to September 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Adjustment (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	Wholesale pulp and paper, domestic locations	Wholesale pulp and paper, overseas locations	Real estate leasing	Total		
Net sales						
Net sales to external customers	133,675	186,431	592	320,699	-	320,699
Intersegment net sales or transfers	3,860	293	13	4,168	(4,168)	-
Total	137,535	186,725	606	324,867	(4,168)	320,699
Segment income	3,611	10,287	58	13,957	(1,658)	12,299

(Notes) 1. The adjustment to segment profit of (1,658) million yen consists of intersegment eliminations of (13) million yen and corporate expenses of (1,644) million yen. Corporate expenses are mainly general and administrative expenses at administrative divisions of the head office that are not attributable to any reportable segment.

2. Segment profit is adjusted with operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment (Significant Changes to Goodwill)

In the wholesale pulp and paper, overseas locations segment, on April 29, 2022, ANTALIS GmbH, an operating company of Antalis S.A.S., a consolidated subsidiary of the Company, acquired all shares of BB Pack GmbH, Cr8packaging GmbH (a subsidiary of BB Pack), and Printmate GmbH (these three companies are collectively referred to as the “BB Pack Group”), and accordingly, the three companies were included in the scope of consolidation of the Company. Goodwill recorded due to the event was 2,588 million yen for the six months ended September 30, 2022. As the allocation of acquisition cost was not completed, the amount above was a provisionally calculated one.