

Financial Results for the Three Months Ended June 30, 2023
[JGAAP]
(Consolidated)



August 10, 2023

Company name: KPP GROUP HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9274

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

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Scheduled date of filing quarterly securities report: August 10, 2023

Scheduled date of commencing dividend payments: -

Availability of supplementary explanatory materials on quarterly financial results: No

Schedule of quarterly financial results briefing session: No

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

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(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	%
Three months ended June 30, 2023	160,710	3.8	3,922	(26.5)	3,310	(31.3)	2,660	(30.9)
Three months ended June 30, 2022	154,845	19.4	5,339	244.1	4,818	168.1	3,848	172.5

(Note) Comprehensive income: Three months ended June 30, 2023: 4,309 million yen (-29.9%)
Three months ended June 30, 2022: 6,151 million yen (231.1%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2023	37.10	—
Three months ended June 30, 2022	53.57	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Three months ended June 30, 2023	332,180	71,330	21.4
Fiscal year ended March 31, 2023	330,662	67,808	20.5

(Reference) Equity: Three months ended June 30, 2023: 71,247 million yen
Fiscal year ended March 31, 2023: 67,730 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, 2023	—	9.00	—	11.00	20.00
Fiscal year ending March 31, 2024	—				
Fiscal year ending March 31, 2024 (Forecast)		11.00	—	11.00	22.00

(Note) Revision to the forecast for dividends announced most recently: No

(Note) Breakdown of interim dividend for the fiscal year ended March 31, 2023: Ordinary dividend: 7.00 yen;
Commemorative dividend: 2.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(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	(1.5)	17,000	(16.7)	13,500	(26.6)	10,500	(33.2)	146.32

(Note) Revision to the earnings forecast announced most recently: No

*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):

Three months ended June 30, 2023 73,244,408 shares

Fiscal year ended March 31, 2023 73,244,408 shares

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

Three months ended June 30, 2023 1,516,554 shares

Fiscal year ended March 31, 2023 1,552,732 shares

3) Average number of shares during the period:

Three months ended June 30, 2023 71,700,721 shares

Three months ended June 30, 2022 71,835,184 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 Three Months Ended June 30, 2023” of the attachments.

○ Table of Contents of Attachments

1.	Qualitative Information Regarding Settlement of Accounts for the Three Months Ended June 30, 2023	2
	(1) Explanation on Operating Results	2
	(2) Explanation of Financial Position.....	3
	(3) Explanation of consolidated financial results forecast and other forward-looking information.....	3
2.	Quarterly Consolidated Financial Statements and Key Notes	4
	(1) Quarterly Consolidated Balance Sheets.....	4
	(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	6
	(3) Notes to Consolidated Financial Statements	8
	(Notes on Going Concern Assumption).....	8
	(Notes on Significant Changes in the Amount of Shareholders' Equity).....	8
	(Segment Information, Etc.)	8

1. Qualitative Information Regarding Settlement of Accounts for the Three Months Ended June 30, 2023

(1) Explanation on Operating Results

(a) Status of Operating Results

Net sales for the three months ended June 30, 2023 were 160,710 million yen (up 3.8% year-on-year). Operating profit was 3,922 million yen (down 26.5% year-on-year), ordinary profit came to 3,310 million yen (down 31.3% year-on-year), and profit attributable to owners of parent was 2,660 million yen (down 30.9% year-on-year).

Results for the three months ended June 30, 2023 by segment are as follows.

From the third quarter of the previous fiscal year, the category of reportable segments was changed. The year-on-year comparison and analysis is made based on the category after such change.

(b) Overview by Segment

Results for the three months ended June 30, 2023 by business are as follows.

<Northeast Asia>

In Japan, net sales grew owing to the price revision in the paper field, but sales volume fell short of the previous year due to a structural decrease in graphic paper. In the paperboard segment, the beverage paperboard segment was sluggish due to the unseasonable weather in the first half of the period, but turned toward a recovery due to the summer heat in the latter half of the period. In addition, the paperboard segment saw sales volume decline year-on-year as flows of people recovered after COVID-19 and demand for at-home consumption, including consumption via e-commerce, shrank. As for packaging paperboard, sales volume fell year-on-year due to limited recovery of inbound demand, but sales of high-end paperboard such as trading cards remained strong.

The paper production material segment saw sales volume remained unchanged due to focusing on in-house collection despite a decline in waste paper generation in Japan, but net sales declined year-on-year due to a decrease in market prices. As for commercial pulp, a decrease in demand from household paper manufacturers was offset by exports to China. As a result, sales volume remained unchanged year-on-year but net sales exceeded the previous year.

In China, actual demand for paper and paperboard at home and abroad was sluggish, but there were certain products with excessive supply due to an enhancement of production facilities. Moreover, due to a prolonged market slump, both sales volume and net sales fell year-on-year.

As a result, net sales of the Northeast Asia business were 76,242 million yen (up 3.5% year-on-year), and operating profit was 1,317 million yen (down 1.6% year-on-year) for the three months ended June 30, 2023.

<Europe/South America>

As for Europe, demand was sluggish due to the recession and excessive inventories in the whole market. In addition, due to a decline in prices of some products, the paper business performed weakly. Demand at the packaging business was also sluggish amid the recession. Yet, net sales exceeded the previous year, helped by the steady demand for fiber-base packaging material. The visual communication business performed steadily, thanks to strong demand for car wrapping-related and digital printing-related products.

The South America business performed as planned, although paper prices continued declining due to entries of low-priced products.

As a result, net sales of the Europe business and the South America business were 72,088 million yen (up 3.1% year-on-year), and operating profit was 2,488 million yen (down 34.2% year-on-year) for the three months ended June 30, 2023.

<Asia Pacific>

As for Oceania, the performance of the commercial printing business improved as sales prices of paper, which rose from the end of the previous year, remained at high levels this year. In addition, net sales

increased owing to the effect of M&As executed in the past and sales expansion of office paper sales, but profit decreased due mainly to the one-time amortization of goodwill arising from an M&A transaction executed during the first quarter of the current fiscal year.

As for the ASEAN area, the paper business performed sluggishly amid intensifying price competition with China, along with slowed demand due to economic stagnation. On the other hand, M&A in the visual communication business in Singapore contributed to the performance.

As a result, net sales of the Asia Pacific business were 11,999 million yen (up 9.4% year-on-year), and operating profit came to 198 million yen (down 64.3% year-on-year) for the three months ended June 30, 2023.

<Real Estate Leasing>

Net sales and profit increased year-on-year boosted by the KPP Akashicho Building completed in February 2023, despite a vacancy period arising from occupant replacement for the KPP Yaesu Building.

As a result, net sales of the Real Estate Leasing business were 380 million yen (up 23.9% year-on-year), and operating profit amounted to 150 million yen (up 201.0% year-on-year) for the three months ended June 30, 2023.

(2) Explanation of Financial Position

Total assets at the end of the first quarter ended June 30, 2023 were 332,180 million yen, up 1,518 million yen from the end of the previous fiscal year. This was due mainly to an increase in trade receivables. Liabilities were 260,850 million yen, down 2,002 million yen from the end of the previous fiscal year. This was due mainly to a decrease in short-term borrowings.

Net assets came to 71,330 million yen, up 3,521 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 21.4%, up 0.9 points from the end of the previous fiscal year.

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

The consolidated financial forecasts for the fiscal year ending March 2024 are unchanged from those announced on May 15, 2023.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous Fiscal Year (March 31, 2023)	First Quarter of Current Fiscal Year (June 30, 2023)
Assets		
Current assets		
Cash and deposits	30,731	25,210
Notes and accounts receivable - trade	113,384	116,705
Electronically recorded monetary claims - operating	19,489	21,337
Merchandise and finished goods	72,237	70,195
Other	14,655	15,273
Allowance for doubtful accounts	(6,901)	(7,064)
Total current assets	243,596	241,657
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,163	8,389
Land	9,189	9,211
Other, net	19,711	20,036
Total property, plant and equipment	37,063	37,636
Intangible assets		
Goodwill	5,330	5,209
Customer-related assets	2,277	2,548
Other	6,288	6,834
Total intangible assets	13,896	14,592
Investments and other assets		
Investment securities	17,971	19,397
Retirement benefit asset	9,554	10,740
Other	18,989	18,592
Allowance for doubtful accounts	(10,411)	(10,435)
Total investments and other assets	36,104	38,294
Total non-current assets	87,065	90,523
Total assets	330,662	332,180

(Million yen)

	Previous Fiscal Year (March 31, 2023)	First Quarter of Current Fiscal Year (June 30, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	93,570	95,562
Electronically recorded obligations - operating	3,848	3,680
Short-term borrowings	52,884	42,327
Commercial papers	10,000	10,000
Income taxes payable	4,034	2,986
Provisions	5,970	5,475
Other	37,639	39,897
Total current liabilities	207,947	199,929
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	21,425	27,772
Retirement benefit liability	2,111	1,933
Provisions	706	753
Other	20,662	20,461
Total non-current liabilities	54,905	60,920
Total liabilities	262,853	260,850
Net assets		
Shareholders' equity		
Capital stock	4,723	4,723
Capital surplus	7,292	7,292
Retained earnings	52,629	54,483
Treasury shares	(788)	(769)
Total shareholders' equity	63,857	65,730
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,056	4,988
Deferred gains or losses on hedges	33	(252)
Foreign currency translation adjustment	1,405	1,888
Remeasurements of defined benefit plans	(1,623)	(1,107)
Total accumulated other comprehensive income	3,872	5,517
Non-controlling interests	77	82
Total net assets	67,808	71,330
Total liabilities and net assets	330,662	332,180

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30, 2023

(Million yen)

	Cumulative First Quarter of the Previous Fiscal Year (From April 1, 2022 to June 30, 2022)	Cumulative First Quarter of the Current Fiscal Year (From April 1, 2023 to June 30, 2023)
Net sales	154,845	160,710
Cost of sales	126,727	131,576
Gross profit	28,118	29,134
Selling, general and administrative expenses	22,779	25,211
Operating profit	5,339	3,922
Non-operating income		
Interest income	2	9
Dividend income	211	205
Share of profit of entities accounted for using equity method	19	7
Foreign exchange gains	—	413
Reversal of allowance for doubtful accounts	15	1
Other	95	118
Total non-operating income	344	756
Non-operating expenses		
Interest expenses	413	477
Loss on sales of trade receivables	133	289
Foreign exchange losses	37	—
Loss on valuation of derivatives	139	390
Other	140	212
Total non-operating expenses	864	1,368
Ordinary profit	4,818	3,310
Extraordinary income		
Gain on sales of non-current assets	4	4
Gain on sales of investment securities	—	24
Other	—	0
Total extraordinary income	4	29
Extraordinary losses		
Loss on retirement of non-current assets	1	3
Loss on sales of non-current assets	0	0
Impairment loss	0	—
Other	0	0
Total extraordinary losses	2	3
Profit before income taxes	4,820	3,336
Income taxes—current	863	788
Income taxes—deferred	108	(117)
Total income taxes	971	671
Profit	3,849	2,664
Profit attributable to non-controlling interests	1	4
Profit attributable to owners of parent	3,848	2,660

Quarterly Consolidated Statements of Comprehensive Income
Three Months Ended June 30, 2023

(Million yen)

	Cumulative First Quarter of the Previous Fiscal Year (From April 1, 2022 to June 30, 2022)	Cumulative First Quarter of the Current Fiscal Year (From April 1, 2023 to June 30, 2023)
Profit	3,849	2,664
Other comprehensive income		
Valuation difference on available-for-sale securities	(39)	931
Deferred gains or losses on hedges	(64)	(285)
Foreign currency translation adjustment	2,224	464
Remeasurements of defined benefit plans, net of tax	130	515
Share of other comprehensive income of entities accounted for using equity method	51	17
Total other comprehensive income	2,301	1,644
Comprehensive income	6,151	4,309
Comprehensive income attributable to		
Owners of parent	6,149	4,304
Non-controlling interests	1	4

(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 Three months ended June 30, 2022 (from April 1, 2022 to June 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)
	Northeast Asia	Europe/South America	Asia Pacific	Real Estate Leasing	Total		
Net sales							
Net sales to external customers	73,645	69,919	10,971	307	154,845	—	154,845
Intersegment net sales or transfers	515	20	2	6	545	(545)	—
Total	74,162	69,940	10,974	313	155,391	(545)	154,845
Segment profit	1,338	3,783	556	49	5,728	(388)	5,339

(Notes) 1. The adjustment to segment profit of (388) million yen consists of intersegment eliminations of (7) million yen and corporate expenses of (381) 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 Three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

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)
	Northeast Asia	Europe/South America	Asia Pacific	Real Estate Leasing	Total		
Net sales							
Net sales to external customers	76,242	72,088	11,999	380	160,710	—	160,710
Intersegment net sales or transfers	372	—	4	111	488	(488)	—
Total	76,614	72,088	12,003	492	161,199	(488)	160,710
Segment profit	1,317	2,488	198	150	4,155	(232)	3,922

(Notes) 1. The adjustment to segment profit of (232) million yen consists of intersegment eliminations of 188 million yen and corporate expenses of (420) 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.

3. Matters regarding changes, etc. in reportable segments
(Change in segment)

On October 1, 2022, the Company transitioned to a holding company structure to strengthen global governance in line with the expansion of its business scale, reform its portfolio, expand new businesses, and promote sustainability management.

The organization was restructured as a result of the transition, through which managerial decision-making, performance evaluation, and others are conducted under a structure with three affiliated core operating companies, namely Kokusai Pulp & Paper, Antalis, and Spicers, each operating business in the Northeast Asia, Europe/South America, and Asia Pacific regions respectively.

Against this backdrop, to provide an appropriate explanation of the Company's businesses to shareholders and stakeholders, and from a perspective of management approach, reportable segments have been changed by area to "Northeast Asia," "Europe/South America," and "Asia Pacific" from the previous "wholesale pulp and paper, domestic locations" and "wholesale pulp and paper, overseas locations" from the third quarter of the previous fiscal year.

Details of business and major countries or regions of each reportable segment are as follows:

- Northeast Asia

Paper, paperboard, pulp, waste paper, and other paper-related materials are sold in Japan, China, Taiwan, Hong Kong, South Korea, and other countries.

- Europe/South America

Paper, paperboard, and other paper-related materials are sold in France, the United Kingdom, Germany, Switzerland, Chile, and other countries.

- Asia Pacific

Paper, paperboard, pulp, waste paper, and other paper-related materials are sold in Australia, New Zealand, Singapore, and other countries.

- Real Estate Leasing

Real estate is leased in Japan.

Segment information for the three months ended June 30, 2022 is presented under the segment category after such change.