

Financial Results for the Nine Months Ended December 31, 2022 [JGAAP]



(Consolidated)

February 14, 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: February 14, 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 Nine Months Ended December 31, 2022 (April 1, 2022 to December 31, 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	%
Nine months ended December 31, 2022	493,068	20.2	17,394	190.1	16,248	154.7	13,196	143.7
Nine months ended December 31, 2021	410,343	-	5,995	-	6,379	-	5,415	-

(Note) Comprehensive income: Nine months ended December 31, 2022: 15,022 million yen (73.0%)

Nine months ended December 31, 2021: 8,682 million yen (-%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2022	183.84	-
Nine months ended December 31, 2021	75.40	-

(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 nine months ended December 31, 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	%
Nine months ended December 31, 2022	343,336	69,753	20.3
Fiscal year ended March 31, 2022	290,707	56,374	19.4

(Reference) Equity: Nine months ended December 31, 2022: 69,676 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: No

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

Nine months ended December 31, 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:

Nine months ended December 31, 2022 1,681,732 shares

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

3) Average number of shares during the period:

Nine months ended December 31, 2022 71,783,517 shares

Nine months ended December 31, 2021 71,820,820 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 Nine Months Ended December 31, 2022” of the attachments.

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1. Qualitative Information Regarding Settlement of Accounts for the Nine Months Ended December 31, 2022

(1) Explanation on Operating Results

(a) Status of Operating Results

During the nine months ended December 31, 2022, the world economy saw concerns over an economic downturn from the continuous globally high inflation caused by rising energy prices prompted by Russia's invasion of Ukraine and monetary tightening policies by European and U.S. central banks.

Meanwhile, a full-scale economic resumption is expected with an easing of China's three years of zero-COVID policy.

Due to the mixture of strengths and weaknesses, an uncertain economic situation is currently expected to continue.

The Japanese economy continued to recover from the impact of COVID-19, mainly in areas of accommodation and food services, in which inbound tourism demand can also be expected. Initiatives are also taken to revise prices in supply chains as a whole, which is expected to create a foothold to overcome deflation.

As a result, net sales for the nine months ended December 31, 2022 were 493,068 million yen (up 20.2% year-on-year). In terms of operating profit or loss, gross profit increased year-on-year due to the recovery from the previous year, in which both domestic and overseas locations were significantly affected by the COVID-19 crisis. Operating profit was 17,394 million yen (up 190.1% year-on-year), ordinary profit came to 16,248 million yen (up 154.7% year-on-year), and profit attributable to owners of parent was 13,196 million yen (up 143.7% year-on-year).

On October 1, 2022, the Company transitioned to a holding company structure and had its wholly owned subsidiary, Kokusai Pulp & Paper Split Preparation Company, succeed the pulp and paper wholesaling business. On the same date, the Company also changed its trade name from Kokusai Pulp & Paper Co., Ltd. to KPP Group Holdings Co., Ltd., and Kokusai Pulp & Paper Split Preparation Company changed its trade name to Kokusai Pulp & Paper Co., Ltd.

In addition, the category of reportable segments was changed with the organizational restructuring which followed the transition to the holding company structure. The following year-on-year comparison is made with figures for the same period of the previous fiscal year after regrouping into the reportable segments after such change.

(b) Overview by Segment

Results for the nine months ended December 31, 2022 by business are as follows.

<Northeast Asia>

Japan

The paper segment saw a moderate recovery trend in the market. Yet, sales volume further declined year-on-year for graphic paper, and the pre-COVID-19 level is still yet to be met. Net sales, however, increased year-on-year due to sales price revisions.

The paperboard segment also saw sales volume decline year-on-year for corrugated cardboard base paper due to decreased exports and a decrease in consumption from a rise in prices, despite persistently strong sales for the e-commerce-driven home delivery business and beverage packaging materials. As for packaging paperboard, both sales volume and net sales grew year-on-year due to the recovery in tourism demand.

The paper production material segment saw both sales volume and net sales significantly grow year-on-year while waste paper generation declined. As for commercial pulp, demand from domestic household paper manufacturers fell, and sales volume decreased year-on-year. Yet, net sales greatly exceeded the previous year, helped by increased sales unit prices.

China

While actual demand was sluggish from the start of the year, demand for paper and paperboard was lackluster, causing both sales volume and net sales to decline year-on-year. This was due to the impact of China's repeated city lockdowns and the tightening of regulations on private companies under its zero-COVID policy.

As a result, net sales were 228,775 million yen (up 7.4% year-on-year), and operating profit was 2,648 million yen (down 1.6% year-on-year) for the nine months ended December 31, 2022.

<Europe/South America>

Despite the impact of the slowing down of GDP growth and the high inflation rate seen in the third quarter, performance in the Europe business improved significantly year-on-year thanks to the revival of various events and tight supply and demand balance through coexistence with COVID-19. The paper business is seeing a decreasing trend in demand due to repeated price revisions. The packaging business was still supported by strong demand and continued to perform well. As for the visual communication business, the demand for outdoor advertisements and vehicle graphics continues to be strong.

As a result, net sales were 227,030 million yen (up 34.5% year-on-year) and operating profit was 14,309 million yen (up 305.2% year-on-year) for the nine months ended December 31, 2022, accounting for a large percentage of the Group's performance.

<Asia Pacific>

Oceania

Net sales of the Australia business continued to be strong as a result of the acquisition of a local company and improvement in market conditions in the commercial print sector. The New Zealand business managed to raise its performance as a whole despite sales opportunity losses owing to supply shortages.

Southeast Asia

Net sales of the Southeast Asia business increased year-on-year mainly due to the contribution made by the visual communications business to the performance through Singapore investment deals. As for other existing businesses, while the respective regions all continue to face severe price competition, improvement is seen at the operating profit stage due to the business restructuring and integration.

As a result, net sales were 36,388 million yen (up 31.8% year-on-year), and operating profit was 1,697 million yen (up 157.9% year-on-year) for the nine months ended December 31, 2022.

<Real Estate Leasing>

Net sales decreased year-on-year as rent revenue fell mainly due to vacancy periods arising from the redevelopment of rental parking lots and tenant replacement for the KPP Yaesu Building. This was despite seeing increased sales at some leased building spaces of the Group owing to a management system revamp. As a result, net sales were 875 million yen (down 5.5% year-on-year), and operating profit was 162 million yen (up 18.7% year-on-year) for the nine months ended December 31, 2022.

(2) Explanation on Financial Position

Total assets at the end of the third quarter ended December 31, 2022 were 343,336 million yen, up 52,629 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 273,582 million yen, up 39,250 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 69,753 million yen, up 13,378 million yen from the end of the previous fiscal year. This was due mainly to the recording of profit attributable to owners of parent. As a result of the above, the equity ratio was 20.3%, 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 results forecasts for the fiscal year ending March 31, 2023 have remained the same as the forecast released on November 14, 2022.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	Previous Fiscal Year (March 31, 2022)	Third Quarter of Current Fiscal Year (December 31, 2022)
Assets		
Current assets		
Cash and deposits	22,634	19,147
Notes and accounts receivable - trade	111,168	126,439
Electronically recorded monetary claims - operating	15,797	25,377
Merchandise and finished goods	51,270	76,672
Other	14,830	14,318
Allowance for doubtful accounts	(5,177)	(7,387)
Total current assets	210,523	254,569
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,333	6,367
Land	9,268	9,218
Other, net	18,593	19,776
Total property, plant and equipment	34,196	35,363
Intangible assets		
Goodwill	4,508	7,698
Other	4,739	5,487
Total intangible assets	9,248	13,186
Investments and other assets		
Investment securities	17,028	16,926
Retirement benefit asset	16,518	15,114
Other	13,331	19,369
Allowance for doubtful accounts	(10,139)	(11,193)
Total investments and other assets	36,738	40,217
Total non-current assets	80,183	88,767
Total assets	290,707	343,336

(Million yen)

	Previous Fiscal Year (March 31, 2022)	Third Quarter of Current Fiscal Year (December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	90,743	107,819
Electronically recorded obligations - operating	3,760	5,301
Short-term borrowings	26,615	54,352
Commercial papers	11,000	13,000
Income taxes payable	1,264	3,223
Provisions	4,359	4,219
Other	32,421	37,425
Total current liabilities	170,164	225,340
Non-current liabilities		
Long-term borrowings	42,622	21,719
Retirement benefit liability	4,616	3,782
Provisions	569	732
Other	16,359	22,006
Total non-current liabilities	64,167	48,241
Total liabilities	234,332	273,582
Net assets		
Shareholders' equity		
Capital stock	4,723	4,723
Capital surplus	7,292	7,292
Retained earnings	38,225	50,103
Treasury shares	(535)	(853)
Total shareholders' equity	49,705	61,266
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,480	3,303
Deferred gains or losses on hedges	(112)	142
Foreign currency translation adjustment	(782)	3,394
Remeasurements of defined benefit plans	4,000	1,568
Total accumulated other comprehensive income	6,586	8,409
Non-controlling interests	82	77
Total net assets	56,374	69,753
Total liabilities and net assets	290,707	343,336

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31, 2022

	(Million yen)	
	Cumulative Third Quarter of the Previous Fiscal Year (From April 1, 2021 to December 31, 2021)	Cumulative Third Quarter of the Current Fiscal Year (From April 1, 2022 to December 31, 2022)
Net sales	410,343	493,068
Cost of sales	343,985	402,218
Gross profit	66,358	90,850
Selling, general and administrative expenses	60,362	73,455
Operating profit	5,995	17,394
Non-operating income		
Interest income	32	42
Dividend income	349	404
Share of profit of entities accounted for using equity method	111	47
Foreign exchange gains	593	-
Reversal of allowance for doubtful accounts	904	1,049
Other	375	489
Total non-operating income	2,367	2,033
Non-operating expenses		
Interest expenses	1,214	1,474
Loss on sales of trade receivables	11	528
Foreign exchange losses	-	707
Other	757	468
Total non-operating expenses	1,983	3,180
Ordinary profit	6,379	16,248
Extraordinary income		
Gain on sales of non-current assets	1,123	883
Gain on sales of investment securities	265	48
Gain on reversal of impairment loss	188	-
Penalty income	164	-
Other	13	-
Total extraordinary income	1,755	931
Extraordinary losses		
Business restructuring expenses	331	-
Loss on retirement of non-current assets	44	27
Loss on sales of non-current assets	0	0
Reversal of foreign currency translation adjustment	-	12
Loss on valuation of investment securities	556	7
Loss on sales of investment securities	2	-
Other	-	0
Total extraordinary losses	935	47
Profit before income taxes	7,199	17,132
Income taxes—current	1,600	3,317
Income taxes—deferred	169	615
Total income taxes	1,770	3,932
Profit	5,429	13,199
Profit attributable to non-controlling interests	14	2

(Million yen)

	Cumulative Third Quarter of the Previous Fiscal Year (From April 1, 2021 to December 31, 2021)	Cumulative Third Quarter of the Current Fiscal Year (From April 1, 2022 to December 31, 2022)
Profit attributable to owners of parent	5,415	13,196

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31, 2022

(Million yen)

	Cumulative Third Quarter of the Previous Fiscal Year (From April 1, 2021 to December 31, 2021)	Cumulative Third Quarter of the Current Fiscal Year (From April 1, 2022 to December 31, 2022)
Profit	5,429	13,199
Other comprehensive income		
Valuation difference on available-for-sale securities	(409)	(177)
Deferred gains or losses on hedges	21	255
Foreign currency translation adjustment	(54)	4,078
Remeasurements of defined benefit plans, net of tax	3,674	(2,432)
Share of other comprehensive income of entities accounted for using equity method	20	99
Total other comprehensive income	3,252	1,823
Comprehensive income	8,682	15,022
Comprehensive income attributable to		
Owners of parent	8,668	15,020
Non-controlling interests	14	2

(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 Nine months ended December 31, 2021 (from April 1 to December 31, 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)
	Northeast Asia	Europe/ South America	Asia Pacific	Real estate leasing	Total		
Net sales							
Net sales to external customers	212,964	168,849	27,604	926	410,343	-	410,343
Intersegment net sales or transfers	1,206	32	30	20	1,289	(1,289)	-
Total	214,170	168,881	27,634	947	411,633	(1,289)	410,343
Segment profit	2,691	3,531	658	136	7,018	(1,022)	5,995

(Notes) 1. The adjustment to segment profit of (1,022) million yen consists of intersegment eliminations of (12) million yen and corporate expenses of (1,010) 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 Nine months ended December 31, 2022 (from April 1 to December 31, 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	228,775	227,030	36,388	875	493,068	-	493,068
Intersegment net sales or transfers	1,367	53	13	123	1,557	(1,557)	-
Total	230,142	227,083	36,402	998	494,626	(1,557)	493,068
Segment profit	2,648	14,309	1,697	162	18,818	(1,423)	17,394

- (Notes) 1. The adjustment to segment profit of (1,423) million yen consists of intersegment eliminations of (30) million yen and corporate expenses of (1,392) 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 segments)

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 Northeast Asia, Europe/South America, and Asia Pacific regions.

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 fiscal year under review.

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 nine months ended December 31, 2021 is presented under the segment category after such change.