

Consolidated Financial Results for the Nine Months Ended December 31, 2022(unaudited) [Japanese GAAP]

Company name: **Rengo Co., Ltd.**
 Listing: Tokyo Stock Exchange
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 Scheduled date to file quarterly securities report: February 14, 2023
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results briefing: None

(Amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2022 (April 1, 2022–December 31, 2022)

(1) Consolidated Operating Results (cumulative)

(Percentages indicate changes from the same period of previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2022	645,294	15.5	23,616	(20.5)	26,017	(20.1)	17,463	(32.5)
December 31, 2021	558,854	9.7	29,712	(4.7)	32,559	(3.5)	25,865	11.9

Note: Comprehensive income

Nine months ended December 31, 2022: 41,691 million yen 29.6%

Nine months ended December 31, 2021: 32,175 million yen 9.6%

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	70.51	—
December 31, 2021	104.45	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
December 31, 2022	1,072,071	389,758	35.1
March 31, 2022	934,345	354,289	36.6

Reference: Shareholders' equity As of December 31, 2022: 376,569 million yen

As of March 31, 2022: 341,909 million yen

2. Cash Dividends

	Annual dividends per share				
	1st Quarter-end	2nd Quarter-end	3rd Quarter-end	Fiscal year-end	Total
Fiscal year ended	Yen	Yen	Yen	Yen	Yen
March 31, 2022	—	12.00	—	12.00	24.00
Fiscal year ending	—	12.00	—	—	—
March 31, 2023	—	—	—	—	—
Fiscal year ending	—	—	—	12.00	24.00
March 31, 2023 (Forecast)	—	—	—	—	—

Note: Revisions to the cash dividend forecast from the latest announcement: None

3. Consolidated Financial Forecasts for the Year Ending March 31, 2023 (April 1, 2022-March 31, 2023)

(Percentages indicate changes from the same period of previous fiscal year.)

	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 fiscal year	850,000	13.8	35,000	5.2	38,000	3.7	26,000	(7.8)	104.97

Note: Revisions to the consolidated financial forecasts from the latest announcement: None

4. Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in the change in scope of consolidation): None

New: – (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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022 271,056,029 Shares

As of March 31, 2022 271,056,029 Shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2022 23,365,203 Shares

As of March 31, 2022 23,428,544 Shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022 247,675,445 Shares

Nine months ended December 31, 2021 247,625,162 Shares

(Note)The Company has introduced a stock compensation plan using a Trust for Directors and executive officers, and its shares held by the Trust are included in the number of treasury shares.

* This report is not subject to quarterly review procedures by certified public accountants or audit corporations.

* Explanation for the appropriate use of financial forecasts and other notes:

Any statement in this document regarding the forecasts is based on the information currently available to the Company and certain assumptions the Company considers reasonable. The actual results may differ significantly from these forecasts due to various factors.

* This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2022, net sales increased to ¥645,294 million (115.5% year on year) due to an increase in the number of consolidated subsidiaries, in addition to the contribution of product price revisions. Profit, however, decreased due to the effects of the rise in raw material and fuel prices. Operating profit was ¥23,616 million (79.5% year on year), ordinary profit was ¥26,017 million (79.9% year on year), and profit attributable to owners of parent was ¥17,463 million (67.5% year on year).

An overview of each segment for the nine months ended December 31, 2022 is as follows.

[Paperboard and Packaging-Related Business]

In the Paperboard and Packaging-Related Business, sales increased due to product price revisions, but profit decreased because of the impact of rise in fuel and recovered paper prices.

As a result, net sales were ¥366,972 million (107.9% year on year) and operating profit was ¥12,945 million (61.0% year on year).

[Flexible Packaging-Related Business]

The Flexible Packaging-Related Business reported higher sales and profit due to product price revisions and an increase in the number of consolidated subsidiaries.

As a result, net sales were ¥86,998 million (123.0% year on year) and operating profit was ¥2,615 million (124.6% year on year).

[Heavy Duty Packaging-Related Business]

In the Heavy Duty Packaging-Related Business, sales increased due to product price revisions, but profit decreased because of the impact of rise in raw material prices.

As a result, net sales were ¥34,235 million (107.9% year on year) and operating profit was ¥915 million (68.2% year on year).

[Overseas Business]

The Overseas Business reported higher sales and profit supported by the increase in the number of consolidated subsidiaries and price revisions promoted in Europe.

As a result, net sales were ¥131,126 million (144.8% year on year) and operating profit was ¥6,050 million (167.8% year on year).

[Other Businesses]

Sales from other businesses increased due to price revisions in the nonwoven products business. Profit, however, decreased because of the rise in raw material and fuel prices.

As a result, net sales were ¥25,961 million (101.2% year on year) and operating profit was ¥958 million (64.6% year on year).

(2) Explanation of Financial Position

Total assets as of December 31, 2022 were ¥1,072,071 million, an increase of ¥137,726 million from the end of the previous fiscal year. The increase was mainly due to increases in notes and accounts receivable - trade; property, plant and equipment; and intangible assets.

Total liabilities amounted to ¥682,312 million, an increase of ¥102,256 million from the end of the previous fiscal year. The increase was mainly due to increases in long- and short-term borrowings and notes and accounts payable - trade.

Net assets were ¥389,758 million, an increase of ¥35,469 million from the end of the previous fiscal year. This was due to an increase in retained earnings as a result of reporting profit attributable to owners of parent and an increase in foreign currency translation adjustment as a result of exchange rate fluctuation.

As a result, the shareholders' equity ratio declined by 1.5 percentage points from the end of the previous fiscal year to 35.1%.

(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Information

In light of a number of uncertainties at the moment, the consolidated financial forecasts announced on May 13, 2022 have not been revised.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	60,308	69,598
Notes and accounts receivable - trade	214,656	264,691
Merchandise and finished goods	32,063	43,514
Work in process	5,117	5,965
Raw materials and supplies	29,056	39,061
Other	9,702	13,039
Allowance for doubtful accounts	(691)	(948)
Total current assets	350,213	434,921
Non-current assets		
Property, plant and equipment		
Buildings and structures	296,063	314,555
Accumulated depreciation	(180,695)	(191,121)
Buildings and structures, net	115,368	123,433
Machinery, equipment and vehicles	605,807	641,272
Accumulated depreciation	(489,908)	(517,556)
Machinery, equipment and vehicles, net	115,899	123,716
Land	125,462	131,092
Construction in progress	12,269	17,104
Other	42,344	61,667
Accumulated depreciation	(27,311)	(39,692)
Other, net	15,033	21,974
Total property, plant and equipment	384,032	417,320
Intangible assets		
Goodwill	18,806	35,944
Other	16,109	17,092
Total intangible assets	34,915	53,037
Investments and other assets		
Investment securities	139,366	136,764
Long-term loans receivable	575	573
Retirement benefit asset	3,168	2,844
Deferred tax assets	2,023	2,075
Other	21,162	25,610
Allowance for doubtful accounts	(1,114)	(1,077)
Total investments and other assets	165,183	166,791
Total non-current assets	584,131	637,149
Total assets	934,345	1,072,071

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	129,484	157,997
Short-term borrowings	114,096	135,321
Current portion of bonds payable	5,061	10,133
Accrued expenses	28,811	32,918
Income taxes payable	6,183	3,610
Provision for bonuses for directors (and other officers)	239	-
Other	26,925	38,073
Total current liabilities	310,802	378,053
Non-current liabilities		
Bonds payable	80,000	80,070
Long-term borrowings	143,641	170,243
Deferred tax liabilities	21,379	23,490
Provision for retirement benefits for directors (and other officers)	649	787
Provision for share awards for directors (and other officers)	409	552
Factory move cost reserve	-	296
Retirement benefit liability	13,070	13,798
Other	10,102	15,019
Total non-current liabilities	269,254	304,259
Total liabilities	580,056	682,312
Net assets		
Shareholders' equity		
Share capital	31,066	31,066
Capital surplus	33,358	33,552
Retained earnings	238,185	249,682
Treasury shares	(12,218)	(12,166)
Total shareholders' equity	290,392	302,135
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,739	32,094
Foreign currency translation adjustment	15,830	38,876
Remeasurements of defined benefit plans	3,946	3,463
Total accumulated other comprehensive income	51,516	74,434
Non-controlling interests	12,379	13,188
Total net assets	354,289	389,758
Total liabilities and net assets	934,345	1,072,071

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

(Millions of yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Net sales	558,854	645,294
Cost of sales	453,098	534,380
Gross profit	105,755	110,913
Selling, general and administrative expenses		
Freight and packing costs	19,098	22,053
Salaries and allowances	23,464	26,614
Amortization of goodwill	1,611	2,160
Other	31,868	36,469
Total selling, general and administrative expenses	76,042	87,296
Operating profit	29,712	23,616
Non-operating income		
Interest income	115	158
Dividend income	1,693	1,820
Share of profit of entities accounted for using equity method	1,944	1,221
Other	1,836	2,291
Total non-operating income	5,590	5,491
Non-operating expenses		
Interest expenses	1,179	1,406
Other	1,565	1,683
Total non-operating expenses	2,744	3,090
Ordinary profit	32,559	26,017
Extraordinary income		
Compensation income	-	3,325
Gain on sale of non-current assets	4,503	58
Other	2,044	1,041
Total extraordinary income	6,547	4,425
Extraordinary losses		
Loss on tax purpose reduction entry of non-current assets	12	2,002
Other	1,791	2,489
Total extraordinary losses	1,803	4,492
Profit before income taxes	37,302	25,950
Income taxes - current	8,843	7,588
Income taxes - deferred	1,707	177
Total income taxes	10,550	7,765
Profit	26,752	18,184
Profit attributable to non-controlling interests	887	721
Profit attributable to owners of parent	25,865	17,463

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended December 31

(Millions of yen)

	For the nine months ended December 31, 2021	For the nine months ended December 31, 2022
Profit	26,752	18,184
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,369)	301
Foreign currency translation adjustment	5,306	15,571
Remeasurements of defined benefit plans, net of tax	(318)	(476)
Share of other comprehensive income of entities accounted for using equity method	1,804	8,109
Total other comprehensive income	5,423	23,506
Comprehensive income	32,175	41,691
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	31,007	40,380
Comprehensive income attributable to non-controlling interests	1,167	1,310

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Segment information, etc.)

(Segment information)

For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Information on sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segment					Other Businesses *1	Adjustments *2	Total *3
	Paperboard and Packaging- Related Business	Flexible Packaging- Related Business	Heavy Duty Packaging- Related Business	Overseas Business	Subtotal			
Sales								
Sales to third parties	340,193	70,705	31,725	90,564	533,188	25,665	—	558,854
Intersegment sales and transfers	1,996	351	2,495	2,920	7,763	20,695	(28,458)	—
Total sales	342,189	71,056	34,220	93,484	540,951	46,361	(28,458)	558,854
Segment profit	21,220	2,098	1,341	3,606	28,266	1,482	(36)	29,712

*1 "Other Businesses" are businesses which are not included in reportable segments and include domestic manufacturing and sales of nonwoven products, paper packaging machinery and other businesses such as transport, insurance agency, leasing and real estate.

*2 The adjustment of segment profit of ¥(36) million was from the elimination of intersegment transactions.

*3 The segment profit was reconciled with operating profit in the quarterly consolidated statements of income.

For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

1. Information on sales and profit or loss by reportable segment

(Millions of yen)

	Reportable segment					Other Businesses *1	Adjustments *2	Total *3
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business	Heavy Duty Packaging-Related Business	Overseas Business	Subtotal			
Sales								
Sales to third parties	366,972	86,998	34,235	131,126	619,332	25,961	—	645,294
Intersegment sales and transfers	1,634	505	2,418	5,545	10,104	21,349	(31,453)	—
Total sales	368,607	87,503	36,653	136,671	629,436	47,310	(31,453)	645,294
Segment profit	12,945	2,615	915	6,050	22,526	958	131	23,616

*1 “Other Businesses” are businesses which are not included in reportable segments and include domestic manufacturing and sales of nonwoven products, paper packaging machinery and other businesses such as transport, insurance agency, leasing and real estate.

*2 The adjustment of segment profit of ¥131 million was from the elimination of intersegment transactions.

*3 The segment profit was reconciled with operating profit in the quarterly consolidated statements of income.

2. Information on assets by reportable segment

(Significant increase in assets due to acquisition of subsidiaries)

The segment assets of the “Overseas Business” for the third quarter of the fiscal year under review increased by ¥76,895 million from the end of the previous fiscal year due in part to the acquisition of equity of THIMM Packaging Systems GmbH & Co.KG (new company name: TRICOR Packaging Systems GmbH) and the inclusion of the said company and its subsidiaries in the scope of consolidation during the first quarter.

The amount of segment assets was calculated on a tentative basis because the allocation of the acquisition cost has not been completed.

3. Information on impairment loss of non-current assets or goodwill, etc. by reportable segment

(Significant change in the amount of goodwill)

In the “Overseas Business,” the Rengo Group acquired equity of THIMM Packaging Systems GmbH & Co.KG (new company name: TRICOR Packaging Systems GmbH) and included the company and its subsidiaries in the scope of consolidation. This event increased the amount of goodwill by ¥10,342 million for the nine months ended December 31, 2022.

The amount of goodwill was calculated on a tentative basis because the allocation of the acquisition cost has not been completed.