

Consolidated Financial Results for the Six Months Ended September 30, 2023(unaudited) [Japanese GAAP]

Company name: **Rengo Co., Ltd.**
 Listing: Tokyo Stock Exchange
 Code No.: 3941 URL: <https://www.rengo.co.jp/>
 Representative: Yosuke Kawamoto, Representative Director, President & COO
 Contact: Hironobu Yamasaki, Executive Officer & General Manager, Finance & Accounting Group
 TEL: +81 - (0) 6 - 6223 -2371
 Scheduled date to file quarterly securities report: November 14, 2023
 Scheduled date to commence dividend payments: December 1, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 - September 30, 2023)

(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	%
Six months ended								
September 30, 2023	452,874	9.5	25,675	65.3	27,461	53.9	18,409	52.9
September 30, 2022	413,506	13.7	15,528	(23.5)	17,849	(20.7)	12,041	(36.9)

Note: Comprehensive income

Six months ended September 30, 2023: 42,960 million yen 25.3%

Six months ended September 30, 2022: 34,283 million yen 20.3%

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	74.32	—
September 30, 2022	48.62	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2023	1,131,787	425,350	36.4
March 31, 2023	1,053,138	385,732	35.4

Reference: Shareholders' equity As of September 30, 2023: 411,636 million yen

As of March 31, 2023: 372,795 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, 2023	—	12.00	—	12.00	24.00
Fiscal year ending	—	12.00			
March 31, 2024			—	12.00	24.00
Fiscal year ending			—	12.00	24.00
March 31, 2024 (Forecast)			—	12.00	24.00

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

3. Consolidated Financial Forecasts for the Year Ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(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	930,000	9.9	47,000	81.1	49,000	70.8	32,000	56.7	129.19

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 September 30, 2023 271,056,029 Shares

As of March 31, 2023 271,056,029 Shares

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

As of September 30, 2023 23,354,596 Shares

As of March 31, 2023 23,365,876 Shares

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

Six months ended September 30, 2023 247,700,425 Shares

Six months ended September 30, 2022 247,667,683 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.

Table of Contents – Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Information	4
2. Quarterly Consolidated Financial Statements and Principal Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
Quarterly Consolidated Statements of Income	
Six Months Ended September 30	7
Quarterly Consolidated Statements of Comprehensive Income	
Six Months Ended September 30	8
(3) Notes to Quarterly Consolidated Financial Statements	9
(Notes on going concern assumption)	9
(Notes in case of significant changes in shareholders' equity)	9
(Segment information, etc.)	9

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended September 30, 2023, although the Japanese economy was affected by rising prices, the gradual recovery trend continued due to a pickup in capital investment on the background of increased people flow, exports, and corporate earnings, partly resulting from the transition of COVID-19 to Class 5 and the effects of various policies implemented by the Japanese government.

In such an economic environment, the production volume in the paperboard industry fell below the previous fiscal year due to a decline in demand for corrugated packaging, together with sluggish exports.

The production volume in the corrugated packaging industry was lower than in the previous fiscal year. Although demand for products for foods, e-commerce and parcel delivery remained solid, demand remained sluggish in a wide range of fields.

The production volume in the folding cartons industry was lower than in the previous fiscal year due to decreased demand for gift products and other products.

The production volume in the flexible packaging industry was higher than in the previous fiscal year, supported by solid demand mainly for foods, despite a movement to reduce plastics.

The production volume in the heavy duty packaging industry fell below the previous fiscal year, reflecting a decline in petrochemical-related demand.

Under such circumstances, the Rengo Group worked diligently to expand business and increase earning capacity with strengthened marketing capabilities as well as active capital investment and mergers and acquisitions as “General Packaging Industry (GPI) Rengo,” offering innovative solutions that meet all the packaging needs of various industries.

In June 2023, intending to expand its flexible packaging business further, the Rengo Group decided to integrate Sun Tox Co., Ltd. in Taito-ku, Tokyo, with the packaging solution business of Mitsui Chemicals Tohcello, Inc. in Chiyoda-ku, Tokyo, then established a subsidiary (new company name: RM TOHCELLO CO., LTD.). In August, Howa Sangyo Co., Ltd. in Funabashi City, Chiba, integrated and unified the water-based flexo printing businesses of Kinyosha Printing Co., Ltd. in Ota-ku, Tokyo, and Marufuku Co., Ltd. in Hakusan City, Ishikawa, and established a structure to meet diversifying needs such as environmentally friendly products.

Moreover, in October, Fuji-Hoso Shiki Co., Ltd. in Hino-cho, Gamo-gun, Shiga, and Marufuku Co., Ltd. merged (new company name: FUJI-MARUFUKU CO., LTD.) to improve management efficiency and strengthen competitiveness in the folding cartons business.

Overseas, in April, TRICOR Packaging & Logistics AG in Germany decided to build a new plant with state-of-the-art technology. Also, in May, Tri-Wall Limited in Hong Kong began operations at a new company established in China to expand its heavy-duty packaging materials business further.

Environmental initiatives as part of ESG management are top priority issues for the Rengo Group which advocates “Less is more.” as its key phrase. Toward achieving zero use of coal, the Rengo Group will convert the fuel to LNG at Kanazu Mill in Awara City, Fukui, in 2026, and Marusan Paper Mfg. Co., Ltd. in Minamisoma City, Fukushima, in 2027 to achieve the CO₂ emission reducing target “46% reduction compared to FY2013” by FY2030.

As a result, for the six months ended September 30, 2023, net sales were ¥452,874 million (109.5% year on year), operating profit was ¥25,675 million (165.3% year on year), ordinary profit was ¥27,461 million (153.9% year on year), and profit attributable to owners of parent was ¥18,409 million (152.9% year on year).

An overview of each segment for the six months ended September 30, 2023 is as follows.

[Paperboard and Packaging-Related Business]

The Paperboard and Packaging-Related Business reported higher sales and profit due to product price revisions despite decreased sales volume.

As a result, net sales were ¥255,001 million (106.7% year on year) and operating profit was ¥17,956 million (198.3% year on year).

The production volume of main products was as follows.

(Paperboard products)

The paperboard production volume was 1,221 thousand tons (93.8% year on year) due to decreased demand for corrugated packaging and slow exports.

(Corrugated boards/boxes)

With regard to corrugated boards/boxes, the production volume was 2,128 million square meters (96.5% year on year) in corrugated boards and 1,787 million square meters (96.8% year on year) in corrugated boxes due to decreased demand in various fields.

[Flexible Packaging-Related Business]

The Flexible Packaging-Related Business reported higher sales and profit due to product price revisions.

As a result, net sales were ¥60,311 million (106.1% year on year) and operating profit was ¥2,282 million (143.5% year on year).

[Heavy Duty Packaging-Related Business]

In the Heavy Duty Packaging-Related Business, sales and profit decreased, resulting from a decline in petrochemical-related demand.

As a result, net sales were ¥22,422 million (98.6% year on year) and operating profit was ¥619 million (99.2% year on year).

[Overseas Business]

The Overseas Business reported higher sales and profit supported by the increase in the number of consolidated subsidiaries and other factors.

As a result, net sales were ¥97,723 million (126.3% year on year) and operating profit was ¥4,201 million (119.1% year on year).

[Other Businesses]

Sales from the Other Businesses were on par with the previous fiscal year. Profit, however, decreased because of the declining profitability of the transport business.

As a result, net sales were ¥17,415 million (99.9% year on year) and operating profit was ¥502 million (73.2% year on year).

(2) Explanation of Financial Position

Total assets as of September 30, 2023 were ¥1,131,787 million, an increase of ¥78,649 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 ¥706,436 million, an increase of ¥39,031 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 ¥425,350 million, an increase of ¥39,618 million from the end of the previous fiscal year. This was due in part to an increase in foreign currency translation adjustment resulting from exchange rate fluctuation and an increase in retained earnings as a result of reporting profit attributable to owners of parent.

As a result, the shareholders' equity ratio increased by 1.0 percentage points from the end of the previous fiscal year to 36.4%.

(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 12, 2023 have not been revised.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	72,532	86,321
Notes and accounts receivable - trade	242,862	275,992
Merchandise and finished goods	43,293	45,307
Work in process	5,980	6,214
Raw materials and supplies	37,980	35,384
Other	11,852	9,690
Allowance for doubtful accounts	(938)	(1,014)
Total current assets	413,564	457,897
Non-current assets		
Property, plant and equipment		
Buildings and structures	312,926	321,012
Accumulated depreciation	(190,992)	(195,520)
Buildings and structures, net	121,933	125,492
Machinery, equipment and vehicles	646,134	660,977
Accumulated depreciation	(519,417)	(531,577)
Machinery, equipment and vehicles, net	126,716	129,399
Land	132,570	134,816
Leased assets	29,132	34,471
Accumulated depreciation	(12,501)	(16,584)
Leased assets, net	16,631	17,887
Construction in progress	19,077	25,275
Other	26,368	27,492
Accumulated depreciation	(20,334)	(20,967)
Other, net	6,034	6,524
Total property, plant and equipment	422,964	439,396
Intangible assets		
Goodwill	27,215	28,367
Other	21,265	21,519
Total intangible assets	48,480	49,886
Investments and other assets		
Investment securities	138,850	153,900
Long-term loans receivable	548	674
Retirement benefit asset	3,385	3,362
Deferred tax assets	2,234	2,016
Other	24,037	25,589
Allowance for doubtful accounts	(927)	(936)
Total investments and other assets	168,129	184,606
Total non-current assets	639,574	673,890
Total assets	1,053,138	1,131,787

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	143,950	150,709
Short-term borrowings	134,539	128,176
Current portion of bonds payable	10,110	10,010
Lease liabilities	4,761	5,663
Accrued expenses	33,728	37,728
Income taxes payable	5,058	9,591
Provision for bonuses for directors (and other officers)	274	-
Other	35,809	34,418
Total current liabilities	368,231	376,298
Non-current liabilities		
Bonds payable	80,065	80,060
Long-term borrowings	162,774	189,993
Lease liabilities	12,027	12,668
Deferred tax liabilities	25,793	28,179
Provision for retirement benefits for directors (and other officers)	812	737
Provision for share awards for directors (and other officers)	599	767
Factory move cost reserve	363	345
Retirement benefit liability	13,542	14,185
Other	3,195	3,201
Total non-current liabilities	299,174	330,138
Total liabilities	667,405	706,436
Net assets		
Shareholders' equity		
Share capital	31,066	31,066
Capital surplus	33,597	33,887
Retained earnings	252,677	268,122
Treasury shares	(12,167)	(12,554)
Total shareholders' equity	305,174	320,521
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,467	43,070
Deferred gains or losses on hedges	-	2
Foreign currency translation adjustment	28,325	44,491
Remeasurements of defined benefit plans	3,827	3,550
Total accumulated other comprehensive income	67,621	91,114
Non-controlling interests	12,937	13,714
Total net assets	385,732	425,350
Total liabilities and net assets	1,053,138	1,131,787

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended September 30

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	413,506	452,874
Cost of sales	341,954	364,823
Gross profit	71,552	88,051
Selling, general and administrative expenses		
Freight and packing costs	14,260	14,407
Salaries and allowances	17,148	19,147
Amortization of goodwill	1,268	1,759
Other	23,344	27,062
Total selling, general and administrative expenses	56,023	62,376
Operating profit	15,528	25,675
Non-operating income		
Interest income	112	150
Dividend income	1,172	1,231
Share of profit of entities accounted for using equity method	797	1,162
Other	2,237	1,975
Total non-operating income	4,318	4,518
Non-operating expenses		
Interest expenses	883	1,541
Other	1,114	1,191
Total non-operating expenses	1,997	2,732
Ordinary profit	17,849	27,461
Extraordinary income		
Gain on sale of non-current assets	28	247
Insurance claim income	105	154
Compensation income	3,325	13
Other	801	46
Total extraordinary income	4,261	462
Extraordinary losses		
Loss on sale and retirement of non-current assets	192	494
Loss on tax purpose reduction entry of non-current assets	1,966	1
Other	1,696	192
Total extraordinary losses	3,855	689
Profit before income taxes	18,256	27,234
Income taxes - current	6,491	9,520
Income taxes - deferred	(861)	(1,249)
Total income taxes	5,630	8,270
Profit	12,626	18,964
Profit attributable to non-controlling interests	584	555
Profit attributable to owners of parent	12,041	18,409

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	12,626	18,964
Other comprehensive income		
Valuation difference on available-for-sale securities	919	7,684
Deferred gains or losses on hedges	-	2
Foreign currency translation adjustment	13,707	11,328
Remeasurements of defined benefit plans, net of tax	(319)	(278)
Share of other comprehensive income of entities accounted for using equity method	7,350	5,260
Total other comprehensive income	21,657	23,996
Comprehensive income	34,283	42,960
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	33,101	41,902
Comprehensive income attributable to non-controlling interests	1,181	1,058

(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 six months ended September 30, 2022 (from April 1, 2022 to September 30, 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	239,083	56,861	22,745	77,391	396,082	17,424	—	413,506
Intersegment sales and transfers	1,013	355	1,597	3,437	6,403	14,110	(20,513)	—
Total sales	240,097	57,216	24,342	80,829	402,485	31,534	(20,513)	413,506
Segment profit	9,053	1,590	624	3,526	14,794	686	47	15,528

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

*2 The adjustment of segment profit of ¥47 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)

As 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 during the first quarter, the segment assets of "Overseas Business" for the second quarter of the fiscal year under review increased by ¥70,922 million from the end of the previous fiscal year.

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," as 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 during the first quarter, the amount of goodwill had been calculated

on a tentative basis. The allocation of the acquisition cost was completed at the end of the previous fiscal year, therefore, the amount of goodwill is recorded as ¥6,427 million.

For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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	255,001	60,311	22,422	97,723	435,459	17,415	—	452,874
Intersegment sales and transfers	1,317	307	1,681	2,880	6,187	13,918	(20,105)	—
Total sales	256,319	60,618	24,103	100,604	441,646	31,333	(20,105)	452,874
Segment profit	17,956	2,282	619	4,201	25,059	502	113	25,675

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

*2 The adjustment of segment profit of ¥113 million was from the elimination of intersegment transactions.

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