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Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Based on Japanese GAAP)

February 10, 2023

Company name: NAKABAYASHI CO., LTD

Stock exchange listings: Tokyo

Stock code: 7987 URL: <https://www.nakabayashi.co.jp/>

Representative: President and Representative Director Hideaki Yumoto
Executive Officer and General Manager

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Administration Division

Scheduled date to file Quarterly Securities Report: February 13, 2023

Scheduled date to commence dividend payments: –

Preparation of supplementary material on quarterly financial results: No

Holding of quarterly financial results meeting: No

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	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	44,745	(1.5)	(109)	–	291	(76.5)	(51)	–
December 31, 2021	45,425	(0.7)	796	(37.5)	1,241	(25.2)	453	(49.7)

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥128 million [(78.1)%]
Nine months ended December 31, 2021: ¥584 million [(54.7)%]

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	(1.88)	–
December 31, 2021	17.55	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
December 31, 2022	59,395	28,316	44.6
March 31, 2022	58,225	28,504	46.1

(Reference) Equity: As of December 31, 2022: ¥26,502 million
As of March 31, 2022: ¥26,861 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	–	10.00	–	12.00	22.00
Year ending March 31, 2023	–	0.00	–		
Year ending March 31, 2023 (Forecast)				12.00	12.00

(Note) Revisions of dividend forecasts from recently announced figures: No

3. Forecast of consolidated financial results for the year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	62,000	(1.8)	1,500	(17.5)	2,000	(14.4)	1,350	32.5	49.28

(Note) Revisions of forecasts of financial results from recently announced figures: No

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2022 (changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No
- (Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Major Notes, (3) Notes to Quarterly Consolidated Financial Statements, (Changes in Accounting Policies)" on page 9 of the Attached Material.

(4) Number of issued shares (common shares)

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

As of December 31, 2022	28,794,294 shares	As of March 31, 2022	28,794,294 shares
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Number of treasury shares at the end of the period

As of December 31, 2022	1,387,681 shares	As of March 31, 2022	1,420,245 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022	27,393,825 shares	Nine months ended December 31, 2021	25,823,392 shares
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* This quarterly financial results report is not subject to the quarterly review by a certificated public accountant or an auditing firm.

* Explanation and other special notes concerning the appropriate use of business performance forecasts (Cautionary Statement with Respect to Forward-Looking Statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual results, etc. may differ materially from the forecasts due to various factors. For notes on the assumptions underlying the earnings forecasts and the earnings forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 4.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months under review (from April 1, 2022 to December 31, 2022), the Japanese economy experienced a continued, gradual economic recovery with the normalization of socio-economic activities following the easing of COVID-19 restrictions, despite the fluctuation in the number of people infected with COVID-19. However, soaring raw material prices, the prolonged situation in Russia and Ukraine, and a 32-year low for the yen in the foreign exchange markets kept the outlook of the economy uncertain.

The environment surrounding the Company group (the "Group") continues to be challenging due to a weak yen and high material prices, and we are carrying out reforms our products and services due in part to the major change in lifestyles and corporate activities caused by COVID-19.

Under these circumstances, we formulated our third medium-term management plan (from April 1, 2021 to March 31, 2024), "add+venture 70" (Adventure 70). As conventional business models and processes change dramatically depending on the new normal and DX, we have set 70 new targets to increase corporate value. To achieve the plan, we are working to optimize the allocation of management resources and create synergies among business segments and Group companies as a whole. As a concrete policy required in the era of post-COVID, the Group aims to become a leading company in the "Life-related industry" (Note), an industry field that will play a central role in the future, and will advance initiatives to strengthen existing businesses and enter new businesses. Specifically, it refers to the following five fields: (1) health and medical care, (2) environment (including renewable energy), (3) life and welfare, (4) agriculture and (5) culture.

(Note) "Life-related industry" is a concept advocated by Professor Yoshinori Hiroi of Kyoto University.

Net sales decreased by 1.5% year on year. An operating loss was recorded due to a worsening cost of sales ratio caused by rising raw material and fuel prices, while ordinary profit also declined. In addition, extraordinary income recorded ¥82 million, including gain on extinguishment of tie-in shares due to the absorption-type merger of unconsolidated subsidiaries, and extraordinary losses recorded ¥95 million, including loss on Anti-monopoly Act.

As a result, loss attributable to owners of parent was ¥51 million.

The Group's operating results for the nine months under review are as follows.

Net sales	¥44,745 million	(Down 1.5% year on year)
Operating loss	¥109 million	(Operating profit of ¥796 million in the same period of the previous fiscal year)
Ordinary profit	¥291 million	(Down 76.5% year on year)
Loss attributable to owners of parent	¥51 million	(Profit attributable to owners of parent of ¥453 million in the same period of the previous fiscal year)

Operating results by segment are as follows.

(i) Business Process Solutions Business

The business process outsourcing (BPO) business was deemed to have committed an act in violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Anti-monopoly Act) by the Fair Trade Commission on March 3, 2022, and was subject to a Cease and Desist Order and a Payment Order for a surcharge, so our designation was suspended for government and public offices and municipalities for approximately two to eight months. Due to the designation suspension, the library solutions business, outsourcing services, such as counter operations from public libraries, and the library binding business continued to decline, and the BPO business remained extremely weak.

Amid this trend, for management businesses such as certification testing, due to changes in testing methods focused on DX, computer-based testing (CBT) trended strongly, and we plan to move forward to internet based testing (IBT) for which further growth is expected.

Sales of packaging materials such as paper containers and packaging were firm due in part to a heightened awareness of plastic waste reduction. Furthermore, in December 2022, we launched sales of the high-quality, paper multi-tiered food box "JIYUBAKO," which uses the laminated paper, printing, and V-notch technologies that we have developed in stationary manufacturing. Through our strong, integrated production system covering every step from paper laminating to assembly performed at our own factories, we are able to supply product in a short amount of time, allowing our product to be used already in New Year dishes.

The performance of Hirota Shiko Co., Ltd., which became a consolidated subsidiary through an M&A in the previous fiscal year, contributes to the full year results.

Consequently, net sales in this business amounted to ¥23,100 million (down 4.1% year on year), while operating profit amounted to ¥421 million (up 14.4% year on year).

(ii) Consumer Communications Business

Sales of writing materials for school children declined due to the spread of the Global and Innovation Gateway for All (GIGA) School Program.

Despite being affected by the paperless trend, sales of notebooks increased due to the normalization of socio-economic activities and OEM orders received for commercially available products.

In our Meguri-ing business, which was started as a measure to support new tourism, sales of Goshuin-cho and Gojoin-cho stamp books recovered to pre-COVID-19 levels as people again began to move around.

In addition, sales of stuffed toys by Sunlemon Co., Ltd., which became a consolidated subsidiary through M&A in the previous fiscal year, remain high, particularly for theme-park related toys and for licensed products that are popular with younger generations. We will continue to strengthen plans for products that can be provided to new sales channels.

However, we recorded an operating loss due to rising raw material and fuel prices, the rapid depreciation of the yen, and delayed price updates.

Consequently, net sales in this business amounted to ¥15,485 million (up 3.1% year on year), while operating loss amounted to ¥399 million (operating profit of ¥387 million in the same period of the previous fiscal year).

(iii) Office Appliances Business

Maintenance and inspection operations and document shredding outsourcing services performed well as attendance rates at the office continue to recover.

KAGUKURO Co., Ltd., which is operating the e-commerce business for office furniture, had firm sales, but the profit ratio deteriorated due the rapid depreciation of the yen and delayed price updates in response to soaring purchase prices.

Consequently, net sales in this business amounted to ¥5,018 million (down 1.8% year on year), while operating profit amounted to ¥49 million (down 82.2% year on year).

(iv) Energy Business

Wooden biomass power generation and solar power generation performed well.

Consequently, net sales in this business amounted to ¥1,106 million (down 3.3% year on year), while operating profit amounted to ¥59 million (up 9.8% year on year).

(v) Others

The Vegetable Plant Business and the Garlic Farm Business, etc. posted net sales of ¥34 million (down 27.4% year on year) and operating loss of ¥19 million (operating loss of ¥32 million in the same period of the previous fiscal year).

(2) Explanation of Financial Position

[Assets]

Current assets increased by ¥897 million from the end of the previous fiscal year to ¥31,097 million. This was mainly due to increases of ¥1,582 million in merchandise and finished goods, ¥412 million in raw materials and supplies, and ¥374 million in work in process, despite decreases of ¥1,134 million in notes and accounts receivable - trade and ¥358 million in cash and deposits.

Non-current assets increased by ¥271 million from the end of the previous fiscal year to ¥28,297 million. This was mainly due to increases of ¥324 million in machinery, equipment and vehicles, ¥170 million in deferred tax assets, and ¥96 million in retirement benefit asset, despite decreases of ¥169 million in goodwill and ¥127 million in construction in progress.

As a result, total assets as of December 31, 2022 increased by ¥1,169 million from the end of the previous fiscal year to ¥59,395 million.

[Liabilities]

Current liabilities decreased by ¥417 million from the end of the previous fiscal year to ¥18,721 million. This was mainly due to decreases of ¥545 million in notes and accounts payable - trade and ¥350 million in provision for bonuses, despite an increase of ¥491 million in short-term borrowings.

Non-current liabilities increased by ¥1,775 million from the end of the previous fiscal year to ¥12,357 million. This was mainly due to an increase of ¥1,894 million in long-term borrowings.

As a result, total liabilities as of December 31, 2022 increased by ¥1,357 million from the end of the previous fiscal year to ¥31,078 million.

[Net assets]

Total net assets decreased by ¥187 million from the end of the previous fiscal year to ¥28,316 million. This was mainly due to decreases of ¥380 million in retained earnings and ¥43 million in deferred gains or losses on hedges, despite increases of ¥171 million in non-controlling interests and ¥57 million in valuation difference on available-for-sale securities.

As a result, the equity ratio as of December 31, 2022 was 44.6%, down 1.5 percentage points from the end of the previous fiscal year.

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

We have not changed our earnings forecasts since the announcement we made on November 9, 2022.

2. Quarterly Consolidated Financial Statements and Major 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	8,097	7,739
Notes and accounts receivable - trade	10,864	9,730
Merchandise and finished goods	5,993	7,575
Work in process	851	1,226
Raw materials and supplies	1,637	2,050
Other	2,758	2,777
Allowance for doubtful accounts	(4)	(1)
Total current assets	30,199	31,097
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,323	7,258
Machinery, equipment and vehicles, net	4,508	4,832
Land	9,863	9,863
Construction in progress	428	301
Other, net	165	219
Total property, plant and equipment	22,290	22,475
Intangible assets		
Goodwill	427	257
Other	224	269
Total intangible assets	651	527
Investments and other assets		
Investment securities	2,729	2,782
Retirement benefit asset	950	1,047
Deferred tax assets	455	626
Other	954	845
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	5,083	5,294
Total non-current assets	28,025	28,297
Total assets	58,225	59,395

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,352	4,807
Short-term borrowings	6,855	7,346
Accounts payable - other	3,309	3,116
Accrued expenses	425	426
Income taxes payable	457	129
Provision for bonuses	628	278
Provision for loss on Anti-monopoly Act	300	-
Other	1,809	2,616
Total current liabilities	19,139	18,721
Non-current liabilities		
Long-term borrowings	6,654	8,549
Retirement benefit liability	3,293	3,219
Deferred tax liabilities	348	340
Other	285	248
Total non-current liabilities	10,581	12,357
Total liabilities	29,720	31,078
Net assets		
Shareholders' equity		
Share capital	6,666	6,666
Capital surplus	8,515	8,515
Retained earnings	11,399	11,019
Treasury shares	(723)	(706)
Total shareholders' equity	25,858	25,494
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	730	787
Deferred gains or losses on hedges	10	(32)
Foreign currency translation adjustment	134	142
Remeasurements of defined benefit plans	127	109
Total accumulated other comprehensive income	1,003	1,008
Non-controlling interests	1,642	1,814
Total net assets	28,504	28,316
Total liabilities and net assets	58,225	59,395

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	45,425	44,745
Cost of sales	33,825	34,108
Gross profit	11,600	10,637
Selling, general and administrative expenses	10,804	10,747
Operating profit (loss)	796	(109)
Non-operating income		
Rental income	136	129
Dividend income	64	79
Insurance claim income	229	151
Other	148	152
Total non-operating income	579	512
Non-operating expenses		
Interest expenses	50	50
Miscellaneous expenses of assets for rent	60	35
Other	23	24
Total non-operating expenses	134	111
Ordinary profit	1,241	291
Extraordinary income		
Gain on sale of non-current assets	227	1
Gain on sale of investment securities	1	1
Subsidy income	-	3
Gain on extinguishment of tie-in shares	-	76
Total extraordinary income	229	82
Extraordinary losses		
Loss on disposal of non-current assets	2	1
Loss on sale of investment securities	1	1
Loss on valuation of investment securities	6	-
Loss on Anti-monopoly Act	-	92
Provision for loss on Anti-monopoly Act	310	-
Total extraordinary losses	320	95
Profit before income taxes	1,150	278
Income taxes - current	424	366
Income taxes - deferred	123	(216)
Total income taxes	548	150
Profit	601	128
Profit attributable to non-controlling interests	148	180
Profit (loss) attributable to owners of parent	453	(51)

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	601	128
Other comprehensive income		
Valuation difference on available-for-sale securities	(36)	51
Deferred gains or losses on hedges	(21)	(43)
Foreign currency translation adjustment	35	8
Remeasurements of defined benefit plans, net of tax	6	(17)
Total other comprehensive income	(16)	(0)
Comprehensive income	584	128
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	449	(46)
Comprehensive income attributable to non-controlling interests	135	174

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the fiscal year ending March 31, 2023, and it has applied the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. This change did not have a material impact on the quarterly consolidated financial statements.

(Significant Subsequent Events)

(Dissolution of Consolidated Subsidiaries)

In December 2022, the Company began to make preparations including preparing funds for the dissolution of its consolidated subsidiary NB Nakabayashi Co., Ltd., and on January 5, 2023, it passed a resolution at a meeting of the Board of Directors to dissolve and liquidate NB Nakabayashi Co., Ltd.

1. Reasons for dissolution

To expand its overseas business mainly in China, in November 2004, the Company established NB Nakabayashi Co., Ltd. In August 2021, the Company was asked by the factory owner to acquire the factory. While we considered the acquisition, we could not agree on the conditions and negotiated to continue our leasing contract. However, we also could not agree on the leasing contract, and so in December 2022, we began preparations to dissolve NB Nakabayashi Co., Ltd., including preparing funds. Furthermore, as a result of reviewing our business strategy, for the selection and concentration of the Group's management resources, we resolved to withdraw from manufacturing operations in China.

2. Summary of the subsidiary being dissolved

(1) Company name	NB Nakabayashi Co., Ltd.		
(2) Location	Zhejiang Province, China		
(3) Position and name of representative	Kazuyoshi Nakabayashi, President		
(4) Details of business	Manufacturing, sales, and processing of everyday paper products		
(5) Capital	\$8,850 thousand		
(6) Date of establishment	November 8, 2004		
(7) Major shareholders and equity ratio	Nakabayashi Co., Ltd. (100% investment)		
(8) Relationship between the listed company and the subsidiary in question	Capital relationship	The Company owns 100% of the voting rights in the subsidiary in question.	
	Personnel relationship	An officer of the Company serves as the President of the subsidiary in question, and the officers and employees of the Company as well as the officers and employees of the Company's subsidiary have joint responsibilities for the business of the subsidiary in question.	
	Transactional relationship	The Company contracts the manufacturing of products to the subsidiary in question.	
	State of correspondence to related party	NB Nakabayashi Co., Ltd. is a consolidated subsidiary of the Company and corresponds to a related party.	
(9) Management results and financial status of the subsidiary in question over the past three years	(Millions of yen)		
Accounting period	December 2019	December 2020	December 2021
Net assets	219	269	322
Total assets	368	334	400
Net sales	673	646	702
Operating profit	48	58	9
Ordinary profit	55	57	15
Profit	48	47	15

3. Dissolution schedule

According to the laws of the People's Republic of China including the application to the authorities, the dissolution and liquidation of NB Nakabayashi Co., Ltd. is scheduled to be completed when the required procedures are completed, but the specific schedule is still undetermined.

4. Losses associated with the dissolution

While we are currently evaluating the amount of losses associated with the dissolution in question, we expected to incur losses in the area of ¥200 million from payments of economic compensation to employees and disposal costs for non-current assets.

5. Impact of the dissolution in question on manufacturing and sales activities

The dissolution of the consolidated subsidiary in question will mean the end of manufacturing activities in China. However, as manufacturing will be transferred to the Company's domestic factories and to overseas manufacturing at other companies, we will not lose any production items, and the impact on our manufacturing activities is expected to be minimal. In terms of sales, because the consolidated subsidiary Nakabayashi Trading Co., Ltd. will take over sales, the impact on the Group's sales activities will be minimal.

(Additional acquisition of shares in subsidiary)

At a meeting of the Board of Directors held on February 1, 2023, the Company resolved to acquire additional shares in its consolidated subsidiary NIPPON TSUSHINSHI CO., LTD., making it a wholly owned subsidiary on February 8, 2023.

1. Summary of the transaction

- (i) Name and details of business of the company being integrated

Name of the company being integrated	NIPPON TSUSHINSHI CO., LTD. (hereinafter "NIPPON TSUSHINSHI")
Details of business	Various printing, data printing services, and BPO business

- (ii) Main reasons leading to the acquisition of additional shares

To maximize Group synergies including NIPPON TSUSHINSHI and to accelerate the development of "BPO Integrated Support Services" to support the business environment surrounding society that includes personnel shortages and workstyle reforms, we deemed that the best option was to make NIPPON TSUSHINSHI a wholly owned subsidiary.

- (iii) Corporate integration date (additional acquisition date)

February 8, 2023

- (iv) Legal format of the corporate integration

Acquisition of shares in consideration for cash

- (v) Company name after the integration

No change.

- (vi) Other items related to the summary of the transaction

The ratio of voting rights for the acquired shares is 48.75%, making NIPPON TSUSHINSHI a wholly owned subsidiary of the Company.

2. Summary of the accounting methods implemented

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the Company plan to account for the business combination as a transaction with non-controlling shareholders in the category of transactions under common control.

3. Items related to the additional acquisition of shares of a subsidiary

Acquisition compensation	Cash and deposits	¥704 million
Acquisition base value		¥704 million

3. Others

Not applicable.