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Consolidated Financial Results for the Nine Months Ended July 31, 2023 (Under Japanese GAAP)

September 12, 2023

Company name: Kobe Bussan Co., Ltd. Listing: Prime Market of Tokyo Stock Exchange
 Securities code: 3038 URL: <https://www.kobebussan.co.jp/english/>
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Scheduled date to file Quarterly Securities Report: September 13, 2023
 Scheduled date to commence payment of dividends: –
 Preparation of supplementary material on quarterly financial results: Yes (<https://www.kobebussan.co.jp/english/ir/news.php>)
 Holding of quarterly financial results briefing: Yes (for institutional investors and securities analysts)

(Amounts less than one million yen have been omitted.)

1. Consolidated financial results for the nine months ended July 31, 2023 (from November 1, 2022 to July 31, 2023)

(1) Consolidated operating results

(Percentage indicates 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								
July 31, 2023	338,767	12.9	23,278	6.6	22,694	(4.0)	15,590	(2.1)
July 31, 2022	300,016	12.2	21,847	2.9	23,638	6.5	15,932	7.1

Note: Comprehensive income

For the nine months ended July 31, 2023: ¥14,902 million [(10.5)%]

For the nine months ended July 31, 2022: ¥16,643 million [7.8%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
July 31, 2023	71.04	70.16
July 31, 2022	72.97	71.81

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
July 31, 2023	198,141	108,763	53.6	482.31
October 31, 2022	180,275	97,220	52.7	433.53

Reference: Equity (Shareholders' equity + Valuation and translation adjustments)

As of July 31, 2023: ¥106,135 million

As of October 31, 2022: ¥94,990 million

2. Cash Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year	Yen	Yen	Yen	Yen	Yen
Ended October 31, 2022	–	0.00	–	22.00	22.00
Ending October 31, 2023	–	0.00	–	–	–
Ending October 31, 2023 (Forecast)	–	–	–	22.00	22.00

Note: Revisions to cash dividend forecast published most recently: None

3. Consolidated financial forecast for the fiscal year ending October 31, 2023 (from November 1, 2022 to October 31, 2023)

(Percentage indicates year-on-year changes.)

	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
Fiscal year	440,000	8.2	29,700	6.8	32,500	1.2	21,200	1.8	97.02

Note: Revisions to earnings forecast published most recently: None

[Notes]

- (1) Changes in significant subsidiaries during the current period (Changes in specified subsidiaries resulting in the change in scope of consolidation): Yes
Newly included: None
Excluded: 3 companies
(Company name: KB GLOBAL PARTNERS, INC., J.J. DINING, INC., KOBE BUSSAN USA, INC.)
- (2) Application of accounting methods used specifically for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements
- | | |
|---|------|
| (i) Changes in accounting policies due to application of new or revised accounting standards: | Yes |
| (ii) Changes in accounting policies due to reasons other than above (i): | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Restatements of prior period financial statements: | None |

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Major Notes (3) Notes to quarterly consolidated financial statements (Changes in accounting policies)” on page 8 of the Attached Materials.

- (4) Number of shares issued (common shares)
- | | |
|--|--------------------|
| (i) Number of shares issued at the end of the period (including treasury shares) | |
| As of July 31, 2023: | 273,600,000 shares |
| As of October 31, 2022: | 273,600,000 shares |
| (ii) Number of shares of treasury shares at the end of the period | |
| As of July 31, 2023: | 53,544,720 shares |
| As of October 31, 2022: | 54,490,520 shares |
| (iii) Average number of shares of common shares outstanding during the period | |
| Nine months ended July 31, 2023: | 219,465,181 shares |
| Nine months ended July 31, 2022: | 218,355,926 shares |

Note: The number of shares of Kobe Bussan held by Custody Bank of Japan, Ltd. (the “Trust Account”) as trust property for a Board Benefit Trust was included in the number of shares of treasury shares at the end of the period (275,200 shares as of July 31, 2023 and 168,400 shares as of October 31, 2022). Also, the number of shares of Kobe Bussan held by the Trust Account was included in the number of shares of treasury shares to be deducted from the calculation of the average number of shares of common shares outstanding during the period (275,200 shares for the nine months ended July 31, 2023 and 168,400 shares for the nine months ended July 31, 2022).

* This financial results report is not subject to audit procedures to be performed by certified public accountants or an audit firm.

* Proper use of earning forecast, and other special notes

The forward-looking statements including earnings forecast contained in this document are based on information currently available to us and certain assumptions that we believe are reasonable. Accordingly, actual results may differ significantly from the results anticipated in these forward-looking statements due to a variety of factors. For more information on the assumptions and disclaimers with respect to earnings and other forecasts, please refer to “1. Qualitative Information on Quarterly Consolidated Financial Results (3) Overview of forward-looking statements including consolidated financial forecast” on page 3 of the Attached Materials.

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1. Qualitative Information on Quarterly Consolidated Financial Results

(1) Overview of quarterly consolidated operating results

During the nine months ended July 31, 2023 (from November 1, 2022 to July 31, 2023) (hereinafter the “period under review”), Japan further normalized its socioeconomic activities thanks to the lifting of movement and immigration restrictions due to COVID-19 as well as the reclassification of COVID-19 into Category V infectious disease (the same category as common infectious diseases) in May. Nevertheless, the economic outlook has still remained unclear due to the prolonged Russian-Ukraine situation, the concern about the economic slowdown caused by monetary tightening around the world, precarious fluctuations in foreign exchange rates, and soaring energy costs.

Players in the food retail industry have continued to face severe circumstances, including a fall in demand for the home cooking with more consumers dining out and a rise in a savings-oriented attitude of consumers caused by the galloping inflations, as well as an increase in various costs.

Under such circumstances, in line with the Group’s goal of further strengthening “Integrated Food Production & Distribution Operations,” the Kobe Bussan Group has enhanced its competitiveness through increased production capacity and proactive product development. Also, we have been engaged in a business that is attentive and responsive to customers’ needs by enhancing our strength to provide them with high-quality and attractive products at best prices.

Consequently, in terms of operating results for the period under review, we reported net sales of ¥338,767 million (up 12.9% year on year), operating profit of ¥23,278 million (up 6.6%), ordinary profit of ¥22,694 million (down 4.0%), and profit attributable to owners of parent of ¥15,590 million (down 2.1%).

The operating results by business segment are as follows:

(i) Gyomu Super Business

This business segment covers Gyomu Super stores, which mainly sell products at best prices including those originally produced by our group’s domestic plants or those with attractive private labels directly imported by ourselves under the concept of providing authentic food products from around the world. In the period under review, Gyomu Super stores have expanded nationwide with 1,032 stores as a result of a net increase of 25 stores after opening 34 stores and closing nine.

The breakdown of new store openings was 26 stores in directly managed areas and eight stores in indirectly managed areas. While we work on store openings in all locations in Japan, we put a particular focusing on the Kyusyu area. The number of store openings has continued to grow steadily as planned for the current fiscal year.

In terms of operating results, we have continued expanding business performance. This is because we have overcome a rise in purchase costs caused by the sharp fluctuations in foreign exchange rates and price hikes through a successfully implemented pricing strategy as well as a great deal of media coverage of our private label products, which represent Gyomu Super’s attractiveness.

Consequently, net sales of the Gyomu Super Business for the period under review stood at ¥328,067 million (up 12.1% year on year).

(ii) Restaurant & Delicatessen Business

This business segment covers Kobe Cook World Buffet, one of the largest buffet-style restaurant chains in Japan; Premium Karubi, a served a-la-carte buffet style BBQ restaurant chain where customers enjoy the best selected premium meats and in-house made desserts; and Chisouna, a delicatessen shop chain under the concept of offering everyday dining with a focus on foods made in-house and available at affordable prices.

In the period under review, Kobe Cook World Buffet opened three restaurants and closed none, resulting in 14 restaurants nationwide. We strived to improve customer satisfaction through measures such as menu changes. Our efforts paid off with the number of customer visits almost recovering to the level before the COVID-19 pandemic backed by the Japanese government lifting the mask mandate and the limit on the number of people per table as well as more tourists from abroad visiting Japan. Premium Karubi opened three restaurants and closed none, resulting in 19 restaurants nationwide. The attention to this restaurant brand grew year by year thanks to increased media coverage. An increase in the number of restaurants in addition to an increase in the number of customer visits led to the expansion of the business scale and the improvement of operational efficiency. Chisouna opened 17 shops and closed two, resulting in 102 shops nationwide. While more customers were attracted by a variety of foods relevant to their needs and an introduction of new dishes, such a significant increase in the number of shops helped boost net sales.

Consequently, net sales of the Restaurant & Delicatessen Business for the period under review stood at ¥7,994 million (up 54.7% year on year).

(iii) Eco Renewable Energy Business

This business segment covers renewable energies generated by our own solar and woody biomass power plants. We did not open any power plants during the period under review, but opened one solar power plant in Nishigo-mura, Nishishirakawa-gun, Fukushima since June 2022, which contributed to our net sales from the beginning of the current fiscal year. Also, our existing plants continued to operate as planned. Currently, we operate 18 solar power plants collectively generating approximately 51.0 MW and one woody biomass power plant generating approximately 6.2 MW.

Consequently, net sales of the Eco Renewable Energy Business for the period under review stood at ¥2,675 million (up 20.5% year on year).

(2) Overview of quarterly consolidated financial position

Assets, liabilities, and net assets

(Assets)

Total assets as of July 31, 2023 increased by ¥17,866 million from the end of the previous fiscal year to ¥198,141 million. This was mainly due to an increase in current assets of ¥16,064 million, which was mostly attributable to an increase in cash and deposits of ¥19,296 million resulting from new borrowings for the facility enhancement of our group's domestic plants.

(Liabilities)

Total liabilities as of July 31, 2023 increased by ¥6,322 million from the end of the previous fiscal year to ¥89,378 million. This was mainly due to an increase in non-current liabilities of ¥12,792 million, partly offset by a decrease in current liabilities of ¥6,469 million.

The decrease in current liabilities was mainly attributable to a decrease in short-term borrowings of ¥3,543 million resulting from the repayment of the outstanding borrowings and income taxes payable of ¥4,059 million.

The increase in non-current liabilities was mainly attributable to an increase in long-term borrowings of ¥10,691 million resulting from new borrowings for a reason already mentioned above.

(Net assets)

Total net assets as of July 31, 2023 increased by ¥11,543 million from the end of the previous fiscal year to ¥108,763 million. This was mainly due to an increase in retained earnings of ¥10,766 million.

(3) Overview of forward-looking statements including consolidated financial forecast

It remains unchanged from our financial forecast published on December 15, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	Previous fiscal year (As of October 31, 2022)	Current quarter (As of July 31, 2023)
Assets		
Current assets:		
Cash and deposits	67,040	86,337
Accounts receivable - trade	23,249	23,526
Securities	2,000	—
Merchandise and finished goods	17,495	15,851
Work in process	435	388
Raw materials and supplies	1,798	1,941
Other	3,995	4,044
Allowance for doubtful accounts	(2)	(14)
Total current assets	116,011	132,075
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	16,001	15,990
Machinery, equipment and vehicles, net	17,799	16,605
Land	16,430	16,449
Other, net	7,880	11,351
Total property, plant and equipment	58,112	60,397
Intangible assets	1,041	1,548
Investments and other assets	5,109	4,119
Total non-current assets	64,263	66,065
Total assets	180,275	198,141
Liabilities		
Current liabilities:		
Accounts payable - trade	29,167	29,945
Short-term borrowings	8,217	4,674
Income taxes payable	6,026	1,967
Provision for bonuses	414	246
Other	4,162	4,685
Total current liabilities	47,987	41,518
Non-current liabilities:		
Long-term borrowings	26,317	37,009
Retirement benefit liability	650	707
Guarantee deposits received	7,167	7,465
Asset retirement obligations	528	552
Provision for share awards for directors (and other officers)	81	103
Other	322	2,021
Total non-current liabilities	35,067	47,859
Total liabilities	83,055	89,378

(Millions of yen)

	Previous fiscal year (As of October 31, 2022)	Current quarter (As of July 31, 2023)
Net assets		
Shareholders' equity:		
Share capital	500	500
Capital surplus	10,466	11,761
Retained earnings	93,061	103,828
Treasury shares	(8,953)	(9,181)
Total shareholders' equity	95,074	106,908
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	(3)	19
Foreign currency translation adjustment	(80)	(791)
Total accumulated other comprehensive income	(84)	(772)
Share acquisition rights	2,229	2,628
Total net assets	97,220	108,763
Total liabilities and net assets	180,275	198,141

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income

Quarterly consolidated statements of income

(Millions of yen)

	For the nine months ended July, 31 2022 (From November 1, 2021 to July, 31, 2022)	For the nine months ended July, 31, 2023 (From November 1, 2022 to July, 31, 2023)
Net sales	300,016	338,767
Cost of sales	264,532	299,658
Gross profit	35,484	39,109
Selling, general and administrative expenses	13,636	15,830
Operating profit	21,847	23,278
Non-operating income:		
Interest income	99	371
Dividend income	9	8
Rental income	188	122
Foreign exchange gain	1,401	811
Subsidy income	311	113
Other	305	331
Total non-operating income	2,315	1,759
Non-operating expenses:		
Interest expenses	65	46
Rental costs	24	26
Fuel sale costs	58	64
Loss on valuation of derivatives	367	2,180
Other	9	26
Total non-operating expenses	525	2,344
Ordinary profit	23,638	22,694
Extraordinary income:		
Gain on sale of investment securities	–	5
Gain on sale of non-current assets	6	3
Gain on reversal of share acquisition rights	7	10
Total extraordinary income	13	18
Extraordinary losses:		
Loss on retirement of non-current assets	25	41
Loss on sale of non-current assets	4	–
Loss on sale of investment securities	50	–
Total extraordinary losses	81	41
Profit before income taxes	23,570	22,671
Income taxes - current	7,578	6,873
Income taxes - deferred	59	207
Total income taxes	7,638	7,081
Profit	15,932	15,590
Profit attributable to owners of parent	15,932	15,590

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	For the nine months ended July, 31 2022 (From November 1, 2021 to July, 31, 2022)	For the nine months ended July, 31, 2023 (From November 1, 2022 to July, 31, 2023)
Profit	15,932	15,590
Other comprehensive income:		
Valuation difference on available-for-sale securities	(78)	23
Foreign currency translation adjustment	789	(711)
Total other comprehensive income	710	(688)
Comprehensive income	16,643	14,902
Comprehensive income attributable to:		
Owners of parent	16,643	14,902

(3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

(Significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Guidance No.31; June 17, 2021; hereinafter, the "Fair Value Accounting Standards") since the beginning of the first quarter of this fiscal year. In accordance with the transitional treatment set forth in paragraph 27-2 of the Fair Value Accounting Standards, the Company has applied the new accounting policies set forth by the Fair Value Accounting Standard prospectively. There is no effect on the quarterly consolidated financial statements by applying the standard.

(Segment information)

I. For the nine months ended July 31, 2022 (from November 1, 2021 to July 31, 2022)

1. Information on amounts of net sales and profit (loss) by reportable segment

(Millions of yen)

	Reportable Segment				Other *1	Total	Adjustment *2	Consolidated *3
	Gyomu Super Business	Restaurant & Delicatessen Business	Eco Renewable Energy Business	Total				
Timing of revenue recognition								
Goods or services transferred at a point in time	290,053	5,132	–	295,186	24	295,210	–	295,210
Goods or services transferred over time	2,549	36	2,220	4,806	–	4,806	–	4,806
Revenue from contracts with customers	292,602	5,169	2,220	299,992	24	300,016	–	300,016
Net sales								
Sales to external customers	292,602	5,169	2,220	299,992	24	300,016	–	300,016
Intersegment sales or transfers	2,172	122	–	2,294	–	2,294	(2,294)	–
Total	294,774	5,291	2,220	302,286	24	302,310	(2,294)	300,016
Segment profit (loss)	24,432	(102)	427	24,757	(33)	24,724	(2,876)	21,847

*1 The Other businesses are those not classified into any reportable segment, including the tourism business.

*2 Details of adjustment are as follows:

(1) The amount of adjustment for net sales represents eliminations of intersegment transactions.

(2) The amount of adjustment for segment profit (loss) of ¥(2,876) million is corporate expenses unallocated to each reportable segment. The expenses are general and administrative expenses unattributable to any reportable segments.

*3 Segment profit (loss) is adjusted with operating income reported on the quarterly consolidated statements of income.

2. Information on impairment losses of non-current assets, goodwill, and other information by reportable segment.

(Significant impairment losses related to non-current assets)

Not applicable.

II. For the nine months ended July 31, 2023 (from November 1, 2022 to July 31, 2023)

1. Information on amounts of net sales and profit (loss) and disaggregated revenue by reportable segment

(Millions of yen)

	Reportable Segment				Other *1	Total	Adjustment *2	Consolidated *3
	Gyomu Super Business	Restaurant & Delicatessen Business	Eco Renewable Energy Business	Total				
Timing of revenue recognition								
Goods or services transferred at a point in time	325,223	7,929	–	333,153	30	333,183	–	333,183
Goods or services transferred over time	2,844	64	2,675	5,584	–	5,584	–	5,584
Revenue from contracts with customers	328,067	7,994	2,675	338,737	30	338,767	–	338,767
Net sales								
Sales to external customers	328,067	7,994	2,675	338,737	30	338,767	–	338,767
Intersegment sales or transfers	3,546	229	–	3,775	–	3,775	(3,775)	–
Total	331,614	8,223	2,675	342,512	30	342,543	(3,775)	338,767
Segment profit (loss)	25,550	360	726	26,637	(33)	26,604	(3,325)	23,278

*1 The Other businesses are those not classified into any reportable segment, including the tourism business.

*2 Details of adjustment are as follows:

(1) The amount of adjustment for net sales represents eliminations of intersegment transactions.

(2) The amount of adjustment for segment profit (loss) of ¥(3,325) million is corporate expenses unallocated to each reportable segment. The expenses are general and administrative expenses unattributable to any reportable segments.

*3 Segment profit (loss) is adjusted with operating income reported on quarterly consolidated statements of income.

2. Information on impairment losses of non-current assets, goodwill, and other information by reportable segment.

(Significant impairment losses related to non-current assets)

Not applicable.