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Consolidated Financial Results for the Three Months Ended March 31, 2024 [Japanese GAAP]

May 10, 2024

Company name: PILOT CORPORATION

Stock exchange listing: Tokyo

Securities code: 7846

URL: <https://www.pilot.co.jp/>

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Scheduled date of filing quarterly securities report: May 13, 2024

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

Representative Director and President

Accounting & Finance Department General Manager

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended March 31, 2024 (January 1, 2024 to March 31, 2024)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2024	28,799	5.1	2,980	(39.1)	4,114	(21.7)	2,700	(25.4)
March 31, 2023	27,407	4.5	4,892	5.3	5,251	(1.6)	3,622	7.7

(Note) Comprehensive income: Three months ended March 31, 2024: ¥ 4,930 million [14.1%]
Three months ended March 31, 2023: ¥ 4,319 million [(23.0)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2024	68.46	-
March 31, 2023	91.82	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
March 31, 2024	172,277	135,285	77.4
December 31, 2023	166,468	132,345	78.3

(Reference) Equity: As of March 31, 2024: ¥ 133,269 million
As of December 31, 2023: ¥ 130,408 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	-	50.00	-	50.00	100.00
Fiscal year ending December 31, 2024	-	-	-	-	-
Fiscal year ending December 31, 2024 (Forecast)	-	53.00	-	53.00	106.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending December 31, 2024(January 1, 2024 to December 31, 2024)

(% indicates changes from the previous corresponding period.)

	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 year	121,000	2.0	20,000	5.2	21,000	0.8	14,000	2.5	359.09

(Notes) Revision to the financial results forecast announced most recently: No

Forecast for the first two quarters of fiscal year ending June 30, 2024 has not been made.

The Company resolved the purchase and cancellation of treasury shares at the Board of Directors' Meeting held on May 10, 2024. The impact of the purchase and cancellation was included in "Basic earnings per share" stated above.

* Notes:

(1) Changes in significant subsidiaries during the three months ended March 31, 2024

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(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 shares (common shares)

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

March 31, 2024: 41,814,400 shares

December 31, 2023: 41,814,400 shares

2) Total number of treasury shares at the end of the period:

March 31, 2024: 2,364,966 shares

December 31, 2023: 2,364,966 shares

3) Average number of shares outstanding during the period:

Three months ended March 31, 2024: 39,449,434 shares

Three months ended March 31, 2023: 39,449,434 shares

(Note) The number of shares of treasury stock at the end of the period includes the Company's shares held by the BIP (Board Incentive Plan) trust (As of March 31, 2024: 18,827 shares, As of December 31, 2023: 18,827 shares). In addition, these Company's shares are included in the treasury stock which is deducted from the number of shares outstanding when calculating the average number of shares during the period (As of March 31, 2024: 18,827 shares, As of March 31, 2023: 18,827 shares).

* This quarterly financial result is not subjected to quarterly review by certified public accountants or auditing firms.

* Explanation for the appropriate use of performance forecast and other special notes

- The statements regarding forecast of financial results in this report are based on the information that is available to the Company, as well as certain assumptions that are deemed to be reasonable by management. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors.

1. Management Discussion and Analysis

(1) Result of Operations

During the three months (January 1 to March 31, 2024) of the fiscal year under review, the economic environment in Japan saw a gradual recovery in personal consumption and expansion of inbound demand post COVID-19. Overseas, meanwhile, although price hikes are subsiding, the outlook for the global economy remains uncertain given the ongoing tight monetary policies of various countries and the impact of geopolitical risks such as the protracted situation in Ukraine and the increasing tensions in the Middle East.

In this economic environment, Pilot Corporation (“the Company”) and its consolidated subsidiaries (“the Group”) benefited from continued firmness in the domestic Japanese market for writing instruments, as well as from the depreciation of the yen against the U.S. dollar, euro and Chinese yuan. However, as in the previous fiscal year, demand remained weak in major developed markets. Meanwhile, personnel, depreciation, and other expenses increased as we stepped up investments for the future to achieve sustainable growth toward our “2030 Vision.”

In this business environment, net sales for the three months under review stood at 28,799 million yen, up 5.1% year on year (YoY). Net sales in Japan market came to 7,413 million yen, up 10.4% YoY. Net sales in overseas markets were 21,385 million yen, up 3.3% YoY. Looking at sales by business, net sales in the writing instruments business stood at 25,889 million yen, up 3.2% YoY. Net sales in the non-writing instruments business came to 2,909 million yen, up 25.4% YoY.

In terms of profit, the Group recorded operating profit of 2,980 million yen, down 39.1% YoY, and ordinary profit of 4,114 million yen, down 21.7% YoY. Profit attributable to owners of parent stood at 2,700 million yen, down 25.4% YoY.

Details of each segment are as follows.

Segment operating profit is profit before the elimination of intersegment transactions.

(Japan segment)

In the stationery business, in Japan, inbound and novelty demand continued to gain momentum. At retail stores, the FRIXION Waai, launched at the end of last year, sold well among younger customers, a new target group, and the addition of new colors to existing products, such as the Juice Classic Color/Dusky Color, was also well received. In addition, the Company launched FRIXION SYNERGY KNOCK and updated the design of the ACROBALL in time for the new school term, revitalizing the market. We expect sales of these products to rise. In addition, Mark’s Group Holdings, Inc., which designs and manufactures stationery such as diaries and notebooks, joined the Group in the last fiscal year and also contributed to sales. Sales from exports decreased, particularly in ASEAN countries such as the Philippines.

In the toys business, sales increased as the Mell Chan doll series and bath toys series, our mainstay products, performed well.

In the industrial materials and other businesses, sales increased thanks to the contribution of Mark’s products, while sales of ceramics products, the mainstay of the industrial materials business, declined as orders have yet to recover despite signs of a turnaround in the semiconductor market.

A breakdown of net sales in this segment by major business is as follows: 8,045 million yen, up 2.8% YoY in the stationery business, 677 million yen, up 15.5% YoY in the toys business, and 768 million yen, up 21.1% YoY in the industrial materials and other businesses. In the stationery business, net sales of writing instruments stood at 7,006 million yen, down 1.1% YoY, and net sales of other stationery came to 1,038 million yen, a 39.8% increase YoY.

Segment operating profit increased with the contribution of Mark's and the depreciation of the yen, despite an increase in SG&A expenses such as personnel expenses and advertising expenses.

As a result, net sales to external customers in this segment stood at 9,491 million yen, up 4.9% YoY. Segment operating profit was 4,322 million yen, up 17.4% YoY.

(Americas segment)

In the Americas, in the U.S. market, our mainstay product G-2 continued to maintain the top share in the gel ink roller ball pen market despite inventory control at mass retailers, while in the Brazilian market, sales grew mainly on the strength of V Board Master whiteboard markers. As a result, overall sales in the segment increased, partly reflecting the impact of the weaker yen. Segment operating profit decreased due to an increase in SG&A expenses such as personnel expenses and advertising expenses.

As a result, net sales to external customers in this segment totaled 8,297 million yen, up 2.8% YoY. Segment operating profit came to 124 million yen, down 64.2% YoY.

(Europe segment)

In Europe, although it has taken some time for market conditions to fully recover, sales increased with a trend towards a recovery in sales of the FRIXION series, our core products, as well as the impact of the yen's depreciation. However, segment operating profit decreased due to higher SG&A expenses, including personnel and advertising expenses.

As a result, net sales to external customers in this segment came to 5,987 million yen, up 11.2% YoY. Segment operating profit was 286 million yen, down 2.8% YoY.

(Asia segment)

In Asia, segment sales increased due to the impact of yen's depreciation, despite continued economic weakness in China and lower sales of gel ink roller ball pens, our main product in other countries. Segment operating profit decreased on higher SG&A expenses such as personnel and advertising expenses.

Consequently, net sales to external customers in this segment totaled 5,021 million yen, up 2.4% YoY. Segment operating profit stood at 167 million yen, down 44.6% YoY.

As a result of the above, total segment operating profit in each region increased to 4,900 million yen, up 6.0% YoY, but consolidated operating profit was 2,980 million yen, down 39.1% YoY due to a consolidated adjustment of -1,920 million yen (mainly an increase in unrealized profit related to inventories). The increase in unrealized profit was mainly due to the difference in exchange rates between the end of the previous fiscal year and the end of the first quarter of the current fiscal year, as well as an increase in inventories in preparation for BTS (back-to-school) sales season.

(2) Financial Position

Total assets at the end of the three months under review were 172,277 million yen, an increase of 5,808 million yen from the end of the previous fiscal year.

Current assets increased 2,435 million yen, to 109,573 million yen. Non-current assets increased 3,373 million yen, to 62,703 million yen.

In current assets, cash and deposits increased 1,717 million yen and notes and accounts receivable - trade increased 2,234 million yen.

In non-current assets, property, plant and equipment increased 2,007 million yen, investment securities rose 717 million yen and deferred tax assets increased 547 million yen.

Liabilities increased 2,868 million yen compared to the end of the previous fiscal year, to 36,991 million yen.

Current liabilities increased 3,004 million yen, to 34,572 million yen. Non-current liabilities decreased 136 million yen, to 2,419 million yen.

In current liabilities, short-term borrowings, income taxes payable and provision for bonuses increased 1,767 million yen, 507 million yen and 802 million yen, respectively.

Net assets increased 2,940 million yen compared to the end of the previous fiscal year, to 135,285 million yen. Retained earnings and foreign currency translation adjustment increased 727 million yen and 1,700 million yen, respectively.

(3) Description of Consolidated Results Forecast

The consolidated financial results forecast for the fiscal year ending December 31, 2024, announced on February 13, 2024, remains unchanged.

Quarterly Consolidated Financial Statements
Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	39,171	40,889
Notes and accounts receivable - trade	24,243	26,477
Merchandise and finished goods	24,222	25,246
Work in process	8,324	8,255
Raw materials and supplies	4,749	4,810
Other	6,512	3,992
Allowance for doubtful accounts	(86)	(98)
Total current assets	107,138	109,573
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,462	30,798
Accumulated depreciation	(15,985)	(16,388)
Buildings and structures, net	14,476	14,409
Machinery, equipment and vehicles	39,999	41,170
Accumulated depreciation	(32,793)	(33,429)
Machinery, equipment and vehicles, net	7,205	7,741
Other	21,199	21,227
Accumulated depreciation	(18,211)	(18,224)
Other, net	2,988	3,003
Land	7,608	7,646
Construction in progress	5,612	7,099
Total property, plant and equipment	37,891	39,899
Intangible assets		
Leasehold interests in land	5,355	5,355
Other	973	998
Total intangible assets	6,328	6,353
Investments and other assets		
Investment securities	7,860	8,578
Deferred tax assets	3,371	3,919
Retirement benefit asset	2,862	2,942
Other	1,047	1,042
Allowance for doubtful accounts	(32)	(32)
Total investments and other assets	15,109	16,449
Total non-current assets	59,330	62,703
Total assets	166,468	172,277

(Millions of yen)

	As of December 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,148	11,555
Short-term borrowings	1,728	3,496
Current portion of long-term borrowings	409	380
Accrued expenses	2,901	2,941
Income taxes payable	1,602	2,110
Provision for bonuses	718	1,520
Provision for bonuses for directors (and other officers)	65	14
Other	11,992	12,553
Total current liabilities	31,567	34,572
Non-current liabilities		
Long-term borrowings	494	382
Deferred tax liabilities	389	357
Provision for retirement benefits for directors (and other officers)	131	110
Provision for environmental measures	48	48
Provision for share awards for directors (and other officers)	47	54
Retirement benefit liability	720	755
Other	723	710
Total non-current liabilities	2,555	2,419
Total liabilities	34,123	36,991
Net assets		
Shareholders' equity		
Share capital	2,340	2,340
Capital surplus	7,923	7,923
Retained earnings	129,116	129,843
Treasury shares	(10,858)	(10,858)
Total shareholders' equity	128,521	129,248
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,187	1,656
Foreign currency translation adjustment	276	1,977
Remeasurements of defined benefit plans	423	387
Total accumulated other comprehensive income	1,887	4,021
Non-controlling interests	1,936	2,015
Total net assets	132,345	135,285
Total liabilities and net assets	166,468	172,277

Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the three months)

(Millions of yen)

	For the three months ended March 31, 2023	For the three months ended March 31, 2024
Net sales	27,407	28,799
Cost of sales	12,779	14,916
Gross profit	14,627	13,882
Selling, general and administrative expenses	9,735	10,902
Operating profit	4,892	2,980
Non-operating income		
Interest income	114	176
Dividend income	8	7
Foreign exchange gains	219	917
Other	98	92
Total non-operating income	441	1,193
Non-operating expenses		
Interest expenses	66	44
Other	16	14
Total non-operating expenses	82	59
Ordinary profit	5,251	4,114
Extraordinary income		
Gain on sale of non-current assets	20	8
Gain on sale of investment securities	273	-
Compensation income	197	-
Total extraordinary income	492	8
Extraordinary losses		
Loss on sale of non-current assets	0	0
Loss on retirement of non-current assets	16	6
Loss on disaster	-	13
Soil pollution expense	-	20
Total extraordinary losses	16	40
Profit before income taxes	5,726	4,081
Income taxes	2,054	1,337
Profit	3,672	2,744
Profit attributable to non-controlling interests	49	43
Profit attributable to owners of parent	3,622	2,700

Quarterly Consolidated Statements of Comprehensive Income (For the three months)

(Millions of yen)

	For the three months ended March 31, 2023	For the three months ended March 31, 2024
Profit	3,672	2,744
Other comprehensive income		
Valuation difference on available-for-sale securities	29	483
Foreign currency translation adjustment	592	1,738
Remeasurements of defined benefit plans, net of tax	25	(35)
Total other comprehensive income	647	2,185
Comprehensive income	4,319	4,930
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,250	4,834
Comprehensive income attributable to non-controlling interests	68	95