

Summary of Consolidated Financial Results [Japanese GAAP] For the First Quarter of the Fiscal Year Ending March 31, 2023

July 29, 2022

Listed company: Nippon Kayaku Co., Ltd. (URL <https://www.nipponkayaku.co.jp/english/>)

Listed stock exchange: Tokyo Stock Exchange

Code No.: 4272

Representative (name, position): Atsuhiro Wakumoto, President

Director in charge of inquiries: Tsutomu Kawamura, Executive Director, General Manager of Finance & Accounting Division, Financial Group

Filing date of quarterly securities report: August 9, 2022

Scheduled date for start of dividend payments: –

Preparation of supplementary materials for quarterly financial results: Yes

Quarterly results presentation meeting: Yes (for securities analysts and institutional investors)

1. Consolidated Business Results for the First Quarter of Fiscal Year Ending March 31, 2023 (April 1, 2022–June 30, 2022)

(Figures shown are rounded down to the nearest million yen.)

(1) Consolidated Operating Results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of fiscal year ending March 31, 2023	48,296	4.0	6,380	8.4	8,634	36.0	5,957	13.1
First quarter of fiscal year ended March 31, 2022	46,447	26.1	5,887	112.3	6,348	112.7	5,265	201.2

Note: Comprehensive income

First quarter of fiscal year ending March 31, 2023: 10,334 million yen (75.3%)

First quarter of fiscal year ended March 31, 2022: 5,894 million yen (36.2%)

	Profit attributable to owners of parent per share—primary	Profit attributable to owners of parent per share—diluted
	Yen	Yen
First quarter of fiscal year ending March 31, 2023	35.41	35.40
First quarter of fiscal year ended March 31, 2022	30.88	30.87

Note: The figures in the provisional accounting for a business combination in the second quarter of the consolidated fiscal year ended March 31, 2022 have been confirmed, and the content confirmed in the provisional accounting is reflected in the figures for the first quarter of consolidated fiscal year ended March 31, 2022.

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(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
As of June 30, 2022	325,364		252,525		77.3	
As of March 31, 2022	315,459		246,425		77.8	

Reference: Equity As of June 30, 2022: 251,535 million yen
As of March 31, 2022: 245,479 million yen

2. Status of Dividends

	Dividend amount per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Year
	Yen				
Fiscal year ended March 31, 2022	–	15.00	–	25.00	40.00
Fiscal year ending March 31, 2023	–				
Fiscal year ending March 31, 2023 (forecast)		20.00	–	20.00	40.00

Note: Changes to the most recent dividend forecast: None

3. Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2023 (April 1, 2022– March 31, 2023)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	103,900	17.0	12,600	15.6	15,000	26.8	10,500	14.1	62.41
Full year	210,000	13.6	23,800	13.1	26,600	14.9	19,400	12.9	115.31

Note: Changes to the most recent forecast for consolidated business results: Yes

See the Notice of Revision to the Business Results Forecasts announced today concerning the revision to the dividend forecast.

Notes

- (1) Significant changes in subsidiaries during the first quarter (changes in designated subsidiaries that result in changes in scope of consolidation): None
- (2) Adoption of special accounting methods for presenting the quarterly consolidated financial statements: None
- (3) Changes to accounting policies and estimates and restatement
 - [1] Changes to accounting policies associated with revision of accounting standards or similar items: None
 - [2] Changes other than [1]: None
 - [3] Changes to accounting estimates: None
 - [4] Restatements: None
- (4) Number of shares issued (common stock)
 - [1] Number of shares issued at end of the fiscal period (including treasury stock)
 - As of June 30, 2022: 177,503,570 shares
 - As of March 31, 2022: 177,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of June 30, 2022: 2,258,052 shares
 - As of March 31, 2022: 2,257,985 shares

[3] Average number of shares during the fiscal period (cumulative)

First quarter of fiscal year ending March 31, 2023: 168,245,559 shares

First quarter of fiscal year ended March 31, 2022: 170,528,346 shares

* Quarterly summary financial statements are not subject to audit by a certified public accountant or audit firm.

* Analysis related to appropriate use of the business forecasts, and other notes

(Disclaimer concerning forward-looking statements)

The information in this report constitutes forward-looking statements regarding future events and performance. This information is based on the beliefs and assumptions of management in light of information currently available to it at the time of announcement and subject to a number of uncertainties that may affect future results. Actual business results may differ substantially from the forecasts herein due to various factors. For matters pertaining to business forecasts, please refer to “(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts” on page 3 of the Supplementary Information.

(How to obtain the materials for the briefing on quarterly financial results)

We have scheduled a teleconference for securities analysts and institutional investors on Friday, July 29, 2022. The materials for the briefing will be posted on the corporate website.

Supplementary Information

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1. Qualitative Information Concerning Results for the First Quarter

(1) Analysis of Operating Results

During the first quarter of this consolidated fiscal year (April 1 to June 30, 2022), the global economy saw a return to normalcy from the COVID-19 pandemic, mainly in Europe and the U.S. However, the sense of uncertainty increased even more as a result of the zero COVID policy in China, the Russian invasion of Ukraine, and increasing global inflation caused by high fuel and raw material prices. The Nippon Kayaku Group launched *KAYAKU Vision 2025*, the new mid-term business plan beginning this fiscal year, amid such conditions. We are working to implement the roadmap to the vision specified for each business while advancing initiatives to address key company-wide issues aimed at achieving the vision.

As a result, net sales for the first quarter of this consolidated fiscal year totaled 48,296 million yen, an increase of 1,849 million yen (4.0%) year-on-year. Sales in the pharmaceuticals and other businesses underperformed while the functional chemicals and safety systems businesses outperformed the first quarter of the previous fiscal year.

Operating income totaled 6,380 million yen, an increase of 493 million yen (8.4%) year-on-year. Ordinary income totaled 8,634 million yen, an increase of 2,285 million yen (36.0%) year-on-year. Profit attributable to owners of parent was 5,957 million yen, an increase of 691 million yen (13.1%) year-on-year.

The figures in the provisional accounting for a business combination in the second quarter of the previous consolidated fiscal year have been confirmed. The content confirmed in the provisional accounting is reflected in the figures for the first quarter of the previous consolidated fiscal year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales rose to 21,117 million yen, an increase of 1,027 million yen (5.1%) year-on-year.

The functional materials business as a whole outperformed the first quarter of the previous fiscal year. The outperformance resulted from strong sales of semiconductor materials such as epoxy resins, MEMS, and other resin composites. These materials are used in high-speed (5G) communication devices and IoT, which are proliferating, and IT equipment, where demand increased due to increasingly sophisticated electronic equipment in vehicles.

The color materials business as a whole outperformed the first quarter of the previous fiscal year. This outperformance resulted from strong sales of colorants for inkjet printers for consumer use, which more than compensated for the underperformance of colorants for inkjet printers in industrial applications compared to the first quarter of the previous fiscal year.

The catalyst business underperformed the first quarter of the previous fiscal year despite strong orders both in Japan and exports overseas. The underperformance resulted from delays in freight reaching customer plants due to the lock-downs and logistics chaos that accompanied China's zero COVID policy.

In the Polatechno business, demand for dye-type polarizing films declined due to a shortage of semiconductors at customer plants. This decline exceeded the strong sales of components for X-ray analysis systems and resulted in underperformance of the Polatechno business as a whole, compared with the first quarter of the previous fiscal year.

Segment profit totaled 3,760 million yen, an increase of 361 million yen (10.6%) year-on-year. This increase resulted from growth in sales in the functional materials and color materials businesses.

[Pharmaceuticals Business]

Sales totaled 12,632 million yen, a decrease of 141 million yen (1.1%) year-on-year.

Pharmaceuticals in Japan were impacted by drug price revisions. Despite this, the contribution from the launch of the new generic anti-cancer drug PEMETREXED for I.V. Infusion last year combined with market penetration of the biomedicine PORTRAZZA® for lung cancer and sales of ALAGLIO® granule packets, a photodynamic diagnostic agent that Nippon Kayaku began selling as the domestic agent last year, led to sales nearly on par with the first quarter of the previous fiscal year.

Sales of active pharmaceutical ingredients for the Japanese domestic market and diagnostic drugs outperformed while exports and sales of contract production underperformed the first quarter of the previous fiscal year.

Segment profit totaled 2,374 million yen, an increase of 448 million yen (23.3%) year-on-year.

[Safety Systems Business]

Sales reached 12,385 million yen, an increase of 1,002 million yen (8.8%) year-on-year.

The gradual pace of the rebound in automotive market demand continued during the first quarter of this consolidated fiscal year (April 1 to June 30, 2022) due to the emergence of geopolitical risk on top of the global shortage in the supply of automobile parts.

The domestic business saw sales of airbag inflators and micro gas generators for seatbelt pretensioners underperform year-on-year owing to low demand from automobile production cuts caused by the shortage of semiconductors.

The overseas business outperformed the first quarter of the previous fiscal year in sales of airbag inflators and micro gas generators for seatbelt pretensioners, while underperforming year-on-year in squib sales. The

outperformance resulted from the continued rebound from the slump in global demand caused by the global spread of COVID-19, despite the impact from the semiconductor shortage.

Segment profit was 1,662 million yen, a decrease of 136 million yen (7.6%) year-on-year. The decrease was caused by an increase in selling, development, and other expenses as restrictions on movement accompanying the COVID-19 pandemic were eased.

[Other]

Sales were 2,161 million yen, a decrease of 40 million yen (1.8%) year-on year.

The agrochemicals business as a whole underperformed the first quarter of the previous fiscal year due to underperformance in domestic sales, despite outperformance in exports.

Sales in the real estate and other business decreased compared to the first quarter of the previous fiscal year.

Segment profit totaled 473 million yen, an increase of 28 million yen (6.3%) year-on-year.

(2) Analysis of Financial Position

Total assets were 325,364 million yen, an increase of 9,904 million yen from the end of the previous consolidated fiscal year. The main increases were in cash and deposits, an increase of 8,039 million yen; merchandise and finished goods, an increase of 3,832 million yen; and raw materials and stores, an increase of 3,456 million yen. The main decrease was in securities, a decrease of 5,439 million yen.

Liabilities were 72,839 million yen, an increase of 3,805 million yen compared to the end of the previous consolidated fiscal year. The main increase was in notes and accounts payable-trade, an increase of 4,782 million yen. The main decrease was in income taxes payable, a decrease of 1,846 million yen.

Net assets were 252,525 million yen, an increase of 6,099 million yen compared to the end of the previous consolidated fiscal year. The main increases were in translation adjustments, an increase of 5,302 million yen; and retained earnings, an increase of 1,751 million yen.

(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts

We expect the future business environment surrounding the Nippon Kayaku Group to bring a greater return to normalcy from the COVID-19 pandemic. However, the Russian invasion of Ukraine and increasing global inflation from high fuel and material prices pose the risk of an economic downswing.

Under these conditions, the Nippon Kayaku Group aims to respond flexibly to changes in the business environment and pursue optimal use of operating capital to increase the shareholder value, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

In light of recent performance, we have revised the consolidated business results forecasts for the first half and full year forecast for fiscal year ending March 31, 2023 announced on May 12, 2022. See the disclosure today entitled, Notice of Revision to the Business Results Forecasts for further details.

2. Quarterly Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2022	As of June 30, 2022
	Million yen	
Assets		
Current assets		
Cash and deposits	38,459	46,498
Notes and accounts receivable-trade	60,719	60,414
Electronically recorded monetary claims-operating	1,868	1,744
Securities	15,186	9,746
Merchandise and finished goods	36,784	40,616
Work in process	1,149	961
Raw materials and stores	17,901	21,358
Other	3,832	4,363
Allowance for doubtful accounts	(57)	(53)
Total current assets	175,843	185,649
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	43,469	44,533
Machinery, equipment and vehicles, net	26,923	27,548
Other, net	18,667	18,764
Total property, plant and equipment	89,060	90,846
Intangible assets		
Goodwill	3,016	2,904
Other	4,569	4,473
Total intangible assets	7,586	7,377
Investments and other assets		
Investment securities	33,511	32,086
Net defined benefit asset	4,572	4,630
Other	4,949	4,837
Allowance for doubtful accounts	(63)	(63)
Total investments and other assets	42,970	41,490
Total non-current assets	139,616	139,715
Total assets	315,459	325,364

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	As of March 31, 2022	As of June 30, 2022
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	18,011	22,794
Short-term loans payable	3,176	3,012
Current portion of bonds payable	4,000	4,000
Accounts payable-other	9,617	8,748
Income taxes payable	2,997	1,151
Other	7,956	9,388
Total current liabilities	45,760	49,095
Non-current liabilities		
Bonds payable	8,000	8,000
Long-term loans payable	1,474	1,446
Net defined benefit liability	380	401
Other	13,419	13,895
Total non-current liabilities	23,273	23,744
Total liabilities	69,034	72,839
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,759	15,772
Retained earnings	195,566	197,317
Treasury stock	(2,624)	(2,624)
Total shareholders' equity	223,633	225,397
Accumulated other comprehensive income		
Unrealized holding gains on other securities	9,818	8,894
Translation adjustments	10,630	15,933
Remeasurements of defined benefit plans	1,396	1,310
Total accumulated other comprehensive income	21,846	26,138
Non-controlling interests	945	989
Total net assets	246,425	252,525
Total liabilities and net assets	315,459	325,364

This document is an English translation of the Japanese-language original.
All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

(2) Consolidated Statements of Income & Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

	First quarter of fiscal year ended March 31, 2022	First quarter of fiscal year ending March 31, 2023
	Million yen	
Net sales	46,447	48,296
Cost of sales	30,319	31,301
Gross profit on sales	16,128	16,995
Selling, general and administrative expenses	10,240	10,614
Operating income	5,887	6,380
Non-operating income		
Interest income	29	91
Dividend income	413	442
Equity in earnings of affiliates	149	—
Foreign exchange gains	—	1,588
Other	203	227
Total non-operating income	796	2,350
Non-operating expenses		
Interest expense	28	24
Share of loss of entities accounted for using equity method	—	9
Foreign exchange losses	253	—
Other losses	53	63
Total non-operating expenses	335	97
Ordinary income	6,348	8,634
Extraordinary income		
Gain on sales of non-current assets	1,371	28
Total extraordinary income	1,371	28
Extraordinary loss		
Loss on disposal of non-current assets	111	136
Loss on valuation of investment securities	4	—
Total extraordinary loss	115	136
Profit before income taxes	7,604	8,526
Income taxes-current	1,342	1,480
Income taxes-deferred	982	1,072
Total income taxes	2,325	2,552
Profit	5,279	5,973
Profit attributable to non-controlling interests	14	16
Profit attributable to owners of parent	5,265	5,957

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Consolidated Statements of Comprehensive Income

	First quarter of fiscal year ended March 31, 2022	First quarter of fiscal year ending March 31, 2023
	Million yen	
Profit	5,279	5,973
Other comprehensive income		
Unrealized holding gains on other securities	(851)	(924)
Translation adjustments	1,476	5,371
Remeasurements of defined benefit plans	(10)	(86)
Share of other comprehensive income of companies accounted for by the equity-method	1	0
Total other comprehensive income	614	4,361
Comprehensive income	5,894	10,334
Comprehensive income attributable to:		
Owners of parent	5,869	10,249
Non-controlling interests	24	85

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(3) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding Assumptions for the Going Concern)

No items to report

(Notes in Case of Significant Change in Shareholders' Equity)

No items to report

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(Segment Information and Other Items)

First quarter of the fiscal year ended March 31, 2022 (April 1, 2021–June 30, 2021)

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

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	20,089	12,773	11,382	44,245	2,202	46,447	–	46,447
Intersegment sales and transfers	40	0	–	40	25	66	(66)	–
Total	20,130	12,773	11,382	44,286	2,227	46,513	(66)	46,447
Segment profit	3,399	1,925	1,799	7,124	444	7,569	(1,681)	5,887

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,681 million yen downward adjustment to segment profit reflects a negative 1,690 million yen in corporate expense not allocable to the reportable segments and 9 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

Note 4: Segment information for the first quarter of the previous consolidated fiscal year reflects a material revision to the initial amount allocated for the acquisition cost due to finalization of the provisional accounting estimate for a business combination.

2. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment
(Material change in the amount of goodwill)

The acquisition of shares of Teikoku Taping System Co., Ltd. resulted in recognition of goodwill in the functional chemicals business. This resulted in a 976 million-yen increase in goodwill in the first quarter of the previous consolidated fiscal year. The amount of goodwill reflects a material revision to the initial amount allocated for the acquisition cost due to finalization of the provisional accounting estimate for a business combination.

First quarter of the fiscal year ending March 31, 2023 (April 1, 2022–June 30, 2022)

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

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	21,117	12,632	12,385	46,135	2,161	48,296	–	48,296
Intersegment sales and transfers	42	0	–	42	27	69	(69)	–
Total	21,159	12,632	12,385	46,177	2,188	48,366	(69)	48,296
Segment profit	3,760	2,374	1,662	7,797	473	8,270	(1,889)	6,380

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,889 million yen downward adjustment to segment profit reflects a negative 1,881 million yen in corporate expense not allocable to the reportable segments and 7 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment
(Material change in the amount of goodwill)

No items to report