

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

November 8, 2022

Listed company: Nippon Kayaku Co., Ltd.
Listed stock exchange: First Section, Tokyo Stock Exchange
Code No.: 4272 URL: <https://www.nipponkayaku.co.jp/english/>

Representative (name, position): Atsuhiko 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: November 10, 2022
Scheduled date for start of dividend payments: December 1, 2022
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 Second Quarter of the Fiscal Year Ending March 31, 2023 (April 1, 2022–September 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 half of fiscal year ending March 31, 2023	102,728	15.6	13,559	24.4	16,628	40.6	11,281	22.5
First half of fiscal year ended March 31, 2022	88,840	10.3	10,902	56.3	11,828	61.1	9,205	88.5

Note: Comprehensive income First half of fiscal year ending March 31, 2023: 16,935 million yen (58.9%)
First half of fiscal year ended March 31, 2022: 10,665 million yen (32.6%)

	Profit attributable to owners of parent per share-primary	Profit attributable to owners of parent per share-diluted
	Yen	Yen
First half of fiscal year ending March 31, 2023	67.04	67.02
First half of fiscal year ended March 31, 2022	54.27	54.26

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	329,503	259,239	78.4
As of March 31, 2022	315,459	246,425	77.8

Reference: Equity As of September 30, 2022 258,208 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	-	20.00			
Fiscal year ending March 31, 2023 (forecast)			-	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
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: None

Notes

- (1) Significant changes in subsidiaries during the first half (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 restatements
 - [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 September 30, 2022: 170,503,570 shares
 - As of March 31, 2022: 170,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of September 30, 2022: 2,170,940 shares
 - As of March 31, 2022: 2,257,985 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First half of the fiscal year ending March 31, 2023: 168,274,562 shares
 - First half of the fiscal year ended March 31, 2022: 169,638,661 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 Results 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 Wednesday, November 9, 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 Second Quarter

(1) Analysis of Operating Results

During the first half of this consolidated fiscal year (April 1 to September 30, 2022), the global economy saw a return to normalcy from the COVID-19 pandemic. However, the sense of uncertainty increased even more as a result of the Russian invasion of Ukraine, increasing global inflation caused by high fuel and raw material prices, and the zero COVID policy in China.

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 half of this consolidated fiscal year totaled 102,728 million yen, an increase of 13,888 million yen (15.6%) year-on-year. Sales in the pharmaceuticals business underperformed while the functional chemicals, safety systems, and other businesses outperformed the first half of the previous fiscal year.

Operating income totaled 13,559 million yen, an increase of 2,657 million yen (24.4%) year-on-year.

Ordinary income totaled to 16,628 million yen, an increase of 4,799 million yen (40.6%) year-on-year owing to foreign exchange gains.

Profit attributable to owners of parent was 11,281 million yen, an increase of 2,075 million yen (22.5%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Net sales reached 46,023 million yen, an increase of 8,410 million yen (22.4%) year-on-year.

The functional materials business as a whole outperformed the first half 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 half of the previous fiscal year. This outperformance resulted from strong sales of colorants for inkjet printers for consumer use in addition to a rebound in market demand for colorants and ink for inkjet printers in industrial applications.

The catalyst business outperformed the first half of the previous fiscal year, due to strong orders, both in Japan and for exports overseas.

In the Polatechno business, strong sales of components for X-ray analysis systems more than compensated for sluggish demand for dye-type polarizing film. This resulted in outperformance of the Polatechno Business as a whole, compared with the first half of the previous fiscal year.

Segment profit totaled 7,838 million yen, an increase of 1,763 million yen (29.0%) year-on-year. This increase resulted from growth in sales in the functional materials and catalyst businesses.

[Pharmaceuticals Business]

Sales totaled 25,334 million yen, a decrease of 200 million yen (0.8%) year-on-year.

Pharmaceuticals in Japan outperformed the first half of the previous fiscal year, owing to from the launch of DARVIAS[®] Injection, a new drug for blood cancer, in August and growth in sales of the new generic anti-cancer drug PEMETREXED for I.V. Infusion and ALAGLIO[®] granule packets, a photodynamic diagnostic agent.

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

Segment profit totaled 4,512 million yen, an increase of 396 million yen (9.6%) year-on-year.

[Safety Systems Business]

Sales reached 26,742 million yen, an increase of 5,124 million yen (23.7%) year-on-year.

The domestic business as a whole underperformed the first half of the previous fiscal year. This underperformance resulted from a year-on-year decline in sales of airbag inflators owing to low demand from automobile production cuts caused by the shortage of semiconductors and other factors, despite growth in sales of micro gas generators for seatbelt pretensioners.

The overseas business outperformed the first half of the previous fiscal year in sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs, as demand rebounded from the slump caused by policies to combat the COVID-19 pandemic implemented in different countries and despite the impact from the shortage of semiconductors.

Segment profit reached 3,985 million yen, an increase of 816 million yen (25.8%) year-on-year, owing to the rebound in demand and growth in sales boosted by the weakening yen.

[Other]

Sales were 4,628 million yen, an increase of 554 million yen (13.6%) year-on-year.

The agrochemicals business as a whole outperformed the first half of the previous fiscal year due to a year-on-year increase in both domestic sales and exports.

Sales in real estate and other business increased compared to the same period of the previous fiscal year.

Segment profit totaled 899 million yen, a decrease of 19 million yen (2.2%) year-on-year.

(2) Analysis of Financial Position

[1] Status of Assets, Liabilities, and Net Assets

Total assets were 329,503 million yen, an increase of 14,043 million yen from the end of the previous consolidated fiscal year. The main increases were in raw materials and stores, an increase of 6,775 million yen; cash and deposits, an increase of 3,490 million yen; and merchandise and finished goods, an increase of 2,983 million yen. The main decrease was in securities, a decrease of 2,774 million yen.

Liabilities were 70,264 million yen, an increase of 1,229 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 3,804 million yen. The main decrease was in short-term loans payable, a decrease of 1,106 million yen.

Net assets were 259,239 million yen, an increase of 12,813 million yen compared to the end of the previous consolidated fiscal year. The main increases were in translation adjustments, an increase of 7,130 million yen; and retained earnings, an increase of 7,073 million yen. The main decrease was in unrealized holding gains on other securities, a decrease of 1,432 million yen.

[2] Cash Flows Status

Net cash inflow in operating activities amounted to 12,035 million yen (versus a cash inflow of 14,384 million yen during the same period of the previous fiscal year). The positive cash flow was primarily generated from profit before income taxes of 16,445 million yen, depreciation and amortization of 6,655 million yen, and a decrease in notes and accounts receivable-trade of 2,011 million yen. The above factors more than compensated for an increase in inventories of 8,441 million yen and income tax paid of 3,853 million yen.

Net cash outflow in investing activities totaled 9,238 million yen (versus a cash outflow of 5,573 million yen during the same period of the previous fiscal year). The net outflow was mainly due to expenditures of 5,989 million yen for the purchase of property, plant, and equipment, 2,099 million yen for the purchase of investment securities, 402 million yen for the purchase of securities, and 339 million yen for time deposits.

Net cash outflow in financing activities amounted to 6,198 million yen (versus a cash outflow of 6,397 million yen during the same period of the previous fiscal year). This was mainly due to dividends paid of 4,198 million yen, expenditures for repayment of long-term loans of 1,167 million yen, and a net decrease of 681 million yen in short-term loans payable.

Reflecting the above cash flow performance, the balance of cash and cash equivalents at the end of the first half was 52,613 million yen (versus 50,410 million yen during the same period of the previous fiscal year), a decrease of 348 million yen from the end of the previous fiscal year.

(3) Analysis of Forward-looking Statements, Including Consolidated Business Results 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 raw 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, expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

There has been no change in the consolidated business results forecasts for fiscal year ending March 31, 2023 announced on July 29, 2022.

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

(1) Consolidated Balance Sheets

	As of March 31, 2022	As of September 30, 2022
	Million yen	
Assets		
Current assets		
Cash and deposits	38,459	41,949
Notes and accounts receivable-trade	60,719	60,100
Electronically recorded monetary claims-operating	1,868	1,860
Securities	15,186	12,411
Merchandise and finished goods	36,784	39,767
Work in process	1,149	1,246
Raw materials and stores	17,901	24,677
Other	3,832	5,563
Allowance for doubtful accounts	(57)	(56)
Total current assets	175,843	187,521
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	43,469	44,417
Machinery, equipment and vehicles, net	26,923	27,424
Other, net	18,667	20,092
Total property, plant and equipment	89,060	91,934
Intangible assets		
Goodwill	3,016	2,779
Other	4,569	4,361
Total intangible assets	7,586	7,141
Investments and other assets		
Investment securities	33,511	33,410
Net defined benefit asset	4,572	4,682
Other	4,949	4,875
Allowance for doubtful accounts	(63)	(62)
Total investments and other assets	42,970	42,906
Total non-current assets	139,616	141,981
Total assets	315,459	329,503

Nippon Kayaku Co., Ltd.
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	As of March 31, 2022	As of September 30, 2022
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	18,011	21,815
Short-term loans payable	3,176	2,070
Current portion of bonds payable	4,000	4,000
Accounts payable-other	9,617	9,524
Income taxes payable	2,997	3,442
Other	7,956	7,087
Total current liabilities	45,760	47,941
Non-current liabilities		
Bonds payable	8,000	8,000
Long-term loans payable	1,474	824
Net defined benefit liability	380	413
Other	13,419	13,084
Total non-current liabilities	23,273	22,322
Total liabilities	69,034	70,264
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,759	15,785
Retained earnings	195,566	202,639
Treasury stock	(2,624)	(2,523)
Total shareholders' equity	223,633	230,835
Accumulated other comprehensive income		
Unrealized holding gains on other securities	9,818	8,386
Translation adjustments	10,630	17,761
Remeasurements of defined benefit plans	1,396	1,224
Total accumulated other comprehensive income	21,846	27,372
Non-controlling interests	945	1,031
Total net assets	246,425	259,239
Total liabilities and net assets	315,459	329,503

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

	First half of the fiscal year ended March 31, 2022	First half of the fiscal year ending March 31, 2023
	Million yen	
Net sales	88,840	102,728
Cost of sales	57,622	66,988
Gross profit on sales	31,218	35,740
Selling, general and administrative expenses	20,315	22,180
Operating income	10,902	13,559
Non-operating income		
Interest income	63	231
Dividend income	544	510
Equity in earnings of affiliates	245	6
Foreign exchange losses	–	2,114
Other	396	439
Total non-operating income	1,249	3,301
Non-operating expenses		
Interest expense	39	41
Foreign exchange losses	122	–
Other losses	161	191
Total non-operating expenses	323	232
Ordinary income	11,828	16,628
Extraordinary income		
Gain on sales of non-current assets	1,372	31
Gain on sales of investment securities	81	–
Total extraordinary income	1,453	31
Extraordinary loss		
Loss on disposal of non-current assets	252	211
Loss on valuation of investment securities	57	3
Total extraordinary loss	309	214
Profit before income taxes	12,972	16,445
Income taxes-current	3,225	4,456
Income taxes-deferred	495	664
Total income taxes	3,720	5,120
Profit	9,251	11,324
Profit attributable to non-controlling interests	46	43
Profit attributable to owners of parent	9,205	11,281

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

Consolidated Statements of Comprehensive Income

	First half of the fiscal year ended March 31, 2022	First half of the fiscal year ending March 31, 2023
	Million yen	
Profit	9,251	11,324
Other comprehensive income		
Unrealized holding gains on other securities	120	(1,431)
Translation adjustments	1,308	7,214
Remeasurements of defined benefit plans	(20)	(173)
Share of other comprehensive income of companies accounted for by the equity-method	(3)	0
Total other comprehensive income	1,404	5,610
Comprehensive income	10,655	16,935
Comprehensive income attributable to:		
Owners of parent	10,590	16,807
Non-controlling interests	65	127

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(3) Consolidated Statements of Cash Flows

	First half of the fiscal year ended March 31, 2022	First half of the fiscal year ending March 31, 2023
	Million yen	
Cash flows from operating activities		
Profit before income taxes	12,972	16,445
Depreciation and amortization	6,631	6,655
Amortization of goodwill	265	272
Increase (decrease) in other provisions	(88)	(114)
Interest and dividend income	(607)	(741)
Interest expense	39	41
Foreign exchange losses (gains)	(324)	(1,570)
Equity in (earnings) losses of affiliates	(245)	(6)
Loss (gain) on sales of property, plant and equipment	(1,372)	(31)
Loss (gain) on disposal of property, plant and equipment	252	211
Loss (gain) on sales of investment securities	(81)	-
Loss (gain) on valuation of investment securities	57	3
(Increase) decrease in notes and accounts receivable-trade	4,870	2,011
(Increase) decrease in inventories	(8,129)	(8,441)
(Increase) decrease in prepaid expenses	(233)	(602)
(Increase) decrease in accounts receivable-other	1,323	(593)
(Increase) decrease in advance payments	14	(12)
Increase (decrease) in notes and accounts payable-trade	1,431	3,315
Increase (decrease) in notes and accounts payable-other	(670)	(387)
Increase (decrease) in accrued expenses	(2)	(348)
Increase (decrease) in net defined benefit liability	15	17
(Increase) decrease in net defined benefit asset	(164)	(337)
Other	(239)	(851)
Subtotal	15,714	14,934
Interest and dividends received	737	935
Interest paid	(41)	(38)
Income tax paid	(2,096)	(3,853)
Income tax refund	70	56
Net cash provided by operating activities	14,384	12,035
Cash flows from investing activities		
Net decrease (increase) in time deposits	(19)	(339)
Proceeds from withdrawal of time deposits	41	20
Short-term loan advances	-	(66)
Purchase of property, plant and equipment	(3,672)	(5,989)
Proceeds from sales of property, plant and equipment	1,490	32
Purchase of intangible assets	(167)	(151)
Purchase of investment securities	-	(402)
Proceeds from sales of investment securities	(49)	(2,099)
Proceeds from redemption of investment securities	112	15
Purchase of shares of subsidiaries and associates	119	237
Payments for long-term prepaid expenses	(561)	-
Payment for retirement of property, plant and equipment	(1,024)	(221)
Payments for acquisition of businesses	(210)	(277)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,628)	-
Other	(4)	4
Net cash used in investing activities	(5,573)	(9,238)

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	First half of the fiscal year ended March 31, 2022	First half of the fiscal year ending March 31, 2023
	Million yen	
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	518	(681)
Repayment of long-term loans	(1,243)	(1,167)
Purchase of treasury stock	(3,000)	(0)
Dividends paid	(2,553)	(4,198)
Dividends paid to non-controlling interests	(26)	(42)
Other	(92)	(108)
Net cash provided by financing activities	(6,397)	(6,198)
Effect of exchange rate change on cash and cash equivalents	514	3,053
Increase (decrease) in cash and cash equivalents	2,926	(348)
Cash and cash equivalents at beginning of period	47,483	52,962
Cash and cash equivalents at end of period	50,410	52,613

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(4) 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

(Segment Information and Other Items)

I. First half of the fiscal year ended March 31, 2022 (April 1, 2021–September 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	37,612	25,534	21,618	84,765	4,074	88,840	–	88,840
Sales to third parties								
Intersegment sales and transfers	71	0	–	71	51	123	(123)	–
Total	37,684	25,534	21,618	84,837	4,126	88,964	(123)	88,840
Segment profit	6,074	4,115	3,169	13,360	919	14,279	(3,376)	10,902

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 3,376 million yen downward adjustment to segment profit reflects a negative 3,367 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.

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

In the functional chemicals business segment, allocation of the acquisition cost for the acquisition of shares in Teikoku Taping System Co., Ltd. had not been completed in the first quarter of fiscal year ended March 31, 2022. The amount of goodwill was therefore the provisionally calculated amount. The amount of goodwill was revised in the second quarter of fiscal year ended March 31, 2022 because allocation of the acquisition cost was completed and the provisional accounting treatment was finalized.

The above revision increased goodwill by 976 million yen.

II. First half of the fiscal year ending March 31, 2023 (April 1, 2022–September 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	46,023	25,334	26,742	98,100	4,628	102,728	–	102,728
Sales to third parties								
Intersegment sales and transfers	82	0	–	82	55	137	(137)	–
Total	46,105	25,334	26,742	98,182	4,684	102,866	(137)	102,728
Segment profit	7,838	4,512	3,985	16,336	899	17,235	(3,675)	13,559

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 3,675 million yen downward adjustment to segment profit reflects a negative 3,690 million yen in corporate expense not allocable to the reportable segments and 15 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

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(Significant Subsequent Events)

(Acquisition of Treasury Shares)

Nippon Kayaku has decided to acquire treasury shares as described below. The resolution has been approved at the Board of Directors meeting held on November 8, 2022. The acquisition is based on Article 156 of the Companies Act, applied as specified in Article 165, Paragraph 3 of the same Act.

1. Reason for acquiring treasury shares

To enable flexible execution of capital policy according to changes in the management environment

2. Summary of treasury share acquisition terms

- (1) Class of shares to be acquired: Common shares in Nippon Kayaku Co., Ltd.
- (2) Total number of shares to be acquired: (up to) 3,000,000 shares
(Percentage of total number of shares issued (excluding treasury shares): 1.78%)
- (3) Total cost of share acquisition: (up to) 3,000 million yen
- (4) Acquisition period: From November 9, 2022 to March 31, 2023
- (5) Acquisition method: Market purchase on the Tokyo Stock Exchange