

Summary of Consolidated Financial Results [Japanese GAAP] For the First Quarter of the Fiscal Year Ending March 31, 2024

July 31, 2023

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

Listed stock exchange: Prime Market, 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

Filing date of quarterly securities report: August 9, 2023

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, 2024 (April 1, 2023– June 30, 2023)

(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, 2024	48,584	0.6	2,333	(63.4)	4,179	(51.6)	2,661	(55.3)
First quarter of fiscal year ended March 31, 2023	48,296	4.0	6,380	8.4	8,634	36.0	5,957	13.1

Note: Comprehensive income

First quarter of fiscal year ending March 31, 2024: 12,765 million yen (23.5%)

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

	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, 2024	16.06	16.04
First quarter of fiscal year ended March 31, 2023	35.41	35.40

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2023	343,001	263,523	76.5
As of March 31, 2023	322,858	255,027	78.7

Reference: Equity As of June 30, 2023: 262,554 million yen
As of March 31, 2023: 254,018 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, 2023	–	20.00	–	25.00	45.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (forecast)		22.50	–	22.50	45.00

Note: Changes to the most recent dividend forecast: None

3. Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2024 (April 1, 2023–March 31, 2024)

(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	97,100	(5.5)	5,300	(60.9)	6,200	(62.7)	4,400	(61.0)	26.54
Full year	202,300	2.0	13,000	(39.5)	14,000	(39.2)	10,500	(29.9)	63.34

Note: Changes to the most recent forecast for consolidated business results: None

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, 2023: 170,503,570 shares
 - As of March 31, 2023: 170,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of June 30, 2023: 4,733,430 shares
 - As of March 31, 2023: 4,732,954 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First quarter of fiscal year ending March 31, 2024: 165,770,312 shares
 - First quarter of fiscal year ended March 31, 2023: 168,245,559 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.

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

We have scheduled a teleconference for securities analysts and institutional investors on Monday, July 31, 2023. 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, 2023), the global economy saw the price of fuel and raw materials remain at high levels and increasing uncertainty as conditions of high geopolitical risk persisted along with the prolonged invasion of Ukraine by Russia.

The Nippon Kayaku Group entered the second year of **KAYAKU Vision 2025**, the new mid-term business plan which began last fiscal year, amid such conditions. We continue 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 48,584 million yen, an increase of 287 million yen (0.6%) year-on-year. Sales in the Fine Chemicals Business Unit underperformed while sales in the Mobility & Imaging Business Unit and Life Science Business Unit outperformed the first quarter of the previous fiscal year.

Operating income totaled 2,333 million yen, a decrease of 4,046 million yen (63.4%) year-on-year. The decrease resulted from the decrease in net sales in the Fine Chemicals Business Unit in addition to the negative impact from the surge in raw material prices.

Ordinary income totaled 4,179 million yen, a decrease of 4,454 million yen (51.6%) year-on-year. Foreign exchange gains were the main reason behind the net increase at the non-operating level, which boosted ordinary income above operating income.

Profit attributable to owners of parent was 2,661 million yen, a decrease of 3,295 million yen (55.3%) year-on-year.

Performance by business segment is as described below.

[Mobility & Imaging Business Unit]

Sales rose to 19,250 million yen, an increase of 2,555 million yen (15.3%) year-on-year.

In the safety systems business, sales of airbag inflators were on par with the first quarter of the previous fiscal year and sales of micro gas generators for seatbelt pretensioners outperformed year-on-year. This resulted from a gradual rebound in demand from the latter half of the first quarter despite continuing automobile production cuts due mainly to the shortage of semiconductors. Overseas sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs also outperformed year-on-year as overall demand remained firm despite rising global inflation and sluggish demand in some regions due to the resurgence of COVID-19. The safety systems business overall outperformed year-on-year as a result.

The Polatechno business outperformed year-on-year as demand for dye-type polarizing films gradually rebounded and demand for components for X-ray analysis systems remained firm.

Segment profit was 1,479 million yen, a decrease of 449 million yen (23.3%) year-on-year. The decrease was caused by rising manufacturing costs due to the surge in raw material prices and an increase in selling, development, and other expenses.

[Fine Chemicals Business Unit]

Sales were 13,946 million yen, a decrease of 2,861 million yen (17.0%) year-on-year.

The functional materials business as a whole underperformed the first quarter of the previous fiscal year. This underperformance resulted from a slump in consumer demand due to the global rise the price of goods and low demand for epoxy resins and other products groups affected by inventory adjustments in the semiconductor materials supply chain.

The color materials business as a whole underperformed the first quarter of the previous fiscal year. This underperformance resulted from slow sales of colorants for inkjet printers for consumer use and year-on-year underperformance of ink for inkjet printers in industrial applications.

The catalyst business outperformed the first quarter of the previous fiscal year.

Segment profit totaled 1,245 million yen, a decrease of 2,247 million yen (64.3%) year-on-year. The decrease stemmed from a decline in net sales in the functional materials and color materials businesses.

[Life Science Business Unit]

Sales rose to 15,387 million yen, an increase of 593 million yen (4.0%) year-on-year.

In the pharmaceuticals business, pharmaceuticals in Japan underperformed the first quarter of the previous fiscal year due to the impact from drug price revisions, despite increased market penetration of ALAGLIO® divided granules, a photodynamic diagnostic agent; growth in sales of PEMETREXED for I.V. Infusion, a generic anti-cancer drug; and the contribution from the antibody biosimilar BEVACIZUMAB BS, which was launched last fiscal year. Sales of active pharmaceutical ingredients and diagnostic drugs for the Japanese domestic market underperformed while exports and sales from contract production outperformed the first quarter of the previous fiscal year, resulting in year-on-year outperformance for the pharmaceuticals business as a whole.

The agrochemicals business as a whole outperformed the first quarter of the previous fiscal year due to

outperformance in exports, despite the year-on-year decrease in domestic sales.

Sales in the real estate were on par with the first quarter of the previous fiscal year.

Segment profit totaled 1,638 million yen, a decrease of 1,209 million yen (42.5%) year-on-year. The decrease resulted from an increase in research and development expenses in the pharmaceuticals business and the negative impact from drug price revisions.

In accordance with organizational changes, we have changed reportable segments from the “Functional Chemicals Business,” “Pharmaceuticals Business,” and “Safety Systems Business” to the “Mobility & Imaging Business Unit,” “Fine Chemicals Business Unit,” and “Life Science Business Unit” from the first quarter of this consolidated fiscal year. Segment numbers for the previous fiscal year have been restated based on the new reportable segments.

(2) Analysis of Financial Position

Total assets were 343,001 million yen, an increase of 20,143 million yen from the end of the previous consolidated fiscal year. The main increases were in cash and deposits, an increase of 8,152 million yen; investment securities, an increase of 4,028 million yen; and notes and accounts receivable-trade, an increase of 3,512 million yen.

Liabilities were 79,478 million yen, an increase of 11,646 million yen compared to the end of the previous consolidated fiscal year. The main increase was in short-term loans payable, an increase of 8,558 million yen.

Net assets were 263,523 million yen, an increase of 8,496 million yen compared to the end of the previous consolidated fiscal year. The main increases were in translation adjustments, an increase of 6,653 million yen; and unrealized holding gains on other securities, an increase of 3,383 million yen.

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

We expect the future business environment surrounding the Nippon Kayaku Group to rebound from the second half of the year despite the current phase of inventory adjustments, mainly in the semiconductor market. 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 shareholder value, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

The consolidated business results forecasts for this fiscal year remain unchanged from the forecasts announced on May 15, 2023.

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

(1) Consolidated Balance Sheets

	As of March 31, 2023	As of June 30, 2023
	Million yen	
Assets		
Current assets		
Cash and deposits	48,051	56,204
Notes and accounts receivable-trade	53,550	57,062
Electronically recorded monetary claims-operating	2,004	2,003
Securities	6,296	5,866
Merchandise and finished goods	46,217	45,855
Work in process	1,130	1,069
Raw materials and stores	23,759	25,270
Other	5,072	6,074
Allowance for doubtful accounts	(44)	(72)
Total current assets	186,037	199,334
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	42,544	43,364
Machinery, equipment and vehicles, net	26,069	26,199
Other, net	20,644	22,601
Total property, plant and equipment	89,259	92,165
Intangible assets		
Goodwill	2,492	2,375
Other	4,047	4,014
Total intangible assets	6,539	6,389
Investments and other assets		
Investment securities	32,146	36,175
Net defined benefit asset	3,845	3,903
Other	5,084	5,088
Allowance for doubtful accounts	(54)	(54)
Total investments and other assets	41,021	45,111
Total non-current assets	136,820	143,667
Total assets	322,858	343,001

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	As of March 31, 2023	As of June 30, 2023
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,239	18,335
Short-term loans payable	3,380	11,938
Accounts payable-other	10,662	11,074
Income taxes payable	2,133	950
Other	6,633	6,712
Total current liabilities	39,049	49,012
Non-current liabilities		
Bonds payable	8,000	8,000
Long-term loans payable	8,200	8,200
Net defined benefit liability	395	405
Other	12,186	13,859
Total non-current liabilities	28,782	30,465
Total liabilities	67,831	79,478
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,803	15,803
Retained earnings	202,976	201,494
Treasury stock	(5,523)	(5,524)
Total shareholders' equity	228,189	226,705
Accumulated other comprehensive income		
Unrealized holding gains on other securities	8,023	11,407
Translation adjustments	17,331	23,984
Remeasurements of defined benefit plans	473	455
Total accumulated other comprehensive income	25,828	35,848
Non-controlling interests	1,008	969
Total net assets	255,027	263,523
Total liabilities and net assets	322,858	343,001

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, 2023	First quarter of fiscal year ending March 31, 2024
	Million yen	
Net sales	48,296	48,584
Cost of sales	31,301	34,258
Gross profit on sales	16,995	14,325
Selling, general and administrative expenses	10,614	11,991
Operating income	6,380	2,333
Non-operating income		
Interest income	91	160
Dividend income	442	481
Equity in earnings of affiliates	-	152
Foreign exchange gains	1,588	899
Other	227	303
Total non-operating income	2,350	1,996
Non-operating expenses		
Interest expense	24	47
Share of loss of entities accounted for using equity method	9	-
Other losses	63	103
Total non-operating expenses	97	151
Ordinary income	8,634	4,179
Extraordinary income		
Gain on sale of non-current assets	28	2
Gain on sale of investment securities	-	923
Total extraordinary income	28	925
Extraordinary loss		
Loss on disposal of non-current assets	136	184
Loss on valuation of investment securities	-	765
Total extraordinary loss	136	949
Profit before income taxes	8,526	4,155
Income taxes-current	1,480	905
Income taxes-deferred	1,072	569
Total income taxes	2,552	1,475
Profit	5,973	2,679
Profit attributable to non-controlling interests	16	18
Profit attributable to owners of parent	5,957	2,661

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Consolidated Statements of Comprehensive Income

	First quarter of fiscal year ended March 31, 2023	First quarter of fiscal year ending March 31, 2024
	Million yen	
Profit	5,973	2,679
Other comprehensive income		
Unrealized holding gains on other securities	(924)	3,383
Translation adjustments	5,371	6,719
Remeasurements of defined benefit plans	(86)	(17)
Share of other comprehensive income of companies accounted for by the equity-method	0	0
Total other comprehensive income	4,361	10,085
Comprehensive income	10,334	12,765
Comprehensive income attributable to:		
Owners of parent	10,249	12,681
Non-controlling interests	85	84

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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

(Segment Information and Other Items)

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

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

	Reportable segments				Adjustments (Note 1)	Consolidated (Note 2)
	Mobility & Imaging Business Unit	Fine Chemicals Business Unit	Life Science Business Unit	Total		
	Million yen					
Sales						
Sales to third parties	16,694	16,808	14,794	48,296	–	48,296
Intersegment sales and transfers	8	42	0	51	(51)	–
Total	16,703	16,850	14,794	48,348	(51)	48,296
Segment profit	1,929	3,492	2,848	8,270	(1,889)	6,380

Note 1: The 1,889 million yen downward adjustment to segment profit reflects a negative 1,882 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 2: 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

First quarter of the fiscal year ending March 31, 2024 (April 1, 2023–June 30, 2023)

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

	Reportable segments				Adjustments (Note 1)	Consolidated (Note 2)
	Mobility & Imaging Business Unit	Fine Chemicals Business Unit	Life Science Business Unit	Total		
	Million yen					
Sales						
Sales to third parties	19,250	13,946	15,387	48,584	–	48,584
Intersegment sales and transfers	–	9	0	9	(9)	–
Total	19,250	13,956	15,388	48,594	(9)	48,584
Segment profit	1,479	1,245	1,638	4,363	(2,029)	2,333

Note 1: The 2,029 million yen downward adjustment to segment profit reflects a negative 2,024 million yen in corporate expense not allocable to the reportable segments and 5 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 2: 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

3 Information relating to the change in reportable segments

In accordance with organizational changes, we have changed reportable segments from the “Functional Chemicals Business,” “Pharmaceuticals Business,” and “Safety Systems Business” to the “Mobility & Imaging Business Unit,” “Fine Chemicals Business Unit,” and “Life Science Business Unit” from the first quarter of this consolidated fiscal year.

The main products provided by the reportable segments are shown in the table below.

Reportable segment	Sales segment	Main products and services
Mobility & Imaging Business Unit	Safety systems	Airbag inflators, micro gas generators for seatbelt pretensioners, and squibs
	Polatechno	Components for LCD displays, LCD projector components, and components for X-ray analysis systems
Fine Chemicals Business Unit	Functional materials	Epoxy resins, maleimide resins, epoxy resin hardeners, reactive flame retardants, acrylic acid esters, UV-curable resins for resist, resist for MEMS (liquid and dry film resist), cleaners for LCDs and semiconductors, liquid crystal display sealants, and semiconductor manufacturing equipment (laminator, remover, mounter, UV curing equipment)
	Color materials	Colorants for inkjet printers, dyes for inkjet textile printing, inks for industrial inkjet printers, image sensor materials, dichotomous colorants for dimmable glass, near infrared absorbers, dyes for textiles and paper, colorants for resins, developer for thermal paper, and pigment derivatives (synergists)
	Catalysts	Catalysts for the production of acrylic acid, acrolein, and methacrylic acid
Life Science Business Unit	Pharmaceuticals	Anti-cancer drugs, biological drugs, cardiovascular agents, photodynamic diagnostic agents, in-vitro diagnostic drugs, embolization materials, pharmaceutical API and intermediates, food and food additives, health food ingredients, preservatives for food quality, and cleaners and disinfectants
	Agrochemicals	Insecticides, herbicides, fungicides, miticides, public health insecticides, soil fumigants, and animal repellents
	Real estate	Real estate business

Segment information for the first quarter of the previous consolidated fiscal year has been restated based on the new reportable segments.