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Consolidated Financial Results for the Three Months Ended June 30, 2023 [JGAAP]



August 9, 2023

Company Name: DAINICHISEIKA COLOR & CHEMICALS MFG. CO., LTD.

Stock Code: 4116

(URL: <https://www.daicolor.co.jp>)

Stock Exchange Listing: Tokyo

Representative: Koji Takahashi, Representative Director and President

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Scheduled date to submit the Quarterly Securities Report: August 9, 2023

Scheduled date to commence dividend payments: –

Availability of supplementary briefing material on quarterly results: Yes

Holding of Quarterly Results Briefing Session: None

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

(1) Consolidated Results of Operations (cumulative) (% indicates changes from the previous corresponding term)

	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 June 30, 2023	30,339	(4.6)	937	(19.2)	1,261	(21.4)	1,583	30.1
Three months ended June 30, 2022	31,790	4.9	1,160	(53.7)	1,604	(42.4)	1,217	(37.1)

(Note) Comprehensive income: Three months ended June 30, 2023: ¥2,531 million [(19.9)%]
Three months ended June 30, 2022: ¥3,158 million [(3.6)%]

	Profit per share	Fully diluted profit per share
	Yen	Yen
Three months ended June 30, 2023	85.66	–
Three months ended June 30, 2022	65.87	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	194,631	116,054	58.5
As of March 31, 2023	192,765	114,301	58.1

(Reference) Equity: As of June 30, 2023: ¥113,803 million
As of March 31, 2023: ¥112,058 million

2. Dividends

	Annual cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	–	40.00	–	40.00	80.00
Year ending March 31, 2024	–				
Year ending March 31, 2024 (Forecast)		40.00	–	40.00	80.00

(Note) Revisions of dividend forecast from recently announced figures: Not applicable

3. Earnings Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2024 (From April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding term)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	63,500	2.3	2,400	33.9	2,700	9.9	2,500	54.2	135.20
Full year	128,000	4.9	5,200	97.3	5,600	66.0	4,300	114.2	232.54

(Note) Revisions of forecast of financial results from recently announced figures: Not applicable

* Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2023 (changes in specific subsidiaries involving changes in the scope of consolidation): Not applicable
- (2) Adoption of specific accounting treatments to the preparation of quarterly consolidated financial statements: Not applicable
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 - 1) Changes in accounting policies due to the revision of accounting standards: Not applicable
 - 2) Changes in accounting policies other than 1): Not applicable
 - 3) Changes in accounting estimates: Not applicable
 - 4) Restatements: Not applicable

(Note) For details, please refer to the “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements” on page 8 of this report.

(4) Total number of issued shares (common stock)

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

As of June 30, 2023	18,613,110 shares	As of March 31, 2023	18,613,110 shares
As of June 30, 2023	122,119 shares	As of March 31, 2023	122,030 shares
Three months ended June 30, 2023	18,490,991 shares	Three months ended June 30, 2022	18,479,537 shares

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

3) Average number of shares during the period (cumulative):

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants and audit corporations.

* Explanation for the appropriate use of performance forecasts 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, and they are not meant to be a commitment by the Company. Therefore, there might be cases in which actual results differ materially from forecast values due to various factors. For the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information” on page 3 of this report.

Table of Contents of Appendix

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information	3
2. Quarterly Consolidated Financial Statements and Principal Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(Quarterly Consolidated Statements of Income)	6
(Quarterly Consolidated Statements of Comprehensive Income)	7
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes to Going Concern Assumption)	8
(Notes to Significant Changes in the Amount of Shareholders' Equity)	8
(Segment Information)	9
(Notes Related to Revenue Recognition)	10
(Significant Subsequent Events)	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Results of Operations

With regard to the economic environment surrounding the Group in the three months ended June 30, 2023, while overseas economies such as Europe, the U.S., and China slowed down due to ongoing inflation, the Japanese economy showed a gradual recovery trend due to the normalization of the economy and the recovery of consumer spending and inbound demand.

In this economic environment, sales to the Group's main customers in the information-electronics industry of products for use in LCD trended favorably as inventory adjustments in the supply chain ran their course. On the other hand, in the transportation industry, sales of products for use in automobiles failed to reach a full-fledged recovery, and sales of products for the packaging materials and building materials industries were sluggish, affected by weak consumption against a backdrop of high prices. Overseas sales were sluggish, affected by the economic stagnation in China. As a result, net sales decreased to ¥30,339 million, down by 4.6% compared with the same period of the previous fiscal year. Operating profit decreased to ¥937 million, down by 19.2% compared with the same period of the previous fiscal year due to a decrease in sales volume, and ordinary profit decreased to ¥1,261 million, down by 21.4% compared with the same period of the previous fiscal year, respectively. Profit attributable to owners of parent increased to ¥1,583 million, up by 30.1% compared with the same period of the previous fiscal year, mainly due to recording a gain on the sale of strategic shareholdings in extraordinary income. Operating results by reportable segment are as follows:

(Color & Functional Products)

In the Color & Functional Products business, the Group manufactures and sells pigments, colorants for fabrics, colorants used in plastics, compounds, pigment dispersion and functional materials.

Net sales of pigments and dispersion for the information-electronics industry showed a recovery trend from the beginning of the period for LCD applications, and continued to recover for OA equipment applications. Sales of compounds and colorants for the transportation industry remained sluggish due to ongoing inventory adjustments in the supply chain. Overseas, sales of compounds and colorants for home appliance and OA equipment applications remained sluggish at a local subsidiary in China.

As a result, net sales in the segment stood at ¥16,659 million, down by 6.4% compared with the same period of the previous fiscal year, while operating profit was ¥445 million, down by 46.9% compared with the same period of the previous fiscal year.

(Polymers & Coating Materials)

In the Polymers & Coating Materials business, the Group manufactures and sells UV and EB coating materials, polyurethanes and polymers derived from natural substances.

Net sales of polyurethanes were generally solid as inventory adjustments for the transportation industry ran their course, while sales of thermal-recording coating materials for industrial materials were sluggish. Sales of UV coating materials for the information-electronics industry trended favorably as inventory adjustments for LCD ran their course.

As a result, net sales in the segment stood at ¥5,950 million, down by 4.2% compared with the same period of the previous fiscal year, while operating profit was ¥670 million, down by 1.9% compared with the same period of the previous fiscal year.

(Graphic & Printing Materials)

In the Graphic & Printing Materials business, the Group manufactures and sells gravure printing ink and offset printing ink.

Sales of gravure printing ink for the packaging materials industry were solid for beverage label applications, while those for flexible packaging applications for food products were sluggish due to the impact of price hikes caused by inflation. Sales of offset printing ink were weak due to a decrease in demand.

As a result, net sales in this segment decreased to ¥7,714 million, down by 0.8% compared with the same period of the previous fiscal year, but the operating loss narrowed to ¥167 million (compared with a loss of ¥369 million for the same period of the previous fiscal year) due to the disappearance of one-time new plant relocation expenses recorded in the previous fiscal year and progress in price revisions at overseas subsidiaries in addition to the calming down of raw material prices.

(2) Explanation of Financial Position

(Assets)

Total assets as of June 30, 2023 increased by ¥1,866 million compared with the end of the previous fiscal year to ¥194,631 million. This is mainly due to an increase in “notes and accounts receivable - trade.”

(Liabilities)

Total liabilities as of June 30, 2023 increased by ¥112 million compared with the end of the previous fiscal year to ¥78,576 million. This was mainly due to increases in “provision for bonuses” and “notes and accounts payable - trade,” while “interest-bearing debt” decreased.

(Net assets)

Total assets as of June 30, 2023 increased by ¥1,753 million compared with the end of the previous fiscal year to ¥116,054 million. This was mainly due to an increase in “retained earnings” resulting from recording “profit attributable to owners of parent” and an increase in “foreign currency translation adjustments.”

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-Looking Information

The forecast of consolidated financial results for the first half and full year of the fiscal year ending March 31, 2024, is unchanged from the forecast announced on May 15, 2023.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	24,756	24,641
Notes and accounts receivable - trade	49,352	51,751
Inventories	33,994	33,646
Other	2,219	2,027
Allowance for doubtful accounts	(79)	(83)
Total current assets	110,243	111,984
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,451	21,290
Land	13,871	13,885
Other, net	14,451	14,586
Total property, plant and equipment	49,774	49,762
Intangible assets		
Other	1,394	1,316
Total intangible assets	1,394	1,316
Investments and other assets		
Investment securities	18,018	18,168
Retirement benefit asset	10,492	10,602
Other	2,857	2,813
Allowance for doubtful accounts	(15)	(15)
Total investments and other assets	31,353	31,568
Total non-current assets	82,522	82,647
Total assets	192,765	194,631
Liabilities		
Current liabilities		
Notes and accounts payable - trade	28,771	29,275
Short-term borrowings	12,431	11,435
Current portion of long-term borrowings	5,502	5,270
Income taxes payable	548	902
Provision for bonuses	1,661	2,558
Provision for environmental measures	13	2,868
Other	4,611	4,966
Total current liabilities	53,539	57,278
Non-current liabilities		
Long-term borrowings	12,507	11,865
Provision for environmental measures	2,967	104
Retirement benefit liability	7,619	7,693
Other	1,829	1,635
Total non-current liabilities	24,924	21,298
Total liabilities	78,464	78,576

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	10,039	10,039
Capital surplus	9,768	9,768
Retained earnings	81,791	82,635
Treasury shares	(287)	(288)
Total shareholders' equity	101,312	102,156
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,113	6,330
Foreign currency translation adjustment	3,201	3,943
Remeasurements of defined benefit plans	1,431	1,373
Total accumulated other comprehensive income	10,745	11,646
Non-controlling interests	2,243	2,251
Total net assets	114,301	116,054
Total liabilities and net assets	192,765	194,631

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	31,790	30,339
Cost of sales	25,949	24,928
Gross profit	5,841	5,410
Selling, general and administrative expenses	4,680	4,473
Operating profit	1,160	937
Non-operating income		
Interest income	20	46
Dividend income	177	175
Share of profit of entities accounted for using equity method	6	-
Foreign exchange gains	190	138
Other	156	119
Total non-operating income	550	479
Non-operating expenses		
Interest expenses	72	70
Share of loss of entities accounted for using equity method	-	59
Rental expenses on non-current assets	15	14
Other	19	11
Total non-operating expenses	107	156
Ordinary profit	1,604	1,261
Extraordinary income		
Gain on sale of non-current assets	3	1
Gain on sale of investment securities	0	1,038
Total extraordinary income	3	1,040
Extraordinary losses		
Loss on retirement of non-current assets	37	15
Loss on valuation of investment securities	13	-
Other	1	0
Total extraordinary losses	52	16
Profit before income taxes	1,555	2,284
Income taxes - current	562	963
Income taxes - deferred	(219)	(273)
Total income taxes	342	690
Profit	1,212	1,594
Profit (loss) attributable to non-controlling interests	(4)	10
Profit attributable to owners of parent	1,217	1,583

(Quarterly Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	1,212	1,594
Other comprehensive income		
Valuation difference on available-for-sale securities	(101)	217
Foreign currency translation adjustment	1,946	799
Remeasurements of defined benefit plans, net of tax	10	(58)
Share of other comprehensive income of entities accounted for using equity method	91	(22)
Total other comprehensive income	1,946	936
Comprehensive income	3,158	2,531
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,037	2,485
Comprehensive income attributable to non-controlling interests	121	46

(3) Notes to Quarterly Consolidated Financial Statements
(Notes to Going Concern Assumption)
Not applicable.

(Notes to Significant Changes in the Amount of Shareholders' Equity)
Not applicable.

(Segment Information)

I. For the three months ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

1. Information regarding net sales and operating profit or loss by the reportable segments

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Net sales						
(1) Net sales to external customers	17,793	6,208	7,773	31,775	15	31,790
(2) Intersegment net sales and transfer	35	122	–	158	(158)	–
Total	17,829	6,331	7,773	31,933	(143)	31,790
Segment profit [Operating profit] (loss)	840	683	(369)	1,154	6	1,160

Note: The “Other” category comprises adjusted amounts and business that is not included in reportable segments, and includes the company that provides services such as property management for the Group companies.

2. Information on disaggregation of revenue from contracts with customers

<By region> <By contract>

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Japan	12,784	4,491	5,880	23,155	15	23,171
Asia (excluding Japan)	3,511	1,003	1,785	6,300	–	6,300
Other	1,497	713	107	2,318	–	2,318
Total	17,793	6,208	7,773	31,775	15	31,790
Revenue from contracts with customers	17,793	6,208	7,773	31,775	10	31,785
Other revenue	–	–	–	–	4	4
Net sales to external customers	17,793	6,208	7,773	31,775	15	31,790

<Impact of subcontract processing with charged receipt on net sales>

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Gross sales to external customers	28,602	6,224	7,776	42,602	15	42,617
Amount of sales offset due to subcontract processing with charged receipt	(10,808)	(15)	(2)	(10,827)	–	(10,827)
Net sales to external customers	17,793	6,208	7,773	31,775	15	31,790

II. For the three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

1. Information regarding net sales and operating profit or loss by the reportable segments

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Net sales						
(1) Net sales to external customers	16,659	5,950	7,714	30,324	15	30,339
(2) Intersegment net sales and transfer	31	91	–	122	(122)	–
Total	16,690	6,042	7,714	30,447	(107)	30,339
Segment profit [Operating profit] (loss)	445	670	(167)	948	(11)	937

Note: The “Other” category comprises adjusted amounts and business that is not included in reportable segments, and includes the company that provides services such as property management for the Group companies.

2. Information on disaggregation of revenue from contracts with customers

<By region> <By contract>

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Japan	13,029	4,093	5,640	22,762	15	22,778
Asia (excluding Japan)	2,863	1,112	1,989	5,966	–	5,966
Other	766	745	83	1,595	–	1,595
Total	16,659	5,950	7,714	30,324	15	30,339
Revenue from contracts with customers	16,659	5,950	7,714	30,324	10	30,334
Other revenue	–	–	–	–	4	4
Net sales to external customers	16,659	5,950	7,714	30,324	15	30,339

<Impact of subcontract processing with charged receipt on net sales>

(Millions of yen)

	Reportable segments				Other	Posted amount to the quarterly consolidated statements of income
	Color & Functional Products	Polymers & Coating Materials	Graphic & Printing Materials	Total		
Gross sales to external customers	26,430	5,967	7,716	40,113	15	40,129
Amount of sales offset due to subcontract processing with charged receipt	(9,770)	(16)	(2)	(9,789)	–	(9,789)
Net sales to external customers	16,659	5,950	7,714	30,324	15	30,339

(Notes Related to Revenue Recognition)

Information on disaggregation of revenue from contracts with customers is presented in “(3) Notes to Quarterly Consolidated Financial Statements (Segment Information).”

(Significant Subsequent Events)

(Disposal of Treasury Shares as Restricted Shares Compensation)

At a meeting of the Board of Directors held on June 29, 2023, the Company resolved to dispose of treasury shares as restricted shares compensation (the “Disposal of Treasury Shares”), and implemented the Disposal of Treasury Shares on July 27, 2023.

1. Outline of the Disposal

(1) Date of disposal	July 27, 2023
(2) Class and number of shares to be disposed	9,240 shares of common stock of the Company
(3) Disposal price	¥2,097 per share
(4) Total value of disposal	¥19,376,280
(5) Disposal method	Allotment method of specified restricted shares
(6) Method of fulfilling capital contribution	In-kind contribution of monetary compensation claims
(7) Eligible allottees, number of persons to be allotted and number of shares to be allotted	Directors of the Company (excluding Outside Directors) 5 persons 6,791 shares Executive Officers with Title of Responsibility of the Company (excluding Executive Officers who concurrently serve as Directors) 4 persons 2,449 shares
(8) Other	The Company has submitted a securities registration statement in accordance with the Financial Instruments and Exchange Act with respect to the Disposal of Treasury Shares.

2. Purpose and Reason for the Disposal

At a meeting of the Board of Directors held on March 24, 2021, the Company resolved to introduce a restricted shares compensation plan (the “Plan”) for the purpose of providing incentives to the Company’s Directors (excluding Outside Directors, the “Eligible Directors”) and Executive Officers with Title of Responsibility of the Company (excluding Executive Officers who concurrently serve as Directors) to continuously improve the Company’s corporate value and to promote further value sharing with shareholders.

In addition, at the 118th Annual General Meeting of Shareholders held on June 29, 2021, the Company received approval for the payment of monetary compensation claims of up to ¥50 million per year (excluding salaries for employees) to the Eligible Directors as monetary compensation to be used as contributed assets for the acquisition of restricted shares based on the Plan, with transfer restrictions for a period of 30 years.

(Sale of Investment Securities)

The Company’s consolidated subsidiaries sold a portion of investment securities (one issue with listed shares) in July 2023 in order to increase the efficiency of the assets held and strengthen their financial structure. As a result, the Company will record a “gain on sale of investment securities” of ¥273 million as extraordinary income in the second quarter of the fiscal year ending March 31, 2024.

(Purchase of Treasury Shares)

At a meeting of the Board of Directors held on August 9, 2023, the Company resolved to purchase treasury shares and on the specific method of purchase in accordance with the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph 3 of the same Act, and plans to implement the purchase of treasury shares as follows.

1. Reason for the Purchase of Treasury Shares

As part of the measures to achieve the Company's Medium-Term Management Plan, the long-term vision and management with an emphasis on capital efficiency (ROE of 9% or more and ROA of 5% or more), and the financial strategy currently being formulated, "Measures to achieve management with an awareness of cost of capital and share price (improvement of PBR)," the Company will improve capital efficiency and return profits to shareholders, as well as to enable the execution of flexible capital policies.

2. Details of the Board of Directors' Resolution on Purchase of Treasury Shares

- (1) Type of shares to be purchased
Common stock of the Company
- (2) Total number of shares to be purchased
1,400,000 shares (maximum)
(7.57% of the total number of issued shares (excluding treasury shares))
- (3) Total value of purchase price
¥2,984,800,000 (maximum)
- (4) Method of purchase
Purchase of treasury shares through off-hours trading on the Tokyo Stock Exchange (ToSTNeT-3)

3. Scheduled Purchase Date

August 10, 2023