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April 25, 2024

News Release

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Notice of Impairment Loss and Revision of Financial Forecast

Kanto Denka Kogyo Co., Ltd. (hereafter, the “Company”) announces that it expects to record an impairment loss on non-current assets for the fourth quarter of the fiscal year ending March 31, 2024. In conjunction with this, the Company has revised its financial forecast announced on October 25, 2023, as follows.

1. Details of Impairment Loss

In our battery materials business, mainly manufactures and sells high-purity electrolytes for lithium-ion secondary batteries, the cost of sales remained at a high level due to an inventory balance affected by the surge in the price of lithium, a raw material, and we recorded a loss on valuation of inventories to reflect the deterioration in selling prices. In this situation, the Company recognized that significant changes have occurred in the marketplace during the period that have an adverse effect on the entity, which is an indication of impairment. After examining the possibility of recovery, because profitability is expected to decline due to lower sales volume in the future, the Company expects that the book value will be reduced to the recoverable amount and an impairment loss of approximately 4.2 billion yen will be recorded, although the Company had been proceeding with an 8,000-ton/year facility expansion in anticipation of growth in the electric vehicle market.

2. Revision of Financial Forecasts

Revision of consolidated financial forecast for the fiscal year ending March 31, 2024 (April 1, 2023-March 31, 2024)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
Previous forecast (A)	Millions of yen 63,800	Millions of yen △2,000	Millions of yen △1,600	Millions of yen △1,600	Yen △27.85
Revised forecast (B)	64,770	△1,970	△1,170	△4,480	△77.98
Change (B-A)	970	30	430	△2,880	
Rate of change (%)	1.5	—	—	—	
(ref.) Results for the fiscal year ended March 31, 2023	78,675	12,947	13,679	9,382	163.32

3. Reason for Revision

Net sales are expected to exceed the previously announced figure due to an increase in sales volume of specialty gases for semiconductors.

Operating profit is expected to be equivalent to the previously announced figures due to an increase in loss on valuation of inventories because of lower unit sales prices of battery materials, although net sales are expected to increase.

Ordinary profit is expected to exceed the previously announced figure due to an increase in foreign exchange gains.

Profit attributable to owners of parent is expected to be lower than the previously announced figure, as impairment loss is expected to be recorded as an extraordinary loss, as described in 1 above, although a decrease in income taxes—deferred is expected due to a partial impairment loss and an increase in loss on valuation of inventories.

4. Future Direction of Battery Materials

Regarding the future outlook for battery materials, we have received inquiries due to the critical minerals requirement related to the U.S. Inflation Reduction Act, and expect that it will contribute to sales from the second quarter of the fiscal year ending March 31, 2025. In addition to expanding the licensing business, we will work to improve the utilization of inexpensive raw materials and inventory turnover rate in order to build a business structure that is not affected by raw material market conditions. Furthermore, we will promote the commercialization of lithium recovery.

The Company expects to return to profitability for battery materials in the fiscal year ending March 31, 2025.

5. Other

Considering business performance trends for the fiscal year ending March 31, 2024, the Company will reduce the monthly compensation of the President and other directors who execute the Company's business by up to 20% and by at least 10%. (From April 2024 to June 2024)

Despite the revision of the financial forecast, there is no revision to the year-end dividend forecast (7 yen) for the fiscal year ending March 31, 2024.

Notes:

The performance outlooks and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and are not intended to be a promise by the Company that they will be realized. Actual results may differ significantly due to various factors.