



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

August 10, 2023

Company Name: Kanto Denka Kogyo Co., Ltd.

Stock Exchange Listing: Tokyo

Code Number: 4047 URL: <https://www.kantodenka.co.jp/english/>

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Scheduled date for submitting the Quarterly Securities Report: August 10, 2023

Scheduled date to commence dividend payments:—

Availability of supplementary briefing material on financial results: None

Financial results briefing session: None

1. Consolidated financial results for the first quarter of the fiscal year ending March 31, 2024 (April 1, 2023–June 30, 2023)

(Amounts are rounded down to the nearest million yen)

(1) Consolidated operating results

(% figures are the rate of year-on-year increase or decrease)

	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	16,301	-11.3	-1,411	—	-859	—	-310	—
Three months ended June 30, 2022	18,375	33.3	3,625	58.1	4,221	76.3	2,931	73.5

(Note) Comprehensive income:

Three months ended June 30, 2023: -¥22 million (—%)

Three months ended June 30, 2022: ¥3,707 million (121.8%)

	Basic earnings per share		Diluted basic earnings per share	
	Yen		Yen	
Three months ended June 30, 2023	-5.40		—	
Three months ended June 30, 2022	51.03		—	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2023	125,743	67,402	52.5	1,149.93
As of March 31, 2023	130,762	68,774	51.6	1,174.54

(Reference) Equity capital:

As of June 30, 2023: ¥66,066 million

As of March 31, 2023: ¥67,480 million

2. Dividends

	Annual dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen				
Fiscal year ended March 31, 2023	—	10.00	—	23.00	33.00
Fiscal year ending March 31, 2024	—				
Fiscal year ending March 31, 2024 (Forecast)		7.00	—	7.00	14.00

(Note) Revision of dividend forecast from the latest announcement: None

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (April 1, 2023–March 31, 2024)

(% figures are the rate of year-on-year increase or decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	35,500	-4.8	0	—	100	-98.6	250	-95.2	4.35
Full year	77,500	-1.5	4,500	-65.2	4,300	-68.6	3,150	-66.4	54.83

(Note) Revision of performance forecast from the latest announcement: Yes

Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Not applicable

New: — companies (company names); Removed: — companies (company names)

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

i. Changes in accounting policies accompanying amendments to accounting standards, etc.: None

ii. Changes in accounting policies other than i.: None

iii. Changes in accounting estimates: None

iv. Retrospective restatement: None

(4) Number of shares issued (common stock)

i. Number of shares issued at the end of the period (including treasury shares)

ii. Number of treasury shares at the end of the period

iii. Average number of shares during the period

As of June 30, 2023	57,546,050 shares	As of March 31, 2023	57,546,050 shares
As of June 30, 2023	93,137 shares	As of March 31, 2023	93,137 shares
As of June 30, 2023	57,452,913 shares	As of June 30, 2022	57,449,150 shares

Notes: Summary of financial results are not subject to audit by a certified public accountant or an auditing firm.

Proper use of performance forecasts, and other special matters

(Notes to forward-looking statements)

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. Please refer to "Consolidated earnings forecasts" on page 3 of the attached materials for information on the performance forecasts.

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1. Qualitative information on the first three months ended June 30, 2023

(1) Operating results

In the first quarter of the fiscal year ending March 31, 2024, the Japanese economy showed signs of a gradual recovery due to the positive effects of various government policies under an improving employment and income environment. However, severe conditions continued to prevail. Overseas, outlooks remained uncertain due to the need for caution amid downside risks from such factors as continued global monetary tightening and fluctuations in financial and capital markets.

Amid this business environment, net sales for the first quarter of the fiscal year ending March 31, 2024 amounted to ¥16,301 million, down ¥2,074 million or 11.3% year on year, mainly due to the substantial decline in demand in the Fine Chemicals Division, despite the Group's active efforts in marketing. On the profit front, the Group recorded an ordinary loss of ¥859 million and a loss attributable to owners of parent of ¥310 million (compared to ordinary profit of ¥4,221 million and profit attributable to owners of parent of ¥2,931 million in the first quarter of the previous fiscal year). These losses were mainly due to the cost of sales remaining at a high level due to an inventory balance affected by the surge in the price of raw materials for batteries and a loss on valuation of inventories to reflect the deterioration in selling prices since the end of the previous period, in addition to the decrease in net sales.

The following provides an overview for each segment.

a. Fundamental Chemicals Division

Caustic soda sales volume decreased, but the positive effects of price revision resulted in a year on year increase in sales. Hydrochloric acid sales volume was down and sales decreased despite the positive effects of price revisions.

For organic products, a decline in trichloroethylene sales volume caused sales to decline year on year. An increase in perchloroethylene sales volume led to year on year growth in sales.

As a result of the above, net sales in the Fundamental Chemicals Division amounted to ¥2,412 million, up ¥5 million or 0.2% year on year. Operating profit amounted to ¥76 million, down ¥163 million or 68.3% year on year. This decline was mainly due to the rise in raw material and fuel prices.

b. Fine Chemicals Division

Sales of fluorochemicals for semiconductors decreased due to a decline in sales volume for nitrogen trifluoride and tungsten hexafluoride. Sales of hexafluoro 1,3-butadiene were up due to the higher sales volume.

Sales of lithium hexafluorophosphate, a battery material, were down due to a decrease in sales volume. As a result of the above, net sales in the Fine Chemicals Division amounted to ¥12,743 million, down ¥1,883 million or 12.9% year on year. An operating loss of ¥1,720 million was recorded (compared to operating profit of ¥2,994 million in the first quarter of the previous fiscal year). The loss was mainly due to the persistent high cost of sales for battery materials and recognition of a loss on valuation of inventories, in addition to the decline in net sales.

c. Ferrochemicals Division

Sales of reprographic carriers, used in developers for copiers and printers, were down year on year due to lower sales volumes. Sales of iron oxide were down year on year due to lower sales of colorants.

As a result of the above, net sales in the Ferrochemicals Division amounted to ¥448 million, down ¥257 million or 36.5% year on year. Operating profit amounted to ¥46 million, down ¥142 million or 75.3% year on year.

d. Commercial Business Division

Commercial business sales were up due to higher sales of industrial chemicals.

As a result of the above, net sales in the Commercial Business Division amounted to ¥173 million, up ¥8 million or 5.0% year on year. Operating profit amounted to ¥80 million, up ¥27 million or 50.7% year on year.

e. Facilities Division

Net sales in chemical facility plant and general industrial plant construction were up year on year due to an increase in contract work.

As a result of the above, net sales in the Facilities Division amounted to ¥523 million, up ¥53 million or 11.3% year on year. Operating profit amounted to ¥62 million, down ¥86 million or 57.9% year on year. The decline was mainly due to higher material prices.

(2) Financial position

As of the end of the first quarter of the fiscal year ending March 31, 2024, total assets amounted to ¥125,743 million, down ¥5,019 million from the end of the previous consolidated fiscal year, mainly due to decreases in notes and accounts receivable—trade, and contract assets, and cash and deposits.

Total liabilities amounted to ¥58,341 million, down ¥3,647 million, mainly due to decreases in income taxes payable and borrowings.

Net assets amounted to ¥67,402 million, down ¥1,372 million, mainly due to a decrease in retained earnings. The equity ratio was 52.5%, versus 51.6% at the end of the previous fiscal year.

(3) Consolidated earnings forecasts

The consolidated earnings forecast for the fiscal year ending March 31, 2024 has been revised from the previous forecast announced on May 15, 2023. For details, please refer to the "Notice of Revision of Earnings Forecasts" (in Japanese only) released separately.

The above forecasts were created based on information available as of the date of this document's publishing, and actual results may differ versus forecast figures due to a variety of factors arising in the future.

2. Consolidated financial statements and notes

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets:		
Current assets		
Cash and deposits	22,355	20,764
Notes and accounts receivable—trade, and contract assets	20,560	16,208
Electronically recorded monetary claims—operating	1,130	1,101
Merchandise and finished goods	7,055	8,534
Work in process	9,332	9,225
Raw materials and supplies	7,516	5,931
Other	5,030	5,534
Allowance for doubtful accounts	(62)	(51)
Total current assets	72,919	67,249
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,930	10,771
Machinery and equipment, net	19,291	18,145
Construction in progress	10,512	12,153
Other, net	6,669	6,595
Total property, plant and equipment	47,404	47,666
Intangible assets	676	670
Investments and other assets		
Investment securities	7,399	7,741
Retirement benefit assets	14	15
Deferred tax assets	1,404	1,478
Other	950	929
Allowance for doubtful accounts	(7)	(7)
Total investments and other assets	9,762	10,157
Total non-current assets	57,842	58,494
Total assets	130,762	125,743

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities:		
Current liabilities		
Notes and accounts payable—trade	9,620	10,029
Electronically recorded obligations—operating	1,022	1,147
Short-term borrowings	4,516	4,642
Current portion of long-term borrowings	6,914	7,226
Income taxes payable	2,701	194
Provision for bonuses for directors (and other officers)	134	82
Other	8,769	8,815
Total current liabilities	33,680	32,137
Non-current liabilities		
Long-term borrowings	25,591	23,470
Provision for retirement benefits for directors (and other officers)	143	143
Provision for share awards for directors (and other officers)	18	21
Retirement benefit liability	1,805	1,825
Other	748	742
Total non-current liabilities	28,308	26,203
Total liabilities	61,988	58,341
Net assets:		
Shareholders' equity		
Capital	2,877	2,877
Capital surplus	1,859	1,859
Retained earnings	58,486	56,852
Treasury shares	(65)	(65)
Total shareholders' equity	63,157	61,524
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,512	2,833
Foreign currency translation adjustment	1,534	1,437
Remeasurements of defined benefit plans	275	271
Total accumulated other comprehensive income	4,323	4,542
Non-controlling interests	1,293	1,335
Total net assets	68,774	67,402
Total liabilities and net assets	130,762	125,743

(2) Consolidated statement of income and consolidated statement of comprehensive income
 Consolidated statement of income

(Millions of yen)

	From April 1, 2022 to June 30, 2022	From April 1, 2023 to June 30, 2023
Net sales	18,375	16,301
Cost of sales	12,461	15,492
Gross profit	5,914	808
Selling, general and administrative expenses	2,288	2,220
Operating profit (loss)	3,625	(1,411)
Non-operating profit		
Interest income	3	13
Dividend income	143	179
Foreign exchange gains	528	523
Other	118	36
Total non-operating profit	793	753
Non-operating expenses		
Interest expenses	89	77
Loss on valuation of derivatives	104	111
Other	4	13
Total non-operating expenses	197	202
Ordinary profit (loss)	4,221	(859)
Extraordinary income		
Gain on sale of investment securities	—	449
Total extraordinary income	—	449
Extraordinary losses		
Loss on retirement of non-current assets	31	25
Loss on valuation of investment securities	17	—
Total extraordinary losses	48	25
Profit (Loss) before income taxes	4,172	(436)
Income taxes payable	1,177	(166)
Profit (Loss)	2,994	(269)
Profit attributable to non-controlling interests	63	40
Profit (Loss) attributable to owners of parent	2,931	(310)

Consolidated Statement of Comprehensive Income

(Millions of yen)

	From April 1, 2022 to June 30, 2022	From April 1, 2023 to June 30, 2023
Profit (Loss)	2,994	(269)
Other comprehensive income		
Valuation difference on available-for-sale securities	(251)	346
Foreign currency translation adjustment	805	(95)
Remeasurements of defined benefit plans	157	(4)
Total other comprehensive income	712	247
Comprehensive income	3,707	(22)
Comprehensive income attributable to:		
Owners of parent	3,654	(91)
Non-controlling interests	52	68

(3) Notes to the consolidated financial statements

(Notes on premise of going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Special accounting for preparing quarterly consolidated financial statements)

Tax expenses are calculated by multiplying profit before income taxes by the reasonably estimated effective tax rate after the application of tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2024, including the first quarter. However, in cases where calculating tax expenses using the estimated effective tax rate would significantly lack rationality, tax expenses are calculated using the statutory effective tax rate.

(Segment information)

[Segment information]

I. From April 1, 2022 to June 30, 2022

1. Information on net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded on the statement of income (Note 2)
	Fundamental Chemicals	Fine Chemicals	Ferrochemicals	Commercial Business	Facilities	Total		
Net sales								
(1) Net sales to external customers	2,406	14,627	705	165	470	18,375	—	18,375
(2) Inter-segment net sales or transfers	—	—	0	315	823	1,139	(1,139)	—
Total	2,406	14,627	705	481	1,294	19,515	(1,139)	18,375
Segment profit	239	2,994	189	53	149	3,627	(2)	3,625

(Notes) 1. The segment profit adjustment of - ¥2 million is elimination of inter-segment transactions.

2. Segment profit is adjusted with operating profit in the consolidated statement of income.

2. Information about impairment loss and goodwill on non-current assets by reportable segment

Not applicable.

II. From April 1, 2023 to June 30, 2023

1. Information on net sales, profit or loss by reportable segment

(Millions of yen)

	Reportable segment						Adjustment (Note 1)	Amount recorded on the statement of income (Note 2)
	Fundamental Chemicals	Fine Chemicals	Ferrochemicals	Commercial Business	Facilities	Total		
Net sales								
(1) Net sales to external customers	2,412	12,743	448	173	523	16,301	—	16,301
(2) Inter-segment net sales or transfers	—	—	0	416	827	1,243	(1,243)	—
Total	2,412	12,743	448	590	1,350	17,545	(1,243)	16,301
Segment profit (loss)	76	(1,720)	46	80	62	(1,454)	42	(1,411)

(Notes) 1. The segment profit (loss) adjustment of ¥42 million is elimination of inter-segment transactions.

2. Segment profit (loss) is adjusted with operating loss in the consolidated statement of income.

2. Information about impairment loss and goodwill on non-current assets by reportable segment

Not applicable.