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October 30, 2023

Consolidated Financial Results for the Six Months Ended September 30, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
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 Scheduled date to file quarterly securities report: November 9, 2023
 Scheduled date to commence dividend payments: December 6, 2023
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended September 30, 2023 (from April 1, 2023, to September 30, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended								
September 30, 2023	29,200	(10.9)	(449)	–	(379)	–	(478)	–
September 30, 2022	32,765	7.8	717	(70.7)	872	(59.5)	(396)	–

Note: Comprehensive income For the six months ended September 30, 2023 ¥883 million [15.4%]
 For the six months ended September 30, 2022 ¥765 million [(56.0)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2023	(50.03)	–
September 30, 2022	(40.00)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
September 30, 2023	91,188	38,715	37.8	3,600.55
March 31, 2023	85,025	38,296	40.4	3,593.49

Reference: Equity
 As of September 30, 2023 ¥34,457 million
 As of March 31, 2023 ¥34,346 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	–	40.00	–	40.00	80.00
Fiscal year ending March 31, 2024	–	20.00			
Fiscal year ending March 31, 2024 (Forecast)			–	30.00	50.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2024 (from April 1, 2023, to March 31, 2024)

(Percentages indicate year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	62,000	(4.7)	1,500	26.4	1,300	8.3	400	–	41.81

Note: Revisions to the earnings forecasts most recently announced: Yes

Regarding revisions to the consolidated earnings forecasts, please refer to “Notice Concerning Difference between Consolidated Earnings Forecasts for the Six Months Ended September 30, 2023 and Results, and Revisions to Consolidated Earnings Forecasts For the Fiscal Year Ending March 31, 2024” (in Japanese only), published on October 30, 2023.

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: – companies

Excluded: – companies

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to reasons other than (i): None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (ordinary shares)

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

As of September 30, 2023	10,684,321 shares
As of March 31, 2023	10,684,321 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2023	1,114,306 shares
As of March 31, 2023	1,126,227 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	9,563,893 shares
Six months ended September 30, 2022	9,916,768 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Notice concerning forward-looking statements)

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, no statements herein constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended September 30, 2023, the Japanese economy made progress towards normalization following the relaxation of restrictions to combat COVID-19. On the other hand, the economic outlook remains uncertain due to such factors as the prolongation of geopolitical risk, and the depreciation of the yen resulting from the tightening of monetary policies around the world, which has led to soaring prices for a variety of goods and services, including resources and energy.

In this environment, the Group's profits came under pressure from deteriorating conditions in its main markets, and from delays in passing on increases in prices of raw materials and energy. First, we will work to secure profits through appropriate price pass-on. Furthermore, we will improve the efficiency of research and development, raise plant operating rates, and accelerate measures to make new businesses profitable. Using the revised figures for the medium-term management plan, "FELIZ 115," as a base, we will work to achieve the vision set out in the next medium-term management plan (with the tentative title of "SMART 2030") by focusing management resources on the three priority areas of electronics and information, environment and energy, and life sciences, in order to reform the profit structure.

Concerning the results for the six months ended September 30, 2023, net sales were ¥29,200 million (down 10.9% year on year), due to a significant decline in sales of flame retardants for overseas markets in the Functional Materials segment.

As for profit and loss, there was an operating loss of ¥449 million (operating income of ¥717 million in the same period of the previous fiscal year), was an ordinary loss of ¥379 million (ordinary income of ¥872 million in the same period of the previous fiscal year), and a loss attributable to owners of parent was ¥478 million (loss attributable to owners of parent of ¥396 million in the same period of the previous fiscal year) due to soaring raw materials and energy prices, and a significant drop in sales in the Functional Materials and Electronic Device Materials segments.

Results by segment are as follows.

Surfactants

Net sales in the Surfactants segment were generally weak.

In Japan, sales were sluggish in IT and electronics applications, and rubber and plastic applications, but remained firm in paint and coloring agent applications. Sales for soap and detergent applications fell significantly.

Overseas, sales for rubber and plastic applications and paint and coloring agent applications were firm.

As a result, net sales in this segment were ¥8,809 million (down 7.6% year on year).

Operating income was ¥621 million (down 31.3% year on year) due to the impact of soaring raw materials prices on top of a drop in sales.

Amenity Materials

Net sales in the Amenity Materials segment were generally sluggish.

In Japan, sales of sucrose fatty acid esters remained firm for food applications, but sales of cellulose polymers were sluggish in energy and environmental applications, as were sales of vinyl polymers for rubber and plastic applications.

Overseas, sales of sucrose fatty acid esters were firm in personal care (cosmetics) applications, while those for food applications were sluggish.

As a result, net sales in this segment were ¥3,993 million (down 4.0% year on year).

We succeeded in absorbing the decline in net sales through reductions in operating expenses and other measures, resulting in operating income of ¥75 million (up 29.6% year on year).

Polyurethane Materials

Net sales in the Polyurethane Materials segment were generally firm.

Sales of environmentally friendly synthetic lubricants related to CFC regulations were sluggish, while sales of civil engineering chemicals related to public works grew significantly.

As a result, net sales in this segment were ¥4,395 million (up 4.2% year on year).

The Company posted an operating loss of ¥196 million for the period (recorded a ¥198 million operating loss in the same period of the previous fiscal year) due to the impact of soaring raw materials prices.

Functional Materials

Net sales in the Functional Materials segment fell significantly overall.

In Japan, sales of radcure resin materials for IT and electronics applications grew significantly, but sales of flame retardants for rubber and plastic applications fell sharply, as did sales of waterborne polyurethane for textiles applications.

Overseas, sales of radcure resin materials for IT and electronics applications fell significantly, as did sales of flame retardants for rubber and plastic applications.

As a result, net sales in this segment were ¥9,231 million (down 19.9% year on year).

Operating loss was ¥407 million (operating income of ¥248 million in the same period of the previous fiscal year) due to the impact of soaring raw materials prices on top of a significant drop in sales.

Electronic Device Materials

Net sales in the Electronic Device Materials segment fell significantly overall.

Sales of ionic liquids for display applications were firm, but sales of conductive pastes for solar cell applications fell significantly.

As a result, net sales in this segment were ¥2,613 million (down 15.5% year on year).

Due to the significant drop in net sales, operating loss was ¥60 million (operating income of ¥152 million in the same period of the previous fiscal year).

Life Sciences

Net sales in the Life Sciences segment decreased by ¥84 million (down 34.8% year on year) to ¥157 million.

The OEM business for pharmaceutical additives and health foods made through the concentration and pulverization of extracts from natural materials was sluggish.

As for operating income, net sales fell significantly, and there was an operating loss of ¥482 million (operating loss of ¥448 million in the same period of the previous fiscal year) due to an increase in operating expenses, primarily driven by R&D expenditures.

By March 31, 2025, we aim to make our Life Sciences business profitable through the following measures. (1) B-to-C, focusing on our product, “Kainou Tochukasou (original Japanese name),” which went on sale in August 2023 as a food with functional claims that helps maintain cognitive function speed and visual memory that are part of cognitive functions in middle-aged and senior individuals. (2) B-to-B, targeting sales of materials such as I. Japonica-Bombyx Fungus powder

and sudachi fruit peel extract. (3) Expanding the OEM business of IKEDA YAKUSOU CO., LTD., our group company.

(2) Explanation of Financial Position

(Assets)

Current assets as of September 30, 2023 were ¥50,426 million, up ¥5,015 million from the end of the previous fiscal year. This was primarily due to an increase of ¥6,130 million in cash and deposits, and an increase of ¥425 million in electronically recorded monetary claims - operating, despite a decrease of ¥1,626 million in inventories such as merchandise and finished goods. Non-current assets totaled ¥40,761 million, up ¥1,147 million from the end of the previous fiscal year. This was primarily due to an increase of ¥440 million in total property, plant and equipment and an increase of ¥800 million in investment securities.

As a result, total assets amounted to ¥91,188 million, up ¥6,162 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities as of September 30, 2023, were ¥22,009 million, up ¥1,369 million from the end of the previous fiscal year. This was primarily due to an increase of ¥1,161 million in short-term borrowings and an increase of ¥1,159 million in other (current liabilities) such as accounts payable - facilities, despite a decrease of ¥905 million in notes and accounts payable - trade. Non-current liabilities totaled ¥30,464 million, up ¥4,375 million from the end of the previous fiscal year. This was primarily due to an increase of ¥4,564 million in long-term borrowings.

As a result, total liabilities at the end of the period under review were ¥52,473 million, up ¥5,744 million from the end of the previous fiscal year.

(Net assets)

Total net assets as of September 30, 2023 were ¥38,715 million, up ¥418 million from the end of the previous fiscal year. This was primarily due to a loss attributable to owners of parent of ¥478 million and dividends of surplus of ¥382 million resulting in a decline in retained earnings of ¥860 million, combined with increases of ¥630 million in valuation difference on available-for-sale securities, of ¥346 million in foreign currency translation adjustment, and of ¥307 million in non-controlling interests.

As a result, the equity ratio came to 37.8% (40.4% as of the end of the previous fiscal year).

(Consolidated cash flows)

Cash and cash equivalents (“cash”) in the six months ended September 30, 2023 were ¥15,179 million, an increase of ¥6,127 million compared to the end of the previous fiscal year.

The respective cash flow positions and the factors thereof in the six months ended September 30, 2023 are as follows.

Cash flows from operating activities

Net cash provided by operating activities was ¥2,138 million (¥595 million was provided in the same period of the previous fiscal year). This was due to a decrease in funds resulting primarily from a decrease in trade payables of ¥842 million (an increase of ¥1,140 million in the same period of the previous fiscal year), and an increase in funds resulting primarily from a decrease in inventories of ¥1,805 million (an increase of ¥1,233 million in the same period of the previous fiscal year), and depreciation of ¥1,603 million (¥1,675 million in the previous fiscal year).

Cash flows from investing activities

Net cash used in investing activities was ¥1,009 million (¥1,320 million was used in the same period of the previous fiscal year). This was due to a decrease in funds due to expenditures from purchase of property, plant and equipment of ¥1,089 million (¥1,221 million in the same period of the previous fiscal year).

Cash flows from financing activities

Net cash provided by financing activities was ¥4,826 million (¥4,455 million was used in the same period of the previous fiscal year). This was due to a decrease in funds caused mainly by repayment of long-term borrowings of ¥2,703 million (¥2,904 million in the same period of the previous fiscal year), combined with an increase in funds resulting from proceeds from long-term borrowings of ¥7,903 million (¥500 million in the same period the previous fiscal year).

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

The consolidated earnings forecast for the fiscal year ending March 31, 2024 has been revised in light of our recent operating results. For details, please refer to “Notice Concerning Difference between Consolidated Earnings Forecasts for the Six Months Ended September 30, 2023 and Results, and Revisions to Consolidated Earnings Forecasts For the Fiscal Year Ending March 31, 2024” (in Japanese only), published on October 30, 2023.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	9,128	15,259
Notes and accounts receivable - trade	15,105	15,172
Electronically recorded monetary claims - operating	2,218	2,643
Merchandise and finished goods	13,131	11,718
Work in process	16	19
Raw materials and supplies	3,489	3,273
Prepaid expenses	369	569
Other	1,956	1,774
Allowance for doubtful accounts	(3)	(3)
Total current assets	45,411	50,426
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,834	13,065
Machinery, equipment and vehicles, net	4,650	5,972
Tools, furniture and fixtures, net	800	1,003
Land	9,748	9,976
Leased assets, net	2,338	2,177
Construction in progress	2,369	988
Total property, plant and equipment	32,743	33,183
Intangible assets	341	328
Investments and other assets		
Investment securities	4,274	5,074
Long-term loans receivable	14	14
Long-term prepaid expenses	512	419
Deferred tax assets	299	254
Retirement benefit asset	1,063	1,120
Other	371	371
Allowance for doubtful accounts	(6)	(6)
Total investments and other assets	6,529	7,248
Total non-current assets	39,614	40,761
Total assets	85,025	91,188

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,972	9,066
Electronically recorded obligations - operating	379	488
Short-term borrowings	6,516	7,678
Lease liabilities	474	479
Accrued expenses	308	304
Income taxes payable	232	192
Accrued business office taxes	41	20
Provision for bonuses	712	616
Other	2,002	3,161
Total current liabilities	20,639	22,009
Non-current liabilities		
Corporate bonds	6,000	6,000
Long-term borrowings	17,348	21,913
Lease liabilities	2,131	1,936
Deferred tax liabilities	196	177
Retirement benefit liability	79	94
Asset retirement obligations	74	74
Other	259	268
Total non-current liabilities	26,089	30,464
Total liabilities	46,729	52,473
Net assets		
Shareholders' equity		
Capital stock	8,895	8,895
Capital surplus	7,276	7,266
Retained earnings	19,250	18,389
Treasury shares	(2,488)	(2,461)
Total shareholders' equity	32,933	32,089
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	467	1,097
Foreign currency translation adjustment	765	1,111
Remeasurements of defined benefit plans	180	159
Total accumulated other comprehensive income	1,413	2,368
Non-controlling interests	3,949	4,257
Total net assets	38,296	38,715
Total liabilities and net assets	85,025	91,188

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly consolidated statement of income (cumulative)**

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	32,765	29,200
Cost of sales	26,080	24,044
Gross profit	6,684	5,156
Selling, general and administrative expenses	5,967	5,605
Operating income (loss)	717	(449)
Non-operating income		
Interest income	4	2
Dividend income	50	64
Share of profit of entities accounted for using equity method	44	0
Foreign exchange gains	169	130
Other	76	94
Total non-operating income	346	293
Non-operating expenses		
Interest expenses	90	123
Corporate bond interest	18	18
Other	81	81
Total non-operating expenses	191	223
Ordinary income (loss)	872	(379)
Extraordinary losses		
Loss on disposal of non-current assets	42	40
Impairment losses	786	–
Amortization of goodwill	137	–
Total extraordinary losses	966	40
Loss before income taxes	(93)	(419)
Income taxes - current	259	150
Income taxes - deferred	(230)	(235)
Total income taxes	29	(85)
Loss	(122)	(334)
Profit attributable to non-controlling interests	273	143
Loss attributable to owners of parent	(396)	(478)

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Loss	(122)	(334)
Other comprehensive income		
Valuation difference on available-for-sale securities	29	630
Foreign currency translation adjustment	829	639
Remeasurements of defined benefit plans net of tax	(23)	(22)
Share of other comprehensive income of entities accounted for using equity method	52	(29)
Total other comprehensive income	887	1,217
Comprehensive income	765	883
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	159	476
Comprehensive income attributable to non- controlling interests	605	406

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Loss before income taxes	(93)	(419)
Depreciation	1,675	1,603
Amortization of goodwill	213	–
Increase (decrease) in allowance for doubtful accounts	(0)	(0)
Increase (decrease) in retirement benefit liability	(93)	(67)
Interest and dividend income	(55)	(67)
Interest expenses	90	123
Corporate bond interest	18	18
Share of loss (profit) of entities accounted for using equity method	(44)	(0)
Impairment losses	786	–
Loss on disposal of non-current assets	42	40
Decrease (increase) in trade receivables	(1,120)	(333)
Decrease (increase) in inventories	(1,233)	1,805
Increase (decrease) in trade payables	1,140	(842)
Other	(245)	384
Subtotal	1,080	2,244
Interest and dividends received	85	64
Interest paid	(108)	(142)
Income taxes paid	(461)	(28)
Net cash provided by (used in) operating activities	595	2,138
Cash flows from investing activities		
Payments into time deposits	(76)	(78)
Proceeds from withdrawal of time deposits	77	79
Purchase of property, plant and equipment	(1,221)	(1,089)
Purchase of investment securities	(1)	(1)
Proceeds from withdrawal of investments in affiliated companies	–	106
Other	(98)	(26)
Net cash provided by (used in) investing activities	(1,320)	(1,009)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	327	341
Proceeds from long-term borrowings	500	7,903
Repayments of long-term borrowings	(2,904)	(2,703)
Repayments of lease liabilities	(267)	(228)
Purchase of treasury shares	(1,499)	–
Dividends paid	(458)	(382)
Dividends paid to non-controlling interests	(152)	(103)
Net cash provided by (used in) financing activities	(4,455)	4,826
Effect of exchange rate change on cash and cash equivalents	191	171
Net increase (decrease) in cash and cash equivalents	(4,989)	6,127
Cash and cash equivalents at beginning of period	12,151	9,051
Cash and cash equivalents at end of period	7,161	15,179

(4) Notes to Quarterly Consolidated Financial Statements
(Notes on premise of going concern)

Not applicable.

(Notes when there are significant changes in amounts of equity)

Not applicable.

(Segment information, etc.)

Segment information

I Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

1. Disclosure of sales and profit (loss) for each reportable segment and information on breakdown of revenues

(Millions of yen)

	Surfactants	Amenity Materials	Polyurethane Materials	Functional Materials	Electronic Device Materials	Life Sciences	Total
Net sales							
Revenue from contracts with customers	9,534	4,158	4,218	11,518	3,093	242	32,765
Revenues from external customers	9,534	4,158	4,218	11,518	3,093	242	32,765
Transactions with other segments	–	–	–	–	–	–	–
Total	9,534	4,158	4,218	11,518	3,093	242	32,765
Segment profit (loss) operating income (loss)	904	58	(198)	248	152	(448)	717

Note: Total amount of profit or loss in reportable segments and operating income in the quarterly consolidated statement of income coincide.

2. Disclosure of impairment losses on non-current assets or goodwill, etc. for each reportable segment

(Significant impairment losses related to non-current assets)

During the six months ended September 30, 2022, the Company's Polyurethane Materials segment saw a decline in profitability caused by delays in adjusting product prices in response to soaring prices of raw materials, and delays in development activities. Accordingly, the book value of non-current assets belonging to the Polyurethane Materials segment asset group was reduced to its recoverable amount, with that amount recorded under extraordinary losses as an impairment loss.

The recoverable amount of this asset group is measured by utility value, which is zero because no future cash flows are expected.

(Significant changes in goodwill)

Based on the provisions of paragraph 32 of the "Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (Accounting Practice Committee Statement No. 7 of the Japanese Institute Of Certified Public Accountants, revised February 16, 2018), we began amortizing goodwill in the Life Sciences segment in the six months ended September 30, 2022, resulting in the recording of amortization of goodwill as an extraordinary loss of ¥137 million.

II Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

1. Disclosure of sales and profit (loss) for each reportable segment and information on breakdown of revenues

(Millions of yen)

	Surfactants	Amenity Materials	Polyurethane Materials	Functional Materials	Electronic Device Materials	Life Sciences	Total
Net sales							
Revenue from contracts with customers	8,809	3,993	4,395	9,231	2,613	157	29,200
Revenues from external customers	8,809	3,993	4,395	9,231	2,613	157	29,200
Transactions with other segments	–	–	–	–	–	–	–
Total	8,809	3,993	4,395	9,231	2,613	157	29,200
Segment profit (loss) operating income (loss)	621	75	(196)	(407)	(60)	(482)	(449)

Note: Total amount of profit or loss in reportable segments and operating loss in the quarterly consolidated statement of income coincide.

(Notes on revenue recognition)

Information on revenue from contracts with customers is as stated in Notes (Segment information, etc.).