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July 28, 2022

Consolidated Financial Results for the Three Months Ended June 30, 2022 (Under Japanese GAAP)

Company name: DKS Co. Ltd.
 Listing: Tokyo Stock Exchange
 Security code: 4461
 URL: <https://www.dks-web.co.jp>
 Representative: YAMAJI Naoki, President COO
 Inquiries: SHIMIZU Shinji, Director and Administrative Supervisor
 TEL: +81-75-323-5822
 Scheduled date to file quarterly securities report: August 5, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes (planned to be published in Japanese on the website of the Company)
 Holding of quarterly financial results briefing: No

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

1. Consolidated financial results for the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(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	%
Three months ended								
June 30, 2022	15,441	7.1	291	(73.4)	377	(58.3)	98	(79.9)
June 30, 2021	14,413	5.7	1,094	54.8	903	44.8	490	43.9

Note: Comprehensive income For the three months ended June 30, 2022 ¥595 million [(18.5)%]
 For the three months ended June 30, 2021 ¥730 million [10.3%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2022	9.66	–
June 30, 2021	48.21	–

(2) Consolidated financial position

	Total assets	Net assets	Equity- ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2022	85,850	40,378	42.7	3,602.49
March 31, 2022	86,469	40,383	42.5	3,610.31

Reference: Equity

As of June 30, 2022 ¥36,687 million

As of March 31, 2022 ¥36,767 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, 2022	–	35.00	–	45.00	80.00
Fiscal year ending March 31, 2023	–				
Fiscal year ending March 31, 2023 (Forecast)		40.00	–	40.00	80.00

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

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(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
Half year	32,000	5.3	2,200	(10.1)	2,000	(7.1)	1,100	(5.2)	108.01
Full year	65,000	3.7	4,700	1.6	4,300	2.6	2,500	0.3	245.48

Note: Revisions to the earnings forecasts most recently announced: None

* 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: Yes

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, kindly refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” in page 9 of attached materials.

(4) Number of issued shares (ordinary shares)

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

As of June 30, 2022	10,684,321 shares
As of March 31, 2022	10,684,321 shares

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

As of June 30, 2022	500,351 shares
As of March 31, 2022	500,351 shares

(iii) Average number of shares outstanding during the period

Three months ended June 30, 2022	10,183,970 shares
Three months ended June 30, 2021	10,174,852 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 three months ended June 30, 2022, the Japanese economy showed signs of recovery due to the resumption of economic activities, although the effects of COVID-19 have not yet been wiped out. Meanwhile, the outlook for the economy remains uncertain due to the fluctuations in the foreign exchange rates caused by the sharp depreciation of the yen, and the soaring prices of various raw materials stemming from reasons such as the prolonged situation in Russia and Ukraine.

Under such circumstances, the Group is now in the third year of its medium-term management plan, “FELIZ 115,” which has been executed since April 2020. At present, although the impact of surging prices of raw materials such as crude oil and naphtha, as well as energy, is making it difficult to secure profits, we have been putting every effort into securing raw materials and proceeding price pass-on measures. We will steadily proceed with increasing the operating rate of the Kasumi Plant, in which we invested in advance, and achieving results in the Life Sciences business.

Concerning the results for the three months ended June 30, 2022, net sales were ¥15,441 million (up 7.1% year on year), thanks to significant growth of flame retardants for overseas markets in the Functional Materials segment.

Operating income was ¥291 million (down 73.4% year on year). Although efforts were made to correct product prices, soaring raw material prices placed pressure on profits, mainly in the Surfactants and Functional Materials segments, and expenditures such as R&D expenses for future growth increased. In addition, ordinary income was ¥377 million (down 58.3% year on year), despite recovery of non-operating income and expenses. With tax expenses and other costs posted, profit attributable to owners of parent was ¥98 million (down 79.9% year on year).

Results by segment are as follows.

Surfactants

Net sales in the Surfactants segment were generally firm.

In Japan, sales were sluggish in IT and electronics applications, and paint and coloring agent applications, but remained firm in agriculture and agro-chemical applications. Sales for soap and detergent applications grew significantly.

Overseas, sales for rubber and plastic applications were sluggish.

As a result, net sales in this segment were ¥4,567 million (up 3.9% year on year).

Operating income was ¥389 million (down 36.0% year on year) due to the impact of soaring raw materials prices.

Amenity Materials

Net sales in the Amenity Materials segment were generally firm.

In Japan, sales of sucrose fatty acid esters were sluggish in food applications. Sales of cellulose polymer materials were sluggish in agricultural and agro-chemical applications, but were firm in energy and environmental applications.

Overseas, sucrose fatty acid esters were robust in personal care (cosmetics) applications and food applications.

As a result, net sales in this segment were ¥1,945 million (up 1.6% year on year).

Operating income was ¥6 million (down 93.0% year on year) due to the impact of soaring raw materials prices and increased operating expenses.

Polyurethane Materials

Net sales in the Polyurethane Materials segment were generally sluggish.

Sales of environmentally friendly synthetic lubricants related to CFC regulations were firm. Sales of civil engineering chemicals related to public works fell sharply.

Demand for functional polyurethane was firm for IT and electronics applications.

As a result, net sales in this segment were ¥1,766 million (down 2.7% year on year).

The Company posted an operating loss of ¥126 million for the period (recorded ¥25 million operating loss for the same period of the previous year) due to the impact of soaring raw materials prices.

Functional Materials

Net sales in the Functional Materials segment generally increased significantly.

In Japan, sales of radcure resin materials for IT and electronics applications were sluggish. However, the sales of waterborne polyurethane for textile applications were firm. Sales of flame retardants for rubber and plastic applications were firm.

Overseas, sales of radcure resin materials for IT and electronics applications were firm, and sales of flame retardants for rubber and plastic applications grew significantly.

As a result, net sales in this segment were ¥5,487 million (up 20.6% year on year).

Operating income was ¥144 million (down 66.2% year on year) due to an increase in operating expenses, mainly R&D expenses, in addition to the impact of soaring raw material prices.

Electronic Device Materials

Net sales in the Electronic Device Materials segment were generally sluggish.

Sales of ionic liquids for display applications and conductive pastes for solar cell applications were sluggish.

As a result, net sales in this segment were ¥1,550 million (down 5.2% year on year).

Due to the sluggish trend of net sales, operating income was ¥107 million (down 10.5% year on year).

Life Sciences

Net sales in the Life Sciences business segment increased by ¥19 million (18.7%) year on year, to ¥123 million. In the I. Japonica-Bombyx Fungus business, we started sales of our new brand “TENCHUKASOU” and promoted thorough brand image recognition. The OEM business for pharmaceutical additives and health foods made through the concentration and pulverization of extracts from natural materials was steady.

As for operating income, although net sales increased, with upfront operating expenses for establishment of brand image, the result was an operating loss of ¥230 million (operating loss of ¥134 million in the same period of the previous year).

(2) Explanation of Financial Position

(Assets)

Current assets as of June 30, 2022 were ¥45,390 million, down ¥1,143 million from the end of the previous fiscal year. This was primarily due to a decrease of ¥2,481 million in cash and deposits, despite an increase of ¥862 million in inventories such as merchandise and finished goods. Non-current

assets totaled ¥40,459 million, up ¥524 million from the end of the previous fiscal year. This was primarily due to an increase of ¥401 million tangible fixed assets.

As a result, total assets amounted to ¥85,850 million, down ¥619 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities as of June 30, 2022 were ¥22,062 million, up ¥335 million from the end of the previous fiscal year. This was primarily due to a ¥427 million increase in notes and accounts payable - trade. Non-current liabilities totaled ¥23,409 million, down ¥949 million from the end of the previous fiscal year. This was primarily due to a decrease of ¥797 million in long-term loans payable.

As a result, total liabilities at the end of the period under review were ¥45,472 million, down ¥613 million from the end of the previous fiscal year.

(Net assets)

Total net assets as of June 30, 2022 were ¥40,378 million, down ¥5 million from the end of the previous fiscal year. This was primarily due to a decrease in retained earnings of ¥359 million, resulting from profit attributable to owners of parent of ¥98 million and dividend of surplus of ¥458 million, despite an increase in foreign currency translation adjustment of ¥199 million and an increase in valuation difference on available-for-sale securities of ¥93 million.

As a result, the equity ratio came to 42.7% (42.5% as of the end of the previous fiscal year).

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

Consolidated financial results forecast has not changed from the forecast for the full year announced as of May 16, 2022.

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, the actual results for the Company may significantly differ due to various factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	12,224	9,743
Notes and accounts receivable - trade	14,959	15,068
Electronically recorded monetary claims - operating	1,532	1,681
Merchandise and finished goods	11,582	12,362
Work in process	21	20
Raw materials and supplies	3,905	3,987
Prepaid expenses	317	413
Other	1,996	2,117
Allowance for doubtful accounts	(4)	(5)
Total current assets	46,534	45,390
Non-current assets		
Tangible fixed assets		
Buildings and structures, net	13,541	13,411
Machinery, equipment and vehicles, net	5,555	5,546
Tools, furniture and fixtures, net	730	751
Land	9,638	9,721
Leased assets, net	2,800	2,682
Construction in progress	1,091	1,646
Total tangible fixed assets	33,358	33,760
Intangible assets		
Goodwill	213	175
Other	405	397
Total intangible assets	618	573
Investments and other assets		
Investment securities	4,004	4,132
Long-term loans receivable	16	16
Long-term prepaid expenses	231	208
Deferred tax assets	172	136
Retirement benefit asset	1,228	1,256
Other	310	382
Allowance for doubtful accounts	(6)	(6)
Total investments and other assets	5,958	6,126
Total non-current assets	39,935	40,459
Total assets	86,469	85,850

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,204	10,632
Electronically recorded obligations - operating	429	453
Short-term loans payable	6,711	6,600
Lease obligations	558	538
Accrued expenses	348	473
Income taxes payable	576	228
Accrued business office taxes	41	10
Provision for bonuses	816	615
Other	2,040	2,509
Total current liabilities	21,726	22,062
Non-current liabilities		
Corporate bonds	6,000	6,000
Long-term loans payable	15,051	14,254
Lease obligations	2,551	2,441
Deferred tax liabilities	318	275
Net defined benefit liability	107	104
Asset retirement obligations	74	74
Other	255	259
Total non-current liabilities	24,359	23,409
Total liabilities	46,086	45,472
Net assets		
Shareholders' equity		
Capital stock	8,895	8,895
Capital surplus	7,278	7,278
Retained earnings	20,498	20,138
Treasury shares	(1,021)	(1,021)
Total shareholders' equity	35,650	35,290
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	181	275
Foreign currency translation adjustment	507	707
Remeasurements of defined benefit plans	427	413
Total accumulated other comprehensive income	1,116	1,396
Non-controlling interests	3,616	3,690
Total net assets	40,383	40,378
Total liabilities and net assets	86,469	85,850

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

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	14,413	15,441
Cost of sales	10,654	12,187
Gross profit	3,758	3,253
Selling, general and administrative expenses	2,663	2,961
Operating income	1,094	291
Non-operating income		
Interest income	1	2
Dividend income	3	7
Share of profit of entities accounted for using equity method	10	17
Rent income	8	8
Foreign exchange gains	0	109
Other	23	39
Total non-operating income	48	184
Non-operating expenses		
Interest expenses	49	45
Corporate bond interest	9	9
Inactive facility expenses	147	-
Other	33	44
Total non-operating expenses	239	99
Ordinary income	903	377
Extraordinary losses		
Loss on disposal of non-current assets	30	35
Total extraordinary losses	30	35
Profit before income taxes	873	341
Income taxes - current	127	119
Income taxes - deferred	134	2
Total income taxes	261	122
Profit	611	219
Profit attributable to non-controlling interests	120	120
Profit attributable to owners of parent	490	98

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit	611	219
Other comprehensive income		
Valuation difference on available-for-sale securities	(366)	93
Foreign currency translation adjustment	318	266
Remeasurements of defined benefit plans, net of tax	143	(13)
Share of other comprehensive income of entities accounted for using equity method	23	29
Total other comprehensive income	119	376
Comprehensive income	730	595
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	477	378
Comprehensive income attributable to non- controlling interests	253	217

(3) 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.

(Changes in accounting policies)

(Application of Implementation Guidance for Accounting Standard for Fair Value Measurement)

We have applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; “Fair Value Measurement Implementation Guidance”) from the beginning of the first quarter under review, and decided to apply new accounting standards set forth in the Fair Value Measurement Implementation Guidance prospectively in accordance with the transitional treatment provided for in Section 27-2 of the Fair Value Measurement Implementation Guidance.

There is no impact of application of this implementation guidance on the quarterly consolidated financial statements.

(Notes on quarterly consolidated statement of income)

Expenses related to inactive equipment in the three months ended June 30, 2021 are fixed costs related to the period during which production of photopolymer material manufacturing equipment in the Chitose area of the Yokkaichi Plant was suspended.

(Segment information, etc.)

Segment information

I First three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

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 contacts with customers	4,395	1,914	1,815	4,549	1,635	103	14,413
Revenues from external customers	4,395	1,914	1,815	4,549	1,635	103	14,413
Transactions with other segments	–	–	–	–	–	–	–
Total	4,395	1,914	1,815	4,549	1,635	103	14,413
Segment profit (loss) operating income (loss)	609	99	(25)	426	119	(134)	1,094

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

II First three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

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 contacts with customers	4,567	1,945	1,766	5,487	1,550	123	15,441
Revenues from external customers	4,567	1,945	1,766	5,487	1,550	123	15,441
Transactions with other segments	–	–	–	–	–	–	–
Total	4,567	1,945	1,766	5,487	1,550	123	15,441
Segment profit (loss) operating income (loss)	389	6	(126)	144	107	(230)	291

Note: Total amount of profit or loss in reportable segments and operating income 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.)

(Significant events after reporting period)Purchase of treasury shares

At the board of directors meeting of the Company held on June 24, 2022, the Company resolved on matters related to the acquisition of treasury shares under the provisions of Article 156 of the Companies Act, which is applied after replacing the applicable words under the provisions of Article 165, Paragraph 3 of the Companies Act, and started the acquisition on July 1, 2022.

1. Reasons for purchase of treasury shares

This is to improve capital efficiency of the Company as well as enable flexible capital policy according to the business environment.

2. Information about acquisition

(1) Classes of shares subject to acquisition

Ordinary share of the Company

- (2) Total number of shares authorized to be acquired
850,000 shares (maximum)
(Percentage of total number of issued shares excluding treasury shares: 8.35%)
- (3) Total acquisition cost of shares
¥1,500,000,000 (maximum)
- (4) Acquisition period
July 1, 2022–December 23, 2022