

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

January 30, 2024

Consolidated Financial Results for the Nine Months Ended December 31, 2023 (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
 TEL: +81-75-323-5955
 Scheduled date to file quarterly securities report: February 8, 2024
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for individual and institutional investors)

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

1. Consolidated financial results for the nine months ended December 31, 2023 (from April 1, 2023, to December 31, 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	%
Nine months ended								
December 31, 2023	45,634	(7.1)	529	(46.4)	556	(48.4)	299	–
December 31, 2022	49,098	5.1	988	(73.5)	1,079	(67.2)	(395)	–

Note: Comprehensive income For the nine months ended December 31, 2023 ¥1,852 million [85.8%]
 For the nine months ended December 31, 2022 ¥997 million [(63.1)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	31.32	–
December 31, 2022	(40.33)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2023	92,661	39,493	37.8	3,663.80
March 31, 2023	85,025	38,296	40.4	3,593.49

Reference: Equity

As of December 31, 2023 ¥35,062 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: 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: 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 December 31, 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 December 31, 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)

Nine months ended December 31, 2023	9,565,934 shares
Nine months ended December 31, 2022	9,797,236 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.

Attached Material**Index**

1. Qualitative Information on Quarterly Financial Results.....	2
(1) Explanation of Operating Results.....	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Earnings Forecast and Other Forward-Looking Information.....	4
2. Quarterly Consolidated Financial Statements and Notes.....	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	7
Quarterly consolidated statement of income (cumulative).....	7
Quarterly consolidated statement of comprehensive income (cumulative).....	8
(3) Notes to Quarterly Consolidated Financial Statements	9
(Notes on premise of going concern)	9
(Notes when there are significant changes in amounts of equity)	9
(Segment information, etc.).....	9
(Notes on revenue recognition)	10

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended December 31, 2023, despite some standstill in corporate capital expenditures, the Japanese economy made a mild recovery with a pickup in private consumption. However, the outlook remains uncertain due to such factors as lasting high resource prices, downswings in overseas business conditions, the situation surrounding the Middle East region, and increasing budget-mindedness among consumers stemming from rising prices.

In this environment, the Group recorded lower sales and profits year on year, since a decrease in the sales volume, glowing burden of construction cost owing to a decline in plant operating rates, soaring raw material prices, and other factors placed pressure on profits. On the other hand, in this quarter (October-December), the Group achieved significantly higher sales and profits compared to the same period of the previous fiscal year, thanks to a recovery in market conditions related to semiconductors and displays, and a progress in various measures for “bottoming out” such as price pass-on and cost reduction.

We consider this term as a pivotal year to build a foundation for the next medium-term management plan. To realize the goals of the medium-term management plan “FELIZ 115” with the fiscal year ending March 31, 2025 as the final year, we aim to steadily secure profits by continuing price pass-on and cost reduction as well as achieving results on research and development themes early.

Our annual motto for this year is “Commitment to results.” We will renovate the personnel system and enhance human resources development to achieve sustainable corporate development.

Concerning the results for the nine months ended December 31, 2023, net sales were ¥45,634 million (down 7.1% 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, operating income was ¥529 million (down 46.4% year on year) and ordinary income was ¥556 million (down 48.4% year on year) due to soaring raw materials and energy prices, and a significant drop in sales in the Functional Materials and Electronic Device Materials segments. As a result of adding or subtracting gain on sale of investment securities, etc. to or from the above, profit attributable to owners of parent was ¥299 million (loss of ¥395 million in the same period of the previous fiscal year).

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 ¥13,672 million (down 5.4% year on year).

Operating income was ¥1,224 million (down 11.0% year on year) due to the impact of soaring raw materials prices on top of a drop in net sales.

Amenity Materials

Net sales in the Amenity Materials segment were generally firm.

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

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

As a result, net sales in this segment were ¥6,189 million (up 0.9% year on year).

Operating income was ¥210 million (up 137.3% year on year) due to reductions in operating expenses and other measures.

Polyurethane Materials

Net sales in the Polyurethane Materials segment were generally firm.

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

As a result, net sales in this segment were ¥6,524 million (up 0.4% year on year).

The Company posted an operating loss of ¥249 million for the period (recorded a ¥226 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. Sales of waterborne polyurethane for IT and electronics applications were firm, but those for textile applications were sluggish. Sales of flame retardants for rubber and plastic applications fell significantly.

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

As a result, net sales in this segment were ¥15,238 million (down 10.1% year on year).

Due to the significant drop in net sales, operating income was ¥129 million (down 37.7% year on year).

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 ¥3,760 million (down 19.9% year on year).

Operating loss was ¥93 million (operating income of ¥147 million in the same period of the previous fiscal year) due to an increase in operating expenses on top of a significant drop in net sales.

Life Sciences

Net sales in the Life Sciences segment decreased by ¥124 million to ¥249 million (down 33.3% year on year).

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 ¥691 million (operating loss of ¥605 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,” 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 December 31, 2023 were ¥52,870 million, up ¥7,458 million from the end of the previous fiscal year. This was primarily due to an increase of ¥5,949 million in cash and deposits, and an increase of ¥2,309 million in notes and accounts receivable - trade, despite a decrease of ¥2,070 million in inventories such as merchandise and finished goods. Non-current assets totaled ¥39,790 million, up ¥176 million from the end of the previous fiscal year. This was primarily due to an increase of ¥552 million in investment securities, despite a decrease of ¥178 million in deferred tax assets.

As a result, total assets amounted to ¥92,661 million, up ¥7,635 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities as of December 31, 2023, were ¥24,138 million, up ¥3,498 million from the end of the previous fiscal year. This was primarily due to a ¥1,420 million increase in notes and accounts payable - trade and a ¥1,392 million increase in short-term borrowings. Non-current liabilities totaled ¥29,029 million, up ¥2,940 million from the end of the previous fiscal year. This was primarily due to an increase of ¥3,112 million in long-term borrowings.

As a result, total liabilities at the end of the period under review were ¥53,167 million, up ¥6,438 million from the end of the previous fiscal year.

(Net assets)

Total net assets as of December 31, 2023 were ¥39,493 million, up ¥1,196 million from the end of the previous fiscal year. This was primarily due to a profit attributable to owners of parent of ¥299 million and dividends of surplus of ¥573 million resulting in a decline in retained earnings of ¥274 million, combined with increases of ¥605 million in valuation difference on available-for-sale securities, of ¥395 million in foreign currency translation adjustment, and of ¥480 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).

(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 October 30, 2023.

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) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	9,128	15,078
Notes and accounts receivable - trade	15,105	17,414
Electronically recorded monetary claims - operating	2,218	2,559
Merchandise and finished goods	13,131	11,452
Work in process	16	20
Raw materials and supplies	3,489	3,094
Prepaid expenses	369	484
Other	1,956	2,769
Allowance for doubtful accounts	(3)	(2)
Total current assets	45,411	52,870
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,834	12,818
Machinery, equipment and vehicles, net	4,650	5,764
Tools, furniture and fixtures, net	800	997
Land	9,748	9,969
Leased assets, net	2,338	2,077
Construction in progress	2,369	992
Total property, plant and equipment	32,743	32,619
Intangible assets	341	313
Investments and other assets		
Investment securities	4,274	4,826
Long-term loans receivable	14	12
Long-term prepaid expenses	512	382
Deferred tax assets	299	121
Retirement benefit asset	1,063	1,147
Other	371	367
Allowance for doubtful accounts	(6)	(1)
Total investments and other assets	6,529	6,857
Total non-current assets	39,614	39,790
Total assets	85,025	92,661

(Millions of yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,972	11,392
Electronically recorded obligations - operating	379	523
Short-term borrowings	6,516	7,909
Lease liabilities	474	479
Accrued expenses	308	320
Income taxes payable	232	159
Accrued business office taxes	41	31
Provision for bonuses	712	490
Other	2,002	2,830
Total current liabilities	20,639	24,138
Non-current liabilities		
Corporate bonds	6,000	6,000
Long-term borrowings	17,348	20,461
Lease liabilities	2,131	1,823
Deferred tax liabilities	196	307
Retirement benefit liability	79	91
Asset retirement obligations	74	74
Other	259	271
Total non-current liabilities	26,089	29,029
Total liabilities	46,729	53,167
Net assets		
Shareholders' equity		
Capital stock	8,895	8,895
Capital surplus	7,276	7,266
Retained earnings	19,250	18,976
Treasury shares	(2,488)	(2,461)
Total shareholders' equity	32,933	32,675
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	467	1,072
Foreign currency translation adjustment	765	1,160
Remeasurements of defined benefit plans	180	153
Total accumulated other comprehensive income	1,413	2,386
Non-controlling interests	3,949	4,430
Total net assets	38,296	39,493
Total liabilities and net assets	85,025	92,661

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

(Millions of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net sales	49,098	45,634
Cost of sales	39,216	36,660
Gross profit	9,881	8,973
Selling, general and administrative expenses	8,893	8,443
Operating income	988	529
Non-operating income		
Interest income	8	6
Dividend income	53	65
Share of profit of entities accounted for using equity method	45	-
Foreign exchange gains	183	173
Other	97	166
Total non-operating income	388	411
Non-operating expenses		
Interest expenses	144	193
Corporate bond interest	28	28
Share of loss of entities accounted for using equity method	-	1
Other	125	161
Total non-operating expenses	298	384
Ordinary income	1,079	556
Extraordinary income		
Gain on sale of investment securities	-	408
Total extraordinary income	-	408
Extraordinary losses		
Loss on disposal of non-current assets	70	56
Impairment losses	786	-
Amortization of goodwill	137	-
Total extraordinary losses	994	56
Profit before income taxes	84	908
Income taxes - current	322	252
Income taxes - deferred	(183)	42
Total income taxes	139	294
Profit (loss)	(55)	613
Profit attributable to non-controlling interests	340	313
Profit (loss) attributable to owners of parent	(395)	299

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Profit (loss)	(55)	613
Other comprehensive income		
Valuation difference on available-for-sale securities	217	605
Foreign currency translation adjustment	822	676
Remeasurements of defined benefit plans net of tax	(42)	(27)
Share of other comprehensive income of entities accounted for using equity method	55	(14)
Total other comprehensive income	1,052	1,239
Comprehensive income	997	1,852
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	345	1,272
Comprehensive income attributable to non- controlling interests	651	579

(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.

(Segment information, etc.)

Segment information

I Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	14,454	6,134	6,499	16,942	4,693	374	49,098
Revenues from external customers	14,454	6,134	6,499	16,942	4,693	374	49,098
Transactions with other segments	–	–	–	–	–	–	–
Total	14,454	6,134	6,499	16,942	4,693	374	49,098
Segment profit (loss) operating income (loss)	1,375	88	(226)	208	147	(605)	988

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 nine months ended December 31, 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 October 28, 2022), we began amortizing goodwill in the Life Sciences segment in the nine months ended December 31, 2022, resulting in the recording of amortization of goodwill as an extraordinary loss of ¥137 million.

II Nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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	13,672	6,189	6,524	15,238	3,760	249	45,634
Revenues from external customers	13,672	6,189	6,524	15,238	3,760	249	45,634
Transactions with other segments	–	–	–	–	–	–	–
Total	13,672	6,189	6,524	15,238	3,760	249	45,634
Segment profit (loss) operating income (loss)	1,224	210	(249)	129	(93)	(691)	529

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.).