

# Quarterly Financial Results for the 3rd Quarter, Ended December 31, 2022 (Japanese GAAP, Consolidated)

February 8, 2023

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listing: Tokyo

Code Number: 4118

URL <https://www.kaneka.co.jp/en/>

Representative: Minoru Tanaka Title: President, Representative Director

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Scheduled date for submitting financial statements: February 10, 2023    Scheduled date of dividend distribution: —

Note: Figures have been rounded down to the nearest million yen.

## 1. Consolidated Business Performance for the 3rd Quarter, Ended December 31, 2022

(from April 1, 2022 to December 31, 2022)

(1) Consolidated business performance (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2022 – Dec. 2022	567,143	11.5	27,621	(17.1)	26,601	(15.0)	18,890	(14.2)
Apr. 2021 – Dec. 2021	508,716	20.7	33,317	92.7	31,288	147.7	22,021	128.0

Note: Comprehensive income: ¥27,794 million (1.6%) for the nine months ended December 31, 2022

¥27,345 million (65.7%) for the nine months ended December 31, 2021

	Net income per share	Fully diluted net income per share
	¥	¥
Apr. 2022 – Dec. 2022	286.61	285.86
Apr. 2021 – Dec. 2021	337.55	336.63

## (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of December 31, 2022	788,686	427,259	51.8
As of March 31, 2022	726,959	412,204	53.3

Reference: Shareholders' equity: ¥408,559 million as of December 31, 2022

¥387,150 million as of March 31, 2022

## 2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2021 – Mar. 2022	¥ —	¥ 50.00	¥ —	¥ 60.00	¥ 110.00
Apr. 2022 – Mar. 2023	—	55.00	—		
Apr. 2022 – Mar. 2023 (Forecasts)				55.00	110.00

Note: Changes in dividend forecast during the quarter under review: None

## 3. Forecast for Consolidated Business Performance for the Year Ending March 31, 2023

(from April 1, 2022 to March 31, 2023)

(Percentage figures represent changes from the corresponding periods of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Full year	756,000	9.3	36,500	(16.2)	34,000	(16.7)	24,000	(9.4)
								364.67

Note: Revisions to consolidated business performance forecasts during the quarter under review: Yes

※ Notes

- (1) Changes in principal subsidiaries during the term: None
- (2) Application of simplified methods of accounting and specific accounting methods: None
- (3) Changes in accounting principles, changes in estimates, or restatements
  - 1. Changes owing to revisions in accounting standards: Yes
  - 2. Changes other than 1. above: None
  - 3. Changes in accounting estimates: None
  - 4. Restatements: None

Note: For details, please refer to the section entitled “(3) Notes to the Consolidated Financial Statements (Changes in Accounting Principles)” under “2. Quarterly Consolidated Financial Statements and Main Notes” on page 10.

(4) Number of shares outstanding (common stock)

- 1. Number of shares issued at the end of the period (including treasury stock):
- 2. Number of shares of treasury stock at the end of the period:
- 3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year):

December 31, 2022	68,000,000 shares	March 31, 2022	68,000,000 shares
December 31, 2022	2,187,709 shares	March 31, 2022	2,761,323 shares
December 31, 2022	65,909,803 shares	December 31, 2021	65,239,177 shares

※These financial statements are exempt from audit procedures

※Explanations or other items pertaining to appropriate use of business performance forecasts

The business performance forecasts and certain other statements contained in this document are forward-looking statements, which are based on information currently available to the Company and certain assumptions determined to be reasonable by the Company. For a variety of reasons, actual performance may differ substantially from these forecasts. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements. For cautionary items used in business performance forecasts, please refer to the section entitled “(3) Consolidated Business Forecasts” under “1. Quarterly Consolidated Business Performance” on page 5.

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## 1. Quarterly Consolidated Business Performance

## (1) Consolidated Business Performance

## ➤ State of the Global Economy - Deceleration and Instability -

During the first nine months (April 1 to December 31, 2022, “1-3Q”) of the fiscal year ending March 31, 2023, the global economy was unstable due to the sharp rise in energy and resource prices triggered by the Ukraine crisis, growing inflation and monetary tightening in various economies, which put a sudden brake on the economy in the third quarter (October 1 to December 31, 2022, “3Q”), and there were also currency fluctuations.

## ➤ Kaneka Group's Business Performance - Despite Foundation Businesses Impacted, Leading-edge Businesses Grown -

Under these circumstances, Kaneka Group's business performance for 1-3Q was as follows. Consolidated net sales were ¥567,143 million (up 11.5% year-on-year), operating income was ¥27,621 million (down 17.1% year-on-year), ordinary income was ¥26,601 million (down 15.0% year-on-year), and net income attributable to owners of parent was ¥18,890 million (down 14.2% year-on-year).

Business performance for the first nine months (April 1, 2022 to December 31, 2022) (Millions of yen)

	FY2021 1-3Q (Apr.-Dec.)	FY2022 1-3Q (Apr.-Dec.)	Difference (year-on-year)
Net sales	508,716	<b>567,143</b>	58,426 11.5%
Operating income	33,317	<b>27,621</b>	(5,695) (17.1%)
Ordinary income	31,288	<b>26,601</b>	(4,687) (15.0%)
Net income attributable to owners of parent	22,021	<b>18,890</b>	(3,131) (14.2%)

Net sales and operating income by segment for the first nine months (Millions of yen)

	Net sales					Difference (year-on-year)
	FY2022					
	1Q	2Q	3Q	1-3Q		
Material SU	88,919	83,975	77,812	250,707	33,469 15.4%	
Quality of Life SU	45,000	42,194	43,812	131,008	4,869 3.9%	
Health Care SU	16,623	17,369	18,658	52,651	10,630 25.3%	
Nutrition SU	41,879	44,091	46,018	131,988	9,454 7.7%	
Others	316	231	240	787	2 0.3%	
Total	192,739	187,863	186,541	567,143	58,426 11.5%	

	Operating income					Difference (year-on-year)
	FY2022					
	1Q	2Q	3Q	1-3Q		
Material SU	10,756	7,947	3,767	22,470	(3,796) (14.5%)	
Quality of Life SU	4,600	4,069	4,386	13,056	(727) (5.3%)	
Health Care SU	3,856	3,653	4,471	11,981	3,561 42.3%	
Nutrition SU	806	1,296	2,290	4,393	745 20.4%	
Others	186	95	112	395	45 13.1%	
Adjustment	(7,994)	(8,460)	(8,221)	(24,676)	(5,523) -	
Total	12,212	8,601	6,808	27,621	(5,695) (17.1%)	

※SU : Solutions Unit

In 3Q, some of our segments continued to experience declining demand and falling market conditions due to factors including the sluggish building materials and construction markets in Europe and the U.S., falling PVC market prices in Asia, and supply-demand adjustments in the electronics market, which had a significant impact on our business performance. On the other hand, in leading-edge businesses (Health Care Solutions Unit, etc.), sales of new products using our unique and differentiated technologies are steadily expanding and the business is growing speedily. In foundation businesses, Foam & Residential Techs and Foods strengthened their earnings foundation as spreads improved due to price revisions in response to rising raw material prices and other factors. We are making steady progress in transforming our business portfolio.

※ Foundation businesses ... Vinyls and Chlor-Alkali, Modifiers, Foam & Residential Techs, Performance Fibers, Foods  
 Leading-edge businesses... Modified Silicone polymers, E & I Technology, Pharma, Medical, Supplemental Nutrition, Agris, PV & Energy management

The operating performance by business segment was as follows:

### ① Material Solutions Unit

This unit was strongly affected by economic slowdown in Europe, the U.S., and Asia, resulting in higher sales and lower profits.

- For Vinyls and Chlor-Alkali, although caustic soda sales remained steady in 3Q, demand for PVC resins in Asian markets was dull and market conditions remained weak.
- For Modifiers, demand for rigid PVC usage for housing in Europe and the U.S. has slowed from the second quarter (July 1 to September 30, 2022, "2Q") and remained sluggish in 3Q due to customers' inventory adjustments. We have been shifting our Research & Business activities to expand the market for non-PVC applications to enhance profitability. Business performance bottomed out in 3Q and is now on a recovery track.
- For Modified Silicone polymers, demand temporarily slowed down due to the weak construction markets in Europe and the U.S., but the underlying tone of demand is strong, and following the decision made last year to increase capacity in Belgium, we are quickly considering the next capacity expansion in the U.S.
- KANEKA Biodegradable Polymer Green Planet™ has received many inquiries from major brand holders in Japan, Europe, and the U.S., and joint developments are expanding. We are also working hard on research and development of innovative technology to produce Green Planet™ from CO<sub>2</sub> and H<sub>2</sub> for social implementation of "biomanufacturing," a prioritized Japanese government policy.

### ② Quality of Life Solutions Unit

This unit increased sales, but E & I Technology was strongly affected by the supply-demand adjustment, resulting in a decrease in profits.

- For Foam & Residential Techs, performance recovered as a result of price revisions and firm sales in the domestic market. Demand in the overseas automotive sector is gradually recovering.
- As the energy crisis (electricity shortage) becomes a global problem, expectations for high-efficiency photovoltaic modules are increasing. Inquiries about our PV products are becoming increasingly active, as policies such as the mandatory installation of PV in new houses are spreading nationwide, including by the Tokyo Metropolitan Government. We will start operation of an additional production line for heterojunction PV during this fiscal year to respond to the strong demand for high-efficiency photovoltaic modules for residential use. We also plan to begin full-scale delivery of in-vehicle PV this spring. In addition, we are actively promoting initiatives that contribute to CO<sub>2</sub> reduction, such as self-consignment and microgrids in cooperation with local governments.
- For E & I Technology, sales of polyimide products and resins for LCD panels fell below the previous year's level due to continued significant supply-demand adjustments in the smartphone and large-

screen TV markets in 3Q. We expect these demands to recover from the later fourth quarter (January 1 to March 31, 2023, "4Q"). We are focusing on a new lineup of Kaneka's unique and differentiated products such as for 5G, flexible displays, and image sensor applications.

- Performance Fibers is working to expand sales by introducing differentiated new products, although demand for hair products is slowing temporarily due to rising inflation in Africa and the U.S.

### ③ Health Care Solutions Unit

This unit achieved a significant increase in both sales and profits due to the strong performance of Medical and Pharma.

- For Medical, sales of blood purification devices and catheters are expanding both domestically and internationally, owing to strong sales of new products. It is driving the company's performance. We will further accelerate the global expansion of the Medical business by hastening the reinforcement of the sales structure in the U.S., the largest market. Following on from COVID-19 PCR testing kits, we plan to launch Influenza COVID-19 multiplex testing kits in the near future.
- Pharma is steadily expanding its biopharmaceutical business. It is a Solutions Vehicle driving the company's performance. Kaneka Eurogentec S.A. has decided to increase the capacity of manufacturing facilities for mRNA, which is expected to grow at a high rate for use in vaccines for infectious diseases as well as in therapeutics for genetic diseases and cancer. We are expanding our business foundation for significant growth. In the area of small molecule pharmaceuticals, sales of an intermediate for Xocova®\*1 tablets, a drug for the treatment of COVID-19 infection, are on track, and we plan to increase sales.

\*1. Xocova is a registered trademark of Shionogi & Co., Ltd.

### ④ Nutrition Solutions Unit

This unit increased both sales and profits.

- Supplemental Nutrition is rapidly considering increased production of the active form of coenzyme Q10 as sales are growing in Europe, Oceania and Asia (China) as well as in the U.S. and Japan. In addition, we are strengthening our global production sales structure in response to the expansion of the probiotics business. We will further strengthen our lineup of foods with functional claims.
- Foods & Agris focused on expanding sales of high value-added products and revising prices amid widespread price hikes and sluggish demand for food products in general. Performance expanded. Regarding "Watashi no Chikara (My Energy) - Q10 Yogurt" launched in August, sales of the drink-type product were particularly strong. Production capacity has reached a limit and the first step in increasing production has been completed. Kaneka Shokuhin launched a new e-commerce site. We are strengthening BtoC sales of dairy products, bread, chocolate, etc. It is a major initiative which provides new value under the theme of good taste and health.

## (2) Consolidated Financial Position

- Financial position (assets, liabilities and net assets)

At the end of 3Q, total assets were ¥788,686 million, up ¥61,726 million from the previous fiscal year-end. This is due to an increase in notes and accounts receivable-trade and inventory assets resulting from higher sales, as well as an increase in property, plant and equipment resulting from expanded capital investment. Liabilities totaled ¥361,426 million, up ¥46,670 million, primarily reflecting an increase in loans payable. Net assets were ¥427,259 million, up ¥15,055 million owing chiefly to an increase in retained earnings and an increase in foreign currency translation adjustments.

## (3) Consolidated Business Forecasts

- Although there are positive signs for performance in 4Q, based on the business performance up until 3Q, the Group announced a revised forecast for consolidated business performance on November 9, 2022.

Revisions to the forecast for consolidated business performance for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
	¥ million	¥ million	¥ million	¥ million	¥
Previous forecast (A)	760,000	40,000	39,000	27,000	410.05
Current forecast (B)	756,000	36,500	34,000	24,000	364.67
Change (B-A)	(4,000)	(3,500)	(5,000)	(3,000)	
Percent change (%)	(0.5)	(8.8)	(12.8)	(11.1)	
(Reference: Year ended March 31, 2022)	691,530	43,562	40,816	26,487	406.01

Forecasts for consolidated business performance by segment for the fiscal year ending March 31, 2023 (Millions of yen)

	Net sales			Operating income		
	Previous forecast	Revised forecast	Difference	Previous forecast	Revised forecast	Difference
Material SU	340,000	<b>335,600</b>	(4,400) (1.3%)	31,000	<b>28,300</b>	(2,700) (8.7%)
Quality of Life SU	175,000	<b>173,900</b>	(1,100) (0.6%)	17,000	<b>16,400</b>	(600) (3.5%)
Health Care SU	71,000	<b>70,700</b>	(300) (0.4%)	16,000	<b>16,300</b>	300 1.9%
Nutrition SU	173,000	<b>174,800</b>	1,800 1.0%	6,800	<b>7,600</b>	800 11.8%
Others	1,000	<b>1,000</b>	-	500	<b>500</b>	-
Adjustment	-	<b>-</b>	-	(31,300)	<b>(32,600)</b>	(1,300) -
Total	760,000	<b>756,000</b>	(4,000) (0.5%)	40,000	<b>36,500</b>	(3,500) (8.8%)

※SU : Solutions Unit

With regard to the exchange rates and raw material prices, forecast figures assume an exchange rate of ¥130 to the US dollar, ¥140 to the euro and a domestic naphtha price of ¥71,500 per kiloliter from January 1, 2023 onward.

※ The above performance forecasts for the Kaneka Group are regarded as reasonable based on information available at the time of the announcement. Readers should be aware that actual results may vary from these forecasts due to various factors.

- The IMF upwardly revised its forecast for 2022 global GDP growth to 3.4% (from 3.2% forecast in October 2022). Although some recovery factors are expected in the global economy, such as an early recovery of the Chinese economy, easing of the economic slowdown in the U.S. and Europe, and the bottoming out of the supply-demand adjustment in the automobile production and electronics markets, the economic slowdown is expected to continue for the time being, and the outlook is highly uncertain.
- Under these circumstances, for our performance in 4Q, the Health Care Solutions Unit will continue its strong growth momentum, with Medical and Pharma being the driving force, and Foods & Agris and Supplemental Nutrition are forecast to maintain profit growth. Material Solutions Unit and E & I Technology, which were the main causes of stagnant performance up until 3Q, will recover sales due to improvement in the supply-demand environment. In 4Q, we expect to see upward momentum in all segments.

**2. Quarterly Consolidated Financial Statements and Main Notes****(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 3rd Quarter As of December 31, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	41,735	37,752
Notes and accounts receivable-trade, and contract assets	164,128	175,707
Short-term investment securities	217	132
Merchandise and finished goods	69,183	90,362
Work in process	12,171	12,900
Raw materials and supplies	59,128	67,505
Other	17,897	20,085
Allowance for doubtful accounts	(1,552)	(1,497)
<b>Total current assets</b>	<b>362,910</b>	<b>402,949</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	92,052	95,940
Machinery, equipment and vehicles, net	110,339	108,884
Other, net	68,883	85,858
<b>Total property, plant and equipment</b>	<b>271,275</b>	<b>290,683</b>
Intangible assets		
Goodwill	2,559	2,341
Other	12,417	13,011
<b>Total intangible assets</b>	<b>14,977</b>	<b>15,353</b>
Investments and other assets		
Investment securities	58,609	59,308
Other	19,488	20,672
Allowance for doubtful accounts	(300)	(280)
<b>Total investments and other assets</b>	<b>77,796</b>	<b>79,700</b>
<b>Total noncurrent assets</b>	<b>364,049</b>	<b>385,737</b>
<b>Total assets</b>	<b>726,959</b>	<b>788,686</b>

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 3rd Quarter As of December 31, 2022
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	92,068	100,467
Short-term loans payable	89,992	119,585
Income taxes payable	3,466	2,469
Provision	134	1
Other	48,839	48,508
Total current liabilities	234,502	271,033
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	28,627	25,626
Provision	2,626	2,391
Net defined benefit liability	31,559	30,892
Other	7,439	21,482
Total noncurrent liabilities	80,253	90,393
Total liabilities	314,755	361,426
<b>Net assets</b>		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	31,392	32,231
Retained earnings	309,507	319,095
Treasury stock	(11,528)	(8,302)
Total shareholders' equity	362,417	376,071
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,331	22,047
Deferred gains or losses on hedges	(4)	2
Foreign currency translation adjustment	4,381	10,953
Remeasurements of defined benefit plans	(975)	(514)
Total accumulated other comprehensive income	24,732	32,488
Subscription rights to shares	619	622
Non-controlling interests	24,435	18,077
Total net assets	412,204	427,259
Total liabilities and net assets	726,959	788,686

**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**

## Quarterly Consolidated Statements of Income

(Millions of yen)

	FY2021 3rd Quarter From April 1, 2021 to December 31, 2021	FY2022 3rd Quarter From April 1, 2022 to December 31, 2022
Net sales	508,716	567,143
Cost of sales	362,443	416,165
Gross profit	146,273	150,977
Selling, general and administrative expenses	112,955	123,355
Operating income	33,317	27,621
Non-operating income		
Dividends income	1,401	1,607
Foreign exchange gains	195	1,993
Equity in earnings of affiliates	105	123
Other	675	742
Total non-operating income	2,378	4,466
Non-operating expenses		
Interest expenses	792	1,339
Loss on retirement of noncurrent assets	951	1,142
Other	2,662	3,004
Total non-operating expenses	4,406	5,487
Ordinary income	31,288	26,601
Income before income taxes	31,288	26,601
Income taxes-current	6,163	6,223
Income taxes-deferred	1,991	761
Total income taxes	8,154	6,985
Net income	23,134	19,616
Net income attributable to non-controlling interests	1,112	726
Net income attributable to owners of parent	22,021	18,890

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2021 3rd Quarter From April 1, 2021 to December 31, 2021	FY2022 3rd Quarter From April 1, 2022 to December 31, 2022
Net income	23,134	19,616
Other comprehensive income		
Valuation difference on available-for-sale securities	469	732
Deferred gains or losses on hedges	(11)	7
Foreign currency translation adjustment	3,137	6,971
Remeasurements of defined benefit plans, net of tax	620	465
Share of other comprehensive income of associates accounted for using equity method	(4)	1
Total other comprehensive income	4,211	8,178
Comprehensive income	27,345	27,794
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,149	26,646
Comprehensive income attributable to non-controlling interests	1,196	1,148

## (3) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Changes in Accounting Principles)

ASC Topic 842 "Leases" has been applied to overseas subsidiaries that apply US GAAP from the current first quarter consolidated accounting period. The impact of the application of this accounting standard on quarterly consolidated financial statements is negligible.

(Segment Information)

I Term from April 1, 2021 to December 31, 2021

## 1) Sales and Income by Segment

(Millions of yen)

	Segment information					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	217,237	126,138	42,020	122,533	507,931	785	508,716	-	508,716
Intersegment	617	30	0	38	686	813	1,499	(1,499)	-
Total	217,854	126,169	42,020	122,572	508,617	1,598	510,215	(1,499)	508,716
Segment profit	26,267	13,784	8,420	3,648	52,120	349	52,470	(19,152)	33,317

Notes: 1. "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2. Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

## 2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	52,120
Segment profit of Others	349
Elimination of intersegment transactions	(8)
Companywide expenses (Note)	(19,176)
Other adjustments	31
Operating income in the quarterly consolidated statements of income	33,317

Note: Companywide expenses primarily are expenses for basic R&D that are not allocable to any reporting segment.

II Term from April 1, 2022 to December 31, 2022

1) Sales and Income by Segment

(Millions of yen)

	Segment information					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	250,707	131,008	52,651	131,988	566,355	787	567,143	-	567,143
Intersegment	246	25	-	40	312	844	1,156	(1,156)	-
Total	250,953	131,033	52,651	132,028	566,667	1,632	568,300	(1,156)	567,143
Segment profit	22,470	13,056	11,981	4,393	51,902	395	52,298	(24,676)	27,621

Notes: 1. "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2. Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	51,902
Segment profit of Others	395
Elimination of intersegment transactions	1
Companywide expenses (Note)	(24,751)
Other adjustments	73
Operating income in the quarterly consolidated statements of income	27,621

Note: Companywide expenses primarily are expenses for basic R&D that are not allocable to any reporting segment.