

Quarterly Consolidated Financial Results for the 1st Quarter, Ended June 30, 2023 (Japanese GAAP)

August 9, 2023

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listing: Tokyo

Code Number: 4118

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

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Scheduled date for filing financial statements: August 10, 2023 Scheduled date of dividend distribution: –

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

1. Consolidated Financial Results for the 1st Quarter, Ended June 30, 2023

(from April 1, 2023 to June 30, 2023)

(1) Consolidated operating results

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr.1, 2023 – Jun. 30, 2023	182,740	(5.2)	5,603	(54.1)	6,674	(54.8)	4,241	(59.7)
Apr.1, 2022 – Jun. 30, 2022	192,739	17.4	12,212	3.1	14,756	37.1	10,518	35.6

Note: Comprehensive income: ¥17,123 million (Δ 3.1%) for the three months ended June 30, 2023
¥17,664 million (108.6%) for the three months ended June 30, 2022

	Basic net income per share	Diluted net income per share
Apr.1, 2023 – Jun. 30, 2023	¥ 65.35	¥ 65.17
Apr.1, 2022 – Jun. 30, 2022	¥ 161.22	¥ 160.80

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of June 30, 2023	¥ million 815,841	¥ million 449,541	52.7 %
As of March 31, 2023	782,640	436,422	53.3

Reference: Equity (Shareholders' equity + Accumulated other comprehensive income):

¥429,981 million as of June 30, 2023

¥417,372 million as of March 31, 2023

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr.1, 2022 – Mar. 31, 2023	¥ —	¥ 55.00	¥ —	¥ 55.00	¥ 110.00
Apr.1, 2023 – Mar. 31, 2024	—				
Apr.1, 2023 – Mar. 31, 2024 (Forecasts)		55.00	—	55.00	110.00

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

3. Forecast for Consolidated Financial Results for the Fiscal Year Ending March 31, 2024

(from April 1, 2023 to March 31, 2024)

(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	800,000	5.8	42,000	19.7	38,500	18.8	27,000	17.3	416.06

Note: Revisions to consolidated business performance forecasts during the quarter under review: None

※ 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: None

2. Changes other than 1. above: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of shares issued (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 outstanding during the period

(calculated cumulatively from the beginning of the fiscal year):

June 30, 2023	68,000,000 shares	March 31, 2023	68,000,000 shares
June 30, 2023	3,096,229 shares	March 31, 2023	3,106,293 shares
June 30, 2023	64,900,739 shares	June 30, 2022	65,243,568 shares

※These financial statements are exempt from audit procedures to be performed by certified public accountants or an audit firm.

※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) Earnings Forecasts and Other Forward-looking Statements” under “1. Quarterly Consolidated Financial Results” on page 5.

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1. Quarterly Consolidated Financial Results

(1) Operating Results

➤ **State of the Global Economy - Prevailing sense of stagnation with weak recovery momentum -**

During the first three months (April 1 to June 30, 2023, "1Q") of the fiscal year ending March 31, 2024, the global economy remained sluggish due to ongoing inflation and tightening of monetary policy in Europe and the U.S., and economic slowdown reflecting China's faltering recovery. The pace of economic recovery is uncertain with weak performance in the manufacturing sector, while some recovery is noted in the service sector.

➤ **Kaneka Group's Business Performance - Sales and profits decreased regardless of solid performance in Health Care SU and Nutrition SU -**

Under these circumstances, Kaneka Group's business performance for 1Q was as follows. Consolidated net sales were ¥182,740 million (down 5.2% year-on-year), operating income was ¥5,603 million (down 54.1% year-on-year), ordinary income was ¥6,674 million (down 54.8% year-on-year), and net income attributable to owners of parent was ¥4,241 million (down 59.7% year-on-year). Under the severe demand environment, overseas demands in Material Solutions Unit (SU), E & I Technology, and Performance Fibers remained sluggish, while Health Care SU and Nutrition SU steadily contributed to profits. Both sales and profits decreased compared to the previous 1Q. Ordinary income and net profit have steadily improved since the previous 3Q (October 1 to December 31, 2022).

Business performance for the first three months (April 1, 2023 to June 30, 2023) (Millions of yen)

	FY2022 1Q(Apr.-Jun.)	FY2023 1Q(Apr.-Jun.)	Difference (year-on-year)
Net sales	192,739	182,740	(9,998) (5.2%)
Operating income	12,212	5,603	(6,608) (54.1%)
Ordinary income	14,756	6,674	(8,082) (54.8%)
Net income attributable to owners of parent	10,518	4,241	(6,277) (59.7%)

Net sales and operating income by segments for the first three months (Millions of yen)

	Net sales			Operating income		
	FY2022 1Q(Apr.-Jun.)	FY2023 1Q(Apr.-Jun.)	Difference (year-on-year)	FY2022 1Q(Apr.-Jun.)	FY2023 1Q(Apr.-Jun.)	Difference (year-on-year)
Material SU	88,919	77,659	(11,259) (12.7%)	10,756	5,513	(5,242) (48.7%)
Quality of Life SU	45,000	40,878	(4,122) (9.2%)	4,600	2,939	(1,660) (36.1%)
Health Care SU	16,623	17,745	1,121 6.7%	3,856	2,967	(889) (23.1%)
Nutrition SU	41,879	46,037	4,158 9.9%	806	2,277	1,470 182.3%
Others	316	419	103 32.6%	186	288	101 54.1%
Adjustment	-	-	-	(7,994)	(8,381)	(386) -
Total	192,739	182,740	(9,998) (5.2%)	12,212	5,603	(6,608) (54.1%)

※SU : Solutions Unit

The operating performance by business segment was as follow:

① Material Solutions Unit

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

- For Vinyls and Chlor-Alkali, sales of both PVC and caustic soda were affected by the stagnant Chinese economy and a significant decline in the Asian market.
- For Modifiers, the demand-supply adjustments for construction use are prolonged on the back of ongoing inflation and high interest rates in Europe and the U.S., resulting in low sales volume. The shipment level of non-PVC products also remained low.
- For Modified Silicone polymers, a sign of recovery is seen from the late 1Q despite a weak construction demand in the U.S. and Europe. To address the rising global demand, we are rapidly considering the next capacity expansion in the U.S., following the ongoing construction to increase capacity in Belgium.
- For Green Planet, steady progress has been made in joint development and product launch with major brand holders in Japan, the U.S., and Europe. We are rapidly expanding the scope of applications by establishing various processing technologies. Resource recycling initiative using waste cooking oil has also accelerated.

Our innovative project to produce Green Planet from CO₂ and H₂, which was selected for NEDO*'s "Green Innovation Fund Project," has started in full swing.

* New Energy and Industrial Technology Development Organization

② Quality of Life Solutions Unit

This unit decreased sales and profits due to the supply-demand adjustments in the smartphone market globally, rising inflation and weak consumer spending in Africa.

- For Foam & Residential Techs, profit margin improved significantly through price revisions of expandable polystyrene resin. Demand is recovering for expanded polyolefin foam products in the overseas automotive sector, including Europe. Solutions Vehicle (SV) as a whole achieved a significant increase in both sales and profits.
- For PV & Energy management, sales of high-efficiency photovoltaic modules for residential use are increasing. The mandatory installation of PV in new houses is spreading nationwide, including by the Tokyo Metropolitan Government, thus further growth in demand is expected. We will start an integral electric power service combining solar power generation with power storage facility as regional microgrid businesses in Toyooka City.
- For E & I Technology, demand for the large-screen TV material has started to recover. The smartphone market showed a weaker recovery momentum than expected, and the sales of polyimide products are weak, leading to a delay in profit recovery.
- For Performance Fibers, demand for hair accessory products remained sluggish due to low consumer spending against the backdrop of higher inflation in African countries. We will strive to regain demand early by launching new products with high performance, such as light-weight, water-repellent, and anti-bacterial. Further, we will work to increase the sales of products for flame-retardant materials in light of the new regulations on flame-retardant materials to be implemented in China and India.

③ Health Care Solutions Unit

This unit recorded higher sales and lower profits as solid sales growth continues while a demand change is noted in some customers. Steady growth is expected in the second quarter (July 1 to September 30, 2023, “2Q”) and beyond.

- For Medical, the sales of blood purification devices and catheters are expanding both domestically and internationally, and solid performance continues. Based on these strong sales, we are rapidly considering to build a new catheter production facility, following the production facility of blood purification devices under construction in Hokkaido. New products will be launched in the area of gastroenterology and arrhythmia.
- For Pharma, the Bio-CDMO business of Kaneka Eurogentec S.A. is growing steadily. The construction to expand the manufacturing capacity of mRNA, responsive to increasing customer needs, will complete at the year end, and high growth is expected in therapeutics for genetic diseases and cancer. For small molecule pharmaceuticals, solid demand continued in the treatment for COVID-19 infection and Protein A chromatography resin for antibody drugs.

④ Nutrition Solutions Unit

This unit recorded substantial increases in both sales and profits owing to market expansion in Supplemental Nutrition and profit improvement of Foods & Agris. Solid performance is expected to continue even after 2Q.

- For Supplemental Nutrition, the sales of the active form of coenzyme Q10 are expanding globally. The sales for the Chinese e-commerce market have started in full swing. For the probiotics business, sales are also expanding in Europe and Asia, and we aim to drive growth by strengthening the production and sales system globally.
- For Foods & Agris, shifting to sales of high-value-added products and improved spreads have largely contributed to business performance. We are working to build a new business model from the customers’ perspectives by expanding new businesses including dairy products, launching existing products overseas, and starting a BtoC business with an e-commerce site. Kaneka Foods Corporation is focusing on transforming its business, such as implementing digital transformation to its customer center.

(2) Financial Position

At the end of 1Q of the current fiscal year, total assets were ¥815,841 million, up ¥33,201 million from the previous fiscal year-end. This is due to an increase in inventory assets as well as in property, plant and equipment resulting from expanded capital investment and an increase in overseas group companies’ assets denominated in yen resulting from the weakening yen.

Liabilities totaled ¥366,300 million, up ¥20,083 million, primarily reflecting an increase in loans payable. Net assets were ¥449,541 million, up ¥13,118 million, owing chiefly to an increase in foreign currency translation adjustments resulting from the weakening of yen and an increase in valuation difference on available-for-sale securities due to an increase in the fair value of shares held. Equity ratio was 52.7%.

(3) Earnings Forecasts and Other Forward-looking Statements

The IMF announced its 2023 global GDP growth forecast in July, which remains low at 3%, and economic recovery is sluggish.

The profitability of Health Care SU and Nutrition SU are accelerating, driven by their steady growth. While overseas automobile production is regaining momentum, the recovery is lagging more than expected in the construction-related demand in Europe and the U.S. The market conditions in Asia are also not improving as anticipated. These factors may affect the profitability of the Material SU. A sluggish demand recovery in the smartphone market is concerned. We will accelerate transforming our business portfolio to improve business performance. For example, we will focus on launching new products and expanding new businesses while flexibly grasping the underlying recovery trend by stimulating the demand for hair accessory products in the African market.

Considering the above, the outlook remains uncertain and volatile, so we have not revised the forecast for the consolidated business performance announced on May 12, 2023.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2022 As of March 31, 2023	FY2023 1st Quarter As of June 30, 2023
Assets		
Current assets		
Cash and deposits	41,774	37,389
Notes and accounts receivable-trade, and contract assets	170,154	168,381
Short-term investment securities	94	111
Merchandise and finished goods	89,223	98,113
Work in process	13,317	12,672
Raw materials and supplies	65,574	69,029
Other	18,327	23,930
Allowance for doubtful accounts	(1,502)	(1,537)
Total current assets	396,964	408,091
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	96,399	97,292
Machinery, equipment and vehicles, net	107,829	108,360
Other, net	88,385	100,032
Total property, plant and equipment	292,615	305,684
Intangible assets		
Goodwill	2,201	2,213
Other	13,987	14,074
Total intangible assets	16,189	16,288
Investments and other assets		
Investment securities	57,422	65,758
Other	19,731	20,325
Allowance for doubtful accounts	(283)	(306)
Total investments and other assets	76,870	85,777
Total noncurrent assets	385,675	407,750
Total assets	782,640	815,841

(Millions of yen)

	FY2022 As of March 31, 2023	FY2023 1st Quarter As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	88,663	90,873
Short-term loans payable	116,491	125,973
Income taxes payable	5,055	3,313
Provision	119	6
Other	47,912	54,068
Total current liabilities	258,242	274,234
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	33,706	36,307
Provision	2,375	2,286
Net defined benefit liability	20,829	20,588
Other	21,063	22,882
Total noncurrent liabilities	87,974	92,065
Total liabilities	346,217	366,300
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,245	31,958
Retained earnings	323,213	323,870
Treasury stock	(11,407)	(11,370)
Total shareholders' equity	377,098	377,505
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,204	27,969
Deferred gains or losses on hedges	(3)	3
Foreign currency translation adjustment	11,543	18,046
Remeasurements of defined benefit plans	6,529	6,457
Total accumulated other comprehensive income	40,273	52,476
Subscription rights to shares	622	586
Non-controlling interests	18,427	18,973
Total net assets	436,422	449,541
Total liabilities and net assets	782,640	815,841

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	FY2022 1st Quarter From April 1, 2022 to June 30, 2022	FY2023 1st Quarter From April 1, 2023 to June 30, 2023
Net sales	192,739	182,740
Cost of sales	139,650	136,353
Gross profit	53,088	46,386
Selling, general and administrative expenses	40,876	40,782
Operating income	12,212	5,603
Non-operating income		
Dividends income	836	824
Foreign exchange gains	2,314	1,444
Equity in earnings of affiliates	53	21
Other	327	220
Total non-operating income	3,531	2,510
Non-operating expenses		
Interest expenses	306	750
Loss on retirement of noncurrent assets	381	283
Other	299	406
Total non-operating expenses	987	1,440
Ordinary income	14,756	6,674
Income before income taxes	14,756	6,674
Income taxes-current	4,143	2,431
Income taxes-deferred	(218)	(268)
Total income taxes	3,925	2,163
Net income	10,830	4,510
Net income attributable to non-controlling interests	312	269
Net income attributable to owners of parent	10,518	4,241

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2022 1st Quarter From April 1, 2022 to June 30, 2022	FY2023 1st Quarter From April 1, 2023 to June 30, 2023
Net income	10,830	4,510
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,336)	5,796
Deferred gains or losses on hedges	16	7
Foreign currency translation adjustment	8,031	6,881
Remeasurements of defined benefit plans, net of tax	121	(71)
Share of other comprehensive income of associates accounted for using equity method	0	(0)
Total other comprehensive income	6,833	12,612
Comprehensive income	17,664	17,123
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,049	16,443
Comprehensive income attributable to non-controlling interests	614	679

(3) Notes to the Consolidated Financial Statements

(Going Concern Assumption)

Not applicable

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

Not applicable

(Segment Information)

I Term from April 1, 2022 to June 30, 2022

1) Sales and Income by Segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Total	Adjustment	Amounts on consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	88,919	45,000	16,623	41,879	192,422	316	192,739	-	192,739
Intersegment	82	8	-	14	105	281	386	(386)	-
Total	89,002	45,009	16,623	41,893	192,527	597	193,125	(386)	192,739
Segment profit	10,756	4,600	3,856	806	20,019	186	20,206	(7,994)	12,212

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

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

2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements (Adjustments)

(Millions of yen)

Income	Amount
Segment total	20,019
Segment profit of Others	186
Elimination of intersegment transactions	2
Corporate expenses (Note)	(8,012)
Other adjustments	15
Operating income in the quarterly consolidated statements of income	12,212

Note: Corporate expenses primarily are expenses for basic R&D that are not allocable to any reportable segments.

II Term from April 1, 2023 to June 30, 2023

1) Sales and Income by Segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Total	Adjustment	Amounts on consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	77,659	40,878	17,745	46,037	182,320	419	182,740	-	182,740
Intersegment	56	9	-	10	75	280	356	(356)	-
Total	77,716	40,887	17,745	46,047	182,396	699	183,096	(356)	182,740
Segment profit	5,513	2,939	2,967	2,277	13,697	288	13,985	(8,381)	5,603

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

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

2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements (Adjustments)

(Millions of yen)

Income	Amount
Segment total	13,697
Segment profit of Others	288
Elimination of intersegment transactions	1
Corporate expenses (Note)	(8,393)
Other adjustments	10
Operating income in the quarterly consolidated statements of income	5,603

Note: Corporate expenses primarily are expenses for basic R&D that are not allocable to any reportable segments.