

Translation

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Summary Consolidated Financial Results for the Three Months Ended June 30, 2023 (Based on Japanese GAAP)

August 9, 2023

Company name: ADEKA CORPORATION

Stock exchange listing: Tokyo

Code number: 4401

URL: <https://www.adeka.co.jp>

Representative: HIDETAKA SHIROZUME PRESIDENT & CHIEF EXECUTIVE OFFICER,
REPRESENTATIVE DIRECTOR

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Scheduled date of filing quarterly securities report: August 9, 2023

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2023 (April 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2023	94,596	(7.0)	7,422	(18.1)	8,150	(21.9)	5,120	(16.6)
June 30, 2022	101,718	21.1	9,060	1.4	10,437	12.9	6,137	3.1

(Note) Comprehensive income: Three months ended June 30, 2023: ¥ 13,371 million [2.6%]
Three months ended June 30, 2022: ¥ 13,038 million [102.1%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2023	50.03	-
June 30, 2022	59.58	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Millions of yen	Millions of yen	%
June 30, 2023	505,113	318,444	52.9
March 31, 2023	500,068	311,709	52.2

(Reference) Equity: As of June 30, 2023: ¥ 267,098 million
As of March 31, 2023: ¥ 260,950 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2023	-	35.00	-	35.00	70.00
Fiscal year ending March 31, 2024	-				
Fiscal year ending March 31, 2024 (Forecast)		40.00	-	40.00	80.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024(April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2023	191,000	(2.8)	13,300	(12.0)	13,700	(16.6)	8,200	(17.8)	79.95
Full year	426,000	5.6	36,000	11.2	35,500	9.0	21,000	25.2	204.75

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

(1) Changes in significant subsidiaries during the three months ended June 30, 2023
(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to "2.Consolidated Financial Statements and Principal Notes, (3) Notes to Consolidated Financial Statements (Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)" on page 10 of the Attachments.

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

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

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

June 30, 2023: 103,768,142 shares

March 31, 2023: 103,768,142 shares

2) Number of treasury shares at the end of the period:

As of June 30, 2023: 1,693,626 shares

As of March 31, 2023: 1,204,849 shares

3) Average number of shares outstanding during the period:

Three months ended June 30, 2023: 102,347,262 shares

Three months ended June 30, 2022: 103,007,581 shares

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended June 30, 2023, the global economy saw a recovery of social and economic activities following the relaxation of movement restrictions caused by COVID-19. Meanwhile, concerns about the intensifying situation in Ukraine as well as the effects on economy of global inflationary trends and monetary tightening in the United States and Europe have slowed down the pace of economic recovery.

In the automobile-related sector, which is the ADEKA Group's main target market, production at automakers began to normalize on the back of the relaxation of supply constraints on semiconductors, and the market remained on a recovery trend. In the ICT (information and communications technology) and consumer electronics sectors, consistently weak consumer spending led to sluggish sales of smartphones and personal computers. In the food products sector, although the relaxation of movement restrictions and recovery of inbound tourism demand prompted a pickup in demand for souvenirs and eating out, the business environment remained challenging due to saving-oriented consumers persistently seeking lower price against rising costs and the adverse effect of egg supply shortages. In the agricultural sector, although agrochemicals demand trended slightly weak in Japan, India and North America, increases in major crop acreage in Brazil meant that agrochemicals demand held firm overall.

While the business environment surrounding the Group remains unpredictable, Fiscal 2023 marks the last year of the Medium-Term Management Plan, **ADX 2023**, which aims at the enhancement of corporate value through the pursuit of social and economic value. The Group will steadily implement measures for growth in order to bring the culmination of the three-year plan to fruition and move forward to the next level. In the Electronics and IT Materials Business, the Group accelerated investment in the semiconductor field with high growth potential. During the first quarter of Fiscal 2023, the Group has decided to expand facilities in South Korea, which manufactures high dielectric constant materials for advanced semiconductor memory and has completed construction of a production facility at its Chiba Plant for photoacid generators for extreme ultraviolet (EUV) photoresists. In the Life Science Business, Nichino Europe Co., Ltd. acquired all outstanding shares of Interagro (UK) Limited, a UK-based manufacturer and distributor of adjuvants and other additives as well as biostimulants, with an aim to expand its business portfolio beyond synthetic agrochemicals. Also, in India, the Group completed construction of a multi-purpose plant that is capable of manufacturing the new rice insecticide Benzpyrimoxan and other multiple agrochemical ingredients. In sustainability initiatives, the Group began to introduce an internal carbon pricing system and renewable energy in order to achieve the targets of reducing GHG emissions by 46% (compared with Fiscal 2013) by 2030 and achieving carbon neutrality by 2050.

Financial results for the three months ended June 30, 2023 were net sales of 94,596 million yen (down 7.0% year on year), operating profit of 7,422 million yen (down 18.1% year on year), ordinary profit of 8,150 million yen (down 21.9% year on year), and profit attributable to owners of parent of 5,120 million yen (down 16.6% year on year).

An overview by reportable segment is as follows.

(Chemicals Products Business)

The Chemicals Products Business posted net sales of 49,794 million yen (down 10.4% year on year) and operating profit of 5,534 million yen (down 23.2% year on year).

1) Polymer Additives

In products for automobile applications, sales of nucleating agents, light stabilizers, and others remained strong against the backdrop of a moderate recovery in worldwide automobile production.

In products for construction materials, sales of PVC stabilizers stagnated due to lower demand for home interior materials in North America and China.

In products for food packaging, despite inventory buildup and production adjustments in the supply chain, clarifying agents continued to sell well, supported by solid demand.

Sales of one-pack granule additives used in polyolefin resin and antioxidants were weak due to intensified competition mainly in Europe.

Sales of flame retardants for engineering plastics used in enclosures and other applications were weak due to a prolonged slump in demand for household electrical appliances, personal computers and the like. On the other hand, sales of products for polyolefin resins were strong, particularly for large household appliances.

Overall, the Polymer Additives Business posted year-on-year decreases in sales and profit due to lower sales volume.

2) Electronics and IT Materials

Among products for semiconductors, although product lines such as photoacid generators were adversely affected by the production adjustments of semiconductors, high dielectric constant materials used in advanced DRAM sold briskly. On the other hand, sales of etching solutions for electronic components used in printed circuit boards and others were weak.

Among products for displays, although sales of photo (light) curing resin for optical film and other products were weak, large panel productions recovered, and sales of photo initiators for color filters and etching solutions remained steady.

Overall, the Electronics and IT Materials Business posted a year-on-year increase in sales as a result of a decrease in sales of materials due to production adjustment of smartphones, personal computers, etc. being offset by strong sales of products for advanced semiconductors. Meanwhile, profit fell slightly year on year due to an increase in fixed costs resulting from the capital investment.

3) Functional Chemicals

Among functional chemicals used in automobile applications, sales of lubricant additives for engine oils were strong due to the recovery of automobile production overseas and the increased adoption of new engine oil standards. In addition, sales of epoxy resins for structural adhesives of automobiles and epoxy resin adhesives for automotive electronic components held firm.

Among products for architectural coatings, sales of reactive emulsifiers remained strong by capturing demand from the changing housing environment in India. Meanwhile, demand for automobiles, consumer electronics, smartphones and personal computers remained weak, and sales of water-based resins and special epoxy resins were weak. Sales of special surfactants for cosmetics were weak due to a drop in demand mainly in Europe.

Sales volumes of propylene glycol products and peroxides for industrial use were down due to deteriorated market conditions in spite of successfully implemented price revisions.

Overall, the Functional Chemicals Business posted year-on-year decreases in sales and profit due to decrease in sales volume despite efforts to improve profitability.

(Food Products Business)

The Food Products Business reported net sales of 20,775 million yen (up 2.4% year on year) and operating profit of 370 million yen (compared with operating loss of 874 million yen in the same period a year earlier).

Domestic sales volumes of margarines and shortening for breads and confectionery, especially general-purpose products, fell partly due to downsizing in final products. On the other hand, sales of margarines and fillings for souvenir confectioneries were brisk due to the recovery of human traffic. Sales of the *Marvelous series* of functional margarines, which contributes to keeping bread and other products fresher for longer and extending their used-by date, continued to hold firm. The *Deli-PLANTS series* of plant-based foods, which were launched in the previous fiscal year, steadily gained an increased number of adoption due to our sales efforts by expanding the product lineup.

Overseas, recovery of both sales and profits proceeded as demand picked up in China, although not to the pre-COVID level, sales remained strong in Southeast Asia, and price revisions made progress.

Overall, the Food Products Business achieved increases in sales and profits year on year, as improved production efficiency, cost reductions, and price revisions that had been implemented since the previous fiscal year began to show positive effects. In addition, decreased depreciation due to the recording of an impairment loss in the previous fiscal year also had a positive impact.

(Life Science Business)

The Life Science Business posted net sales of 22,180 million yen (down 7.6% year on year) and operating profit of 1,146 million yen (down 55.0% year on year).

Among agrochemicals in Japan, although the Group strove to promote and expand sales of Benzpyrimoxan (trade name: *Orchestra*), an insecticide for paddy rice, and other mainstream self-developed products, sales remained sluggish, mainly due to the impact of circulating inventory from the previous year.

Overseas, demand for herbicides for sugarcane expanded due to heavy rainfall in Brazil, the world's largest agrochemical market. Meanwhile, demand for insecticides in North America decreased due to prolonged colder weather and fewer pests than usual, and in India, sales were weak due to a decrease in opportunities to apply agricultural chemicals because of the late rainy season and other unfavorable weather conditions.

Among pharmaceuticals, sales of the topical antifungal agent Luliconazole were weak due to a decline in demand overseas and other factors.

Overall, the Life Science Business posted year-on-year decreases in sales and profit due to a decrease in sales of agrochemicals.

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets increased by 5,044 million yen (up 1.0% compared with the end of the previous fiscal year) to 505,113 million yen.

The primary factor was an increase in investment securities.

Liabilities decreased by 1,689 million yen (down 0.9% compared with the end of the previous fiscal year) to 186,669 million yen.

The primary factor was a decrease in notes and accounts payable – trade.

Net assets increased by 6,734 million yen (up 2.2% compared with the end of the previous fiscal year) to 318,444 million yen.

The primary factor was an increase in foreign currency translation adjustment.

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

In view of the operating results for the three months ended June 30, 2023 announced today and the recent development of business performance, the Company has revised its consolidated earnings forecast for the 1H of the FY 2023 as shown in the table below.

For detailed information, please refer to the " Notice revision of Consolidated financial forecasts for the 1H of the FY 2023" released today (August 9, 2023).

[Consolidated financial results forecast for the first half of the fiscal year ended March 31, 2024(April 1, 2023 - September 30, 2023)]

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	202,000	15,000	14,700	8,900	86.78
Revised forecast (B)	191,000	13,300	13,700	8,200	79.95
Change (B – A)	(11,000)	(1,700)	(1,000)	(700)	
Change (%)	(5.4)	(11.3)	(6.8)	(7.9)	
(Reference) Financial results for the six months ended September 30, 2022	196,479	15,112	16,431	9,980	96.97

In the Chemicals Products Business, both net sales and operating profit are expected to fall short of initial forecasts due to a delay in the recovery of demand in automobiles, home electronics and electronics-related products, housing and infrastructure. In particular, although production and sales of automobiles, our main target field, are on a recovery trend, the automotive components for which our resin additive products are used are in the phase of inventory adjustment, with a full-fledged recovery in demand expected to be delayed until the third quarter or later. The revisions to ordinary profit and profit are mainly due to the decrease in operating profit.

There are no revisions to the full-year consolidated earnings forecast and dividend forecast from the previous announcement (May 12, 2023). The Company expects a recovery in demand in accordance with the expansion of automobile production and the resolution of production adjustments in the display and electronic device industries, continued strong sales of materials for advanced semiconductors, especially high dielectric constant materials, and a contribution to the results (net increase) from our *Deli-PLANTS series* of plant-based foods, which an increasing number of food businesses have made informal decisions to introduce. Therefore, the revisions made in the first half of the fiscal year will be made up throughout the fiscal year.

Our assumptions for the exchange rates for the second quarter and thereafter are 138 yen against the U.S. dollar and 149 yen against the Euro.

2. Consolidated Financial Statements and Principal Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	81,119	74,946
Notes and accounts receivable - trade, and contract assets	99,623	101,356
Securities	5,499	5,499
Merchandise and finished goods	67,367	70,747
Work in process	8,524	8,405
Raw materials and supplies	40,822	40,993
Other	13,619	12,809
Allowance for doubtful accounts	(1,174)	(1,256)
Total current assets	315,401	313,501
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	36,490	37,384
Machinery, equipment and vehicles, net	34,514	34,820
Land	30,515	31,350
Other, net	17,967	17,966
Total property, plant and equipment	119,488	121,522
Intangible assets		
Technical assets	5,471	5,222
Customer related assets	2,489	2,449
Other	10,083	10,058
Total intangible assets	18,044	17,730
Investments and other assets		
Investment securities	33,609	38,352
Other	13,523	14,006
Total investments and other assets	47,133	52,359
Total non-current assets	184,666	191,611
Total assets	500,068	505,113

(Millions of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	62,235	60,404
Short-term borrowings	22,295	26,347
Income taxes payable	3,246	3,296
Provision for bonuses	3,206	1,655
Provision for environmental measures	18	18
Other provisions	157	27
Other	38,328	42,983
Total current liabilities	129,488	134,733
Non-current liabilities		
Bonds payable	5,315	3,926
Long-term borrowings	20,777	15,728
Retirement benefit liability	20,408	20,757
Other provisions	264	60
Other	12,104	11,461
Total non-current liabilities	58,870	51,935
Total liabilities	188,358	186,669
Net assets		
Shareholders' equity		
Share capital	23,048	23,048
Capital surplus	20,126	20,136
Retained earnings	197,843	199,359
Treasury shares	(2,304)	(3,512)
Total shareholders' equity	238,713	239,031
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,800	9,037
Deferred gains or losses on hedges	-	(5)
Revaluation reserve for land	3,330	3,330
Foreign currency translation adjustment	11,362	15,946
Remeasurements of defined benefit plans	(257)	(242)
Total accumulated other comprehensive income	22,236	28,066
Non-controlling interests	50,759	51,345
Total net assets	311,709	318,444
Total liabilities and net assets	500,068	505,113

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Net sales	101,718	94,596
Cost of sales	76,780	71,105
Gross profit	24,937	23,490
Selling, general and administrative expenses	15,877	16,068
Operating profit	9,060	7,422
Non-operating income		
Interest income	110	542
Dividend income	256	319
Share of profit of entities accounted for using equity method	237	265
Foreign exchange gains	2,097	615
Other	329	213
Total non-operating income	3,031	1,955
Non-operating expenses		
Interest expenses	273	774
Loss on valuation of derivatives	1,312	364
Other	67	88
Total non-operating expenses	1,654	1,227
Ordinary profit	10,437	8,150
Extraordinary income		
Gain on sale of non-current assets	-	37
Total extraordinary income	-	37
Extraordinary losses		
Loss on disaster	112	-
Loss on abandonment of non-current assets	52	130
Loss on valuation of investment securities	5	-
Total extraordinary losses	169	130
Profit before income taxes	10,267	8,057
Income taxes - current	3,609	2,695
Income taxes - deferred	(965)	(418)
Total income taxes	2,643	2,276
Profit	7,624	5,780
Profit attributable to non-controlling interests	1,486	660
Profit attributable to owners of parent	6,137	5,120

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	7,624	5,780
Other comprehensive income		
Valuation difference on available-for-sale securities	(319)	1,376
Deferred gains or losses on hedges	(188)	(22)
Foreign currency translation adjustment	6,196	6,174
Remeasurements of defined benefit plans, net of tax	46	0
Share of other comprehensive income of entities accounted for using equity method	(321)	61
Total other comprehensive income	5,414	7,590
Comprehensive income	13,038	13,371
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,715	10,950
Comprehensive income attributable to non-controlling interests	3,322	2,420

(3) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

For certain subsidiaries, the Company has adopted a method of making a reasonable estimate of the effective tax rate after application of tax effect accounting to profit before income taxes for the consolidated fiscal year to which the first quarter under review belongs, and multiplying the profit before income taxes by such estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I. For the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated statements of income (Note 3)
	Chemicals Products Business	Food Products Business	Life Science Business	Total				
Net sales								
(1) Net sales to outside customers	55,597	20,295	24,014	99,907	1,811	101,718	–	101,718
(2) Inter-segment net sales or transfers	52	27	1	81	4,673	4,754	(4,754)	–
Total	55,649	20,323	24,015	99,988	6,484	106,473	(4,754)	101,718
Segment profit (loss)	7,201	(874)	2,546	8,874	162	9,037	23	9,060

- (Notes) 1. "Others" refers to business segments not included in the reportable segments and includes construction and construction management, logistics, and real estate businesses.
2. The adjustment of segment profit (loss) of 23 million yen includes the elimination of inter-segment transactions.
3. Segment profit (loss) is adjusted with operating profit in the consolidated statements of income.

II. For the three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

1. Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated statements of income (Note 3)
	Chemicals Products Business	Food Products Business	Life Science Business	Total				
Net sales								
(1) Net sales to outside customers	49,794	20,775	22,180	92,750	1,845	94,596	–	94,596
(2) Inter-segment net sales or transfers	34	48	3	85	5,217	5,303	(5,303)	–
Total	49,829	20,823	22,183	92,836	7,063	99,900	(5,303)	94,596
Segment profit	5,534	370	1,146	7,051	326	7,377	45	7,422

- (Notes) 1. "Others" refers to business segments not included in the reportable segments and includes construction and construction management, logistics, and real estate businesses.
2. The adjustment of segment profit of 45 million yen includes the elimination of inter-segment transactions.
3. Segment profit is adjusted with operating profit in the consolidated statements of income.